



Republic of North Macedonia

**Ministry of Finance**

# **ECONOMIC REFORM PROGRAMME**

## **2021-2023**

January 2021

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## ABBREVIATIONS

ABO	Average Bed Occupancy
AD ESM	Power plants of North Macedonia
AD MEPSO	Macedonian Electricity Transmission System Operator
AEOs	Authorised Economic Operators
ALOS	Average Length of Stay
AP5	Additional Protocol 5
BCP	border crossing points
BIT	Bilateral Investment Treaty
CACM	Capacity Allocation and Congestion Management
CCP	countries crossing points
CEF	Center of Excellence in Finance
CEFTA	Central European Free Trade Agreement
CPI	consumer price index
CPH	Centres for Public Health
CRRNM	Central Registry of the Republic of North Macedonia
CSUD	Climate Smart Urban Development Approach
DAOA	Day Ahead Operational Agreement
DMS	dynamic message signs
DMO	Destination Management Organisation
EA	Employment Agency
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EE	energy efficiency
EEI	energy efficiency improvement
ERP	Economic Reform Programme
ESCO	energy serving company
ETF	European Training Foundation
EU	European Union
ESRP	Employment and Social Reform Programme
FAO	Food and Agriculture Organisation
FEG	Financing Expert Group
FITD	Fund for Innovation and Technology Development
FTE	full time equivalent
GDP	gross domestic product
GEFF	Green Economy Financing Facility
GHG	greenhouse gas
GII	Global Innovation Index
GMA	guaranteed minimal assistance
GVC	global value chain
HLMD	High level market design
HEI	higher education institutions
HIF	Health Insurance Fund
ICT	information and communication technology
ILO	International Labour Organisation
IPH	Institute of Public Health
ITS	Intelligent Transport System
IMF	International Monetary Fund
JRBC	joint railway border station
JRC	Joint Research Centre
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
ME, MoE	Ministry of Economy
MEC	Mining and Energy Combine
MEMO	Organised Market Operator
MVP	monitoring and verification platform

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
NBRNM	National Bank of the Republic of North Macedonia
NECP	National Energy and Climate Plan
NEET	not in education, employment, or training
NEMO	National Organised Electricity Market
NGO	non-governmental organisations
NRA	National Regulatory Authority
NQF	national qualifications framework
OECD	Organisation for Economic Cooperation and Development
OTC	over the counter
PHC	Primary Health Care
PHI	Public Health Institutions
PISA	Programme for International Student Assessment
PIT	personal income tax
PPL	Public Procurement Law
PRO	Public Revenue Office
PSC DAMI	Programme Steering Committee for Day-Ahead Market Integration
PSC MRC	Programme Steering Committee for Multiregional Coupling
REER	real effective exchange rate
RES	renewable energy sources
ROA	return on assets
ROE	return on equity
RWIS	Road Weather Information System
R&D	research and development
SAA	Stabilisation and Association Agreement
SDGs	Sustainable Development Goals
SEE	South East Europe
SLCP	short lived climate pollutants
SLI	State Labour Inspectorate
SME	small and medium enterprises
SSO	State Statistical Office
STP	Science and Technology Park
S3	Strategy for Smart Specialisation
TEN-T Network	Trans-European Transport Network
TFP	total factor productivity
TRACES	Trade control and expert system
TPP	thermal power plant
TSO	transmission system operator
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
WTO	World Trade Organisation
YG	Youth Guarantee

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## **i. Introduction**

The Economic Reform Programme (ERP) 2021 – 2023 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 2020-2024, the Revised Fiscal Strategy for the period 2021-2023 (with outlook to 2025), and the 2021 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", European Green deal, UN Sustainable Development Goals, the SEE 2020 Strategy of the Regional Cooperation Council 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, Green Agenda of the Western Balkans, Digital agenda and Economic Investment Plan for Western Balkans.

EC recommendations indicated in the 2020 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 2020-2022: Improving the quality and relevance of the education system, Improving the competitiveness of domestic companies and integration in global value chains and formalisation of the economy, as well as joint conclusions from the Economic and Financial dialogue from May 2020 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 also shared with the Economic and Social Council. 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**

The COVID-19 pandemic in 2020 caused the largest health and economic crisis in the world to date. Governments have taken drastic measures to stem the spread of the coronavirus that has disrupted the global supply chain and caused the global economy to shrink, which is expected to reach 4.4% in 2020. EU being the biggest trade partner of the country is projected to contract 7.6%. As a result of the pandemic, the world registered rise in poverty for the first time in over two decades.

Deteriorated global environment and virus containment measures that the Government of the Republic of North Macedonia took, caused a decline in economic activity of 5.9% in the first nine months of 2020, with the biggest contraction of almost 15% in the second quarter of the year. The economic downturn considerably slowed down to 3.3% in the third quarter. The pandemic most affected the export sector, industrial production, as well as some of the activities in the service sector, such as trade, transport, hospitality and entertainment and the arts. The government responded immediately with a set of measures to protect the health of citizens and to preserve jobs, being supplemented in the second half of the year with measures to support the recovery of the economy, which softened the decline of economic activity in 2020, that is projected to contract by 4.4%.

The pandemic implications on global economy are also expected in the beginning of 2021 due to new COVID-19 strain found triggering extension of containment measures in some countries while waiting for massive vaccination of the population. In order to reduce the effects of the global environment on the domestic economy, the Government in 2021 will continue to implement measures to support companies and vulnerable categories of citizens, but also to recover the economy and enable sustainable development by implementing the necessary structural reforms.

The European Commission (EC) in its annual assessment of the previous Economic Reform Programme (ERP) 2020-2022, points out the same, i.e. the focus of short-term measures to be on mitigation of socio-economic consequences of the COVID-19 crisis, and at the same time identifies structural reform challenges and priorities, including in the area of



fiscal governance, as essential to ensure sustained economic recovery thereafter. Hence, the Commission highlights as crucial the reforms in public finance management, as well as structural reforms to overcome the key challenges: 1. Improving the quality and relevance of the education system, 2. Improving the competitiveness of domestic companies and integration in global value chains and 3. Formalisation of the economy. Thereto, EC underlined the need to link the reforms with fulfilling the economic criteria for functioning market economy and for competitive one, as well as with the EU main strategic directions towards green growth and digital economy and society, and the UN Sustainable Development Goals.

Having in mind that the COVID-19 crisis brings uncertainty and great risks, in order the economy to be more resilient, the Government defined the next mid-term fiscal policy based on three platforms: A. Smart Growth 2021 - 2025 for recovery and sustainable development of the economy, B. Fiscal consolidation 2021 - 2025 and C. Public Investment Plan 2021 - 2025.

With the Budget 2021, the Ministry of Finance introduced the SMART finance concept - Strategical, Maintainable, Accountable, Reform oriented and Transparent performance, as a first step of smart finances and first mediumterm budget adopted by the Parliament, projecting an economic growth of 4.1% in 2021 and budget deficit of 4.9% of GDP.

A step further was taken in planning and projecting the Budget for 2021 fiscal year, and five-year projections for growth, deficit and public investment plan were included. In the medium term, with the implementation of policies, measures and reforms, the average annual growth for the period 2022 - 2025 is expected to be 5.3%.

The first challenge is stabilisation and creation of a new fiscal space by gradually narrowing the budget deficit, while supporting economic growth. Fiscal consolidation policies are expected to gradually narrow the deficit, whereby it is projected to drop to 2% of GDP in 2025. The planned fiscal consolidation is set to rely on revenue collection improvement, reducing and restructuring of expenditures, supplemented by a change in the sources of financing the deficit.

Public Investment Plan 2021 - 2025 focuses on implementation of the capital 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 protection systems, agriculture, culture, sports, environment protection and judiciary. In particular, in the period 2021-2025, total amount of EUR 3.2 billion is projected for capital projects, out of which EUR 1.28 billion as budget funds, EUR 112.8 billion as grants (through IPA funds), and funds in the amount of EUR 1.84 billion for capital investments from international financial institutions/bilateral creditors.

Setting up solid foundation for higher and inclusive economic growth implies implementation of required reforms. In this regard, ERP 2021-2023 announced the reforms for the next medium term period to improve the management of public finances, referring to: the new Organic Budget Law, which is in parliamentary procedure and which contains, inter alia, provisions for fiscal rules, establishing of fiscal council, medium term budget planning; the adopted Strategy for Tax System Reforms; and activities to establish a special organisational unit in the Ministry of Finance in order to improve public investment management. The ERP also contains 20 structural reform measures to improve the energy and transport markets, renewable energy sources and energy efficiency, the agricultural sector, improving the business environment and reducing the informal economy, reforms in the education system, digitalisation of administrative services, innovations, research and development, regional economic integration, social policy, and the health sector.

The implementation of these reform measures should contribute to increasing the competitiveness of the Macedonian economy, accelerating economic growth and increasing the growth potential, creating jobs and reducing unemployment. In addition, the structural reforms identified in the ERP and their implementation, as well as the implementation of the recommendations of the joint conclusions of the Economic and Financial Dialogue with the EU, will enable significant investment support from the EU Economic and Investment Plan for the Western Balkans, which aims at long-term recovery of the region through green and digital transition, which will lead to sustainable economic growth.

## 2. Implementation of the policy guidance

Joint Conclusions - Policy Guidances with Recommendations	Activities and Degree of implementation
<b>Policy Guidance 1:</b> Use fiscal policy to mitigate the crisis-induced impact on growth and employment. Adopt the Tax System Reform Strategy 2020-2023 and improve revenue collection capacities in line with the strategy. Further improve the transparency of public finances by publishing regular fiscal reports on public enterprises and taking steps towards incorporating them in the	

<i>general government statistics in line with the excessive deficit procedure methodology.</i>	
1. Use fiscal policy to mitigate the crisis-induced impact on growth and employment.	In order to reduce the consequences of the pandemic, during 2020, two Supplementary Budgets were adopted, as well as two decisions for redistribution of funds between budget users and funds.
2. Adopt the Tax System Reform Strategy 2020-2023 and improve revenue collection capacities in line with the strategy.	The tax reform strategy 2021-2025 was officially adopted by the Government on 29th December 2020. The main goal of the strategy is to ensure a fair, efficient, transparent and modern tax system which will be based on modern digital technologies and innovations in taxation, in order to achieve accelerated, inclusive and sustainable economic growth. Through reform management process, the competent authorities will strive to achieve the greatest economic efficiency, as well as political and social support of the process, and through constant investment in human capital and investment in technology, continuous improvements will be achieved in tax collection and tax compliance.
3. Further improve the transparency of public finances by publishing regular fiscal reports on public enterprises and taking steps towards incorporating them in the general government statistics in line with the excessive deficit procedure methodology.	<p>Implemented activities to improve the transparency of public finances:</p> <ul style="list-style-type: none"> <li>- To increase the transparency of public enterprises, the Ministry of Finance started with a regular quarterly publication of data on revenues and expenditures of public enterprises and state-owned companies at the level of enterprise.</li> <li>- In the Electronic System for reporting and recording of liabilities, data are recorded and published for the amount of due and unpaid liabilities of public enterprises and companies established by the state or municipalities.</li> <li>- The State Statistical Office (SSO) regularly submits EDP notification tables to Eurostat. The scope of the Government sector includes public enterprises (such as PE Railway Infrastructure, National Radio and Television, Deposit Insurance Fund, etc.), in accordance with the methodology of Eurostat, ESA 2010. The list of institutional units in the Government sector is publicly available on the SSO website.</li> <li>- In February 2020, the Ministry of Finance, upgraded the Open Finance portal with data on public debt, trends by year, repayment, payments for current year and financing. In June 2020, the Open Finance portal was expanded with transactions of the local governments.</li> <li>- The Ministry of Finance started with regular publication of the data for execution of local government budget (fiscal table for local government), on a quarterly basis.</li> </ul>
<b>Policy Guidance 2:</b> <i>To support the economic recovery, improve public investment management to mitigate technical obstacles to implementation of capital spending. Establish a comprehensive registry of state aid and review firm-level subsidies based on their cost-effectiveness. Take initial legal and operational steps to establish fiscal rules and a fiscal council with a view to strengthening fiscal sustainability in the medium term.</i>	
4. To support the economic recovery, improve public investment management to mitigate technical obstacles to implementation of capital spending.	<p>In order to improve public investment management, the following activities have been undertaken in 2020:</p> <ul style="list-style-type: none"> <li>- The Public Investment Management Assessment (PIMA) was conducted by the team of experts from the IMF Department of Fiscal Affairs, in the period January 21 - February 4, 2020, and the Assessment Report was submitted to the Ministry of Finance on April 28, 2020.</li> <li>- The Government adopted the Action Plan for implementation of the recommendations of the PIMA Report at a session held on December 7, 2020.</li> <li>- At the beginning of 2021, the Ministry of Finance will establish a working group for the implementation of the Action Plan, for which the relevant institutions are expected to submit nominations.</li> <li>- Functional analysis of the MoF has been prepared, which envisages establishing a special Unit for public investment management. The next step will be to amend the relevant acts of systematisation and establish and staff the Unit, and train the staff.</li> </ul>
5. Establish a comprehensive registry of state aid and review firm-level subsidies based on their cost-effectiveness.	During 2020, in the framework of the preparation of the programme for support of the reforms in the Competitiveness and Innovation Sector through the EU assistance - IPA 3, a comprehensive consultation has been started regarding the establishment of a State Aid Register. Additionally, the Programme for work of the Government emphasizes the establishment of the only register of state aid as one of the key points of arranging the field of state aid. Coordinator of the implementation of activities for establishing a State Register is the Cabinet of the Deputy Prime Minister in charge of economic affairs, coordination with the economic departments and investment. Intensive activities to define and establish the register in question are underway, and in addition to the inter-institutional, and intensive cooperation is established with the donor community, including the EU Delegation.
6: Take initial legal and operational steps to establish fiscal rules and a fiscal council with a	The new draft Budget law has been adopted by the Government and is in Parliamentary procedure. The draft law contains provisions for the establishment of fiscal rules and the Fiscal Council, as well as strengthened medium-term planning for fiscal sustainability in the medium term.

view to strengthening fiscal sustainability in the medium term.	
<b>Policy Guidance 3:</b> <i>Closely monitor financial stability challenges arising as a result of the coronavirus pandemic and take appropriate action if needed. Operationalise the reconstituted Financial Stability Committee and ensure the legal clarification of the central bank's macro-prudential mandate. Work towards a further implementation of the denarisation and NPL resolution strategies, ensuring the effectiveness of the measures taken and making any adjustments deemed necessary.</i>	
7. Closely monitor financial stability challenges arising as a result of the coronavirus pandemic and take appropriate action if needed.	In the first months of the pandemic, the National Bank took several measures and activities to release additional liquidity for banks and ease financial conditions, with the ultimate goal of sustaining the economy by supporting lending. The two main pillars of the stability of the banking system, high liquidity and solvency, ensured protection from the negative consequences caused by COVID-19. The regulatory changes from March 2020 enabled two changes in the credit conditions for good clients with regular status, thus avoiding excessive accumulation of risks.
8. Operationalise the reconstituted Financial Stability Committee and ensure the legal clarification of the central bank's macro-prudential mandate.	<p>In April 2020, the competent authorities for supervising certain segments of the financial system signed a Memorandum of Understanding in order to maintain the financial stability. With this Memorandum, a Financial Stability Committee was established as a transitional solution until the adoption of a special law. Since the establishment of the Committee, three sessions have been held (in April, August and in November 2020). Two sessions of both subcommittees were held.</p> <p>The Memorandum of Understanding on Financial Stability will be replaced by a new Law on Financial Stability, in accordance with the Regulation on Macro Prudential Supervision of the Financial System and the Establishment of a European Systemic Risk Board. Draft Law on Financial Stability was prepared and submitted to the Single National Electronic Register of Regulations (ENER) for public consultation. The consultation period expired in the second half of December 2020. After reviewing the comments and remarks, the text of the Draft Law will be submitted to the Government for its acceptance in January 2021 and sent to the Parliament for adoption by the end of the first quarter of 2021, as planned.</p> <p>The main goal of the proposed legal solution is to follow the EU practice and to establish a body that will identify the financial stability risks, and will synchronously take macroprudential measures to maintain financial stability in the Republic of North Macedonia. The National Bank will play a leading role in creating and implementing macroprudential policy and financial stability maintenance.</p>
9. Work towards a further implementation of the denarisation and NPL resolution strategies, ensuring the effectiveness of the measures taken and making any adjustments deemed necessary.	<p>Implementation of the Denarisation Strategy:</p> <ol style="list-style-type: none"> <li>1. Strategic commitment to sustainable macroeconomic policy - Sustainable macroeconomic policy activities are being implemented continuously.</li> <li>2. Dominant issuance of government securities in denars and gradual reduction of the issuance of government securities with FX clause - 89.3% of the issued government securities in 2020 are without FX clause.</li> <li>3. Increasing the spread of interest rates on government securities with and without FX clause - The spread of weighted interest rates on issued government securities with and without FX clause in 2020, on average for the issued maturities, is 45 base points.</li> <li>4. Activities for finalisation of the National Strategy for Financial Education and Financial Inclusion and further education of the population in finance - The Draft Strategy for Financial Education and Financial Inclusion is in the final stage, thus consultations with both the private and the civil sector are yet to be made. It is expected to be adopted by mid-March 2021. During 2020, the activities for financial education of the population continued, mainly online, in accordance with the conditions imposed by COVID-19 pandemic.</li> </ol> <p>Implementation of a Strategy for non-performing loans:</p> <ol style="list-style-type: none"> <li>1. Activities for improving the quality of financial reporting and corporate governance of companies - On 5.12.2020, amendments to the Law on Trade Companies were adopted, which implement Article 20 of Directive no. 34/2013 of the European Parliament and the Council of 26.06.2013 (on the annual financial statements, consolidated financial statements and related reports for certain types of enterprises). The amendment introduces provisions according to which the Supervisory Board, i.e. non-executive members of the Board of Directors of the joint stock company whose shares are listed on the stock exchange, are obliged to provide the management body, in a separate part of the annual report on the company's operations, a statement on the application of the corporate governance code. The Internal Audit Service in the joint stock company monitors the compliance of the organisation and the operation of the company in</li> </ol>

	<p>accordance with the Corporate Governance Code. If the management body fails to provide a statement on the application of the Corporate Governance Code, it is proposed that the competent court impose a misdemeanor sanction - a fine, upon a previously submitted request for initiating a misdemeanor procedure by the Securities and Exchange Commission.</p> <p>2. Analysis of the possibility and the need for regulating the conditions, the manner and the procedure for execution of market transactions with receivables, including non-performing receivables - In connection with this analysis, a twinning project with experts from the Croatian Central Bank is underway. A draft regulation for the sale of receivables will be prepared.</p> <p>3. Supervision and oversight of the banks' non-performing loans – these activities are performed on a regular basis.</p>
<p><b>Policy Guidance 4:</b> <i>Ensure a whole-of-government approach and a cross-sectoral coordination across public administration to effectively respond to COVID-19. Maintain continuous dialogue with business organisations, social partners and civil society on all measures in response to the crisis. Take necessary actions to ensure easy access to digital public services for citizens and businesses.</i></p>	
10. Ensure a whole-of-government approach and a cross-sectoral coordination across public administration to effectively respond to COVID-19.	<p>1) On March 14, 2020 The Government adopted a Decision on the establishment of the Main Headquarter for Crisis Coordination to ensure full coordination of state administration bodies, state-established legal entities, as well as local self-government units, regarding the prevention and spread of Coronavirus COVID-19. The work of the Main Headquarter for Crisis Coordination is managed by the Prime Minister, and its members are the Deputy Prime Ministers, the Ministers of Defense, Foreign Affairs, Interior, Health, Transport and Communications, Finance, Economy, Education and Science and the directors of the Management Crisis Center and the Directorate for Protection and Rescue. Two representatives of the Cabinet of the President of the Republic of North Macedonia also participate in its work. In September 2020 the composition of the Main Headquarter for Crisis Coordination expanded with the Minister of Labor and Social Policy and the directors of the National Security Agency and the Customs Administration.</p> <p>Other government coordination bodies established under the Law on Crisis Management are: Steering Committee for Coordination and Management in the Crisis Management System (composed of the Ministers of Interior, Health, Transport and Communications, Defense, Foreign Affairs and the Director of the Center for Crisis Management as the head of the Assessment Group. In its work also participate one member of the Committee on Defense and Security of the Assembly from the largest political party in opposition and one representative from the Cabinet of the President of the Republic of North Macedonia) and Group for assessment, which constantly assesses the risks and dangers for the security of the Republic and proposes measures and activities for their prevention, early warning and crisis management. The analysis, recommendations and conclusions are submitted by the Assessment Group to the Steering Committee, the Prime Minister, the President of the Republic of North Macedonia and the President of the Assembly.</p> <p>The minutes of the Main Headquarter for Crisis Coordination and the Steering Committee for Coordination and Management in the Crisis Management System are regularly reviewed at the sessions of the Government.</p> <p>With the adoption of the Decision on the existence of a crisis situation on the territory of the Republic of North Macedonia on 20.11.2020, the Headquarter for Crisis Management was also activated, as an operational expert body of the Crisis Management Center that manages the activities for prevention and management of crisis situations. From December 2020 two representatives of the civil society in the field of human rights, selected through a public announcement, participate in the work without the right to vote.</p> <p>2) On 12.3.2020 the Government adopted a Decision on measures for prevention and spread of Coronavirus COVID-19. The amendments to the Law on Protection of the Population from Infectious Diseases from 28.10.2020, legally provided measures for personal protection, ban on grouping in public space, self-isolation, treatment of persons infected with COVID-19, as well as larger authorisations for the competent inspection services to perform inspection supervision over the measures, for which the Government decides on the proposal of the Ministry of Health. Based on these legal changes, on 3.11.2020 the Government adopted a new Decision on preventive recommendations, temporary measures, ordered measures, protocols, plans and algorithms for action to protect the health of the population from the infectious disease COVID-19 caused by the SARS-CoV-2 virus, as well as cases and time period of their application. An integral part of the Decision are 72 Protocols, including: Protocol for preventive measures for all jobs and Protocol for organisation of working meetings, trainings, courses and seminars. The work of the public administration is organised in accordance with the recommendations and measures contained in the Decision and the Protocols.</p> <p>3) Central system for timely and accurate information of the citizens for protection and prevention from COVID-19 has been established. Since the beginning of the COVID-19 pandemic declared by the WHO, the Government Public Relations Service has established a communication strategy for timely and accurate information of the citizens about the measures for protection and prevention of COVID-19. A partnership</p>

	<p>with the media has been reached for the Ministry of Health to be the primary point of information equally for all, regular press conferences are organised or the public is informed through press releases and statements.</p> <p>A central website <a href="http://koronavirus.gov.mk">koronavirus.gov.mk</a> has been introduced for all information on a daily basis about COVID-19 and the Government's measures to prevent the spread of the Coronavirus.</p> <p>Special sections for COVID-19 have been set up on the Government's website and all ministries for easier access to information.</p> <p>Mobile applications have been established: Coronavirus MK for receiving the latest information and notifications on a mobile phone or tablet and StopKorona! designed to help stop the spread of Coronavirus and protect users, as well as an information channel through the Viber application.</p> <p>Two national Call centers for Coronavirus information and information on economic and other measures have been set up, as well as telephone psychological support lines for nine categories of citizens and vulnerable groups.</p> <p>4) Digitalisation and facilitation of the Government decision-making process. The Government prepares and maintains the sessions through a modern integrated information system e-Government, which enables efficiency, economy, mobility, transparency, responsibility and monitoring of the process of preparation, implementation and daily coordination of the decisions from the Government's sessions. The changes in the Rules of Procedure of the Government from 21.3.2020 enabled the sessions of the General Collegium, the working bodies of the Government and the Government to be conducted with the use of means of communication, without the physical presence of the members.</p> <p>In November 2020 a new advanced e-Government system has been put into production, which enables electronic collaboration and correspondence between state institutions in communication with the Government, through electronically certified digital signing of materials and acts. The General Secretariat organised trainings for over 500 employees in the institutions. User instructions along with a video of the held trainings are available in the system for its users.</p>
11. Maintain continuous dialogue with business organisations, social partners and civil society on all measures in response to the crisis.	<p>Regarding the measures taken in response to the crisis, the existing forms of continuous dialogue with the representative actors are used. Namely, in 2018 the Memorandum of Cooperation for establishing public-private dialogue was signed between the Government and the most representative chambers of commerce i.e Economic Chamber, the Economic Chamber of Information and Communication Technologies, the Chamber of Commerce of Northwest Macedonia and the Association of Chamber of Commerce. The Public-Private Dialogue will be conducted through a Commission composed of one representative and his deputy from each of the contracting parties. The purpose of the Platform is to establish a dialogue between the public and private sector, which contributes to improving the situation in the business environment, increasing the competitiveness of the economy, improving the quality of domestic products and services and accelerating the overall economic growth and development. The forms of cooperation of partners are: meetings, forums, workshops, and various events of relevance. Continuous cooperation with the social partners at all levels and in all sectors is achieved through other forms of cooperation with relevant representative stakeholders in individual sectors.</p>
12. Take necessary actions to ensure easy access to digital public services for citizens and businesses.	<p>The National e-services Portal (the Portal) <a href="http://www.uslugi.gov.mk">www.uslugi.gov.mk</a> provides e-services for individuals. Currently more than 50 fully electronic services, delivered by different institutions, are available on the Portal. Additionally, the Portal links to more than 80 e-services available on various institutional websites. MISA carries out series of activities aimed at expanding the range of electronic services available on the Portal. The purpose of the activities is to increase the use of the Portal as a central point for delivery of e-services.</p> <p>Specific goals and objectives are:</p> <ul style="list-style-type: none"> <li>- upgrading the Portal with profiles for legal entities;</li> <li>- upgrading the Portal with functionality for intermediaries, persons who would be able to apply for e-services on behalf of a user;</li> <li>- increasing the number of available e-services on the Portal, including digitalisation of the necessary registers;</li> <li>- draft amendments for necessary legal changes to enable digitalisation;</li> <li>- building human and technical capacities for delivery of e-services within the administration.</li> </ul> <p>More details on this are described in Chapter 5 of ERP 2021-2023, measure 14. Broadening the scope of digital services provided on National E-service Portal.</p>
<p><b>Policy Guidance 5:</b> <i>With a view to mitigate the economic consequences of COVID-19 pandemic and to stimulate economic recovery, establish an effective and transparent mechanism to support the businesses affected by the crisis, in particular micro, small and medium-sized enterprises and self-employed. Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy. Create a register of para-fiscal charges to streamline their use and further decrease the administrative and regulatory burden of companies.</i></p>	

<p>13. With a view to mitigate the economic consequences of COVID-19 pandemic and to stimulate economic recovery, establish an effective and transparent mechanism to support the businesses affected by the crisis, in particular micro, small and medium-sized enterprises and self-employed.</p>	<p>The government has adopted four packages of economic measures aimed at mitigating the economic consequences of the COVID-19 pandemic and stimulating economic recovery. The economic measures are designed after extensive consultation with the members of the Economic Council, discussions with the business community through the chambers of commerce.</p> <p>All measures are published on the Government website <a href="https://vlada.mk/ekonomski-merki-covid19">https://vlada.mk/ekonomski-merki-covid19</a>. For the implementation of these measures, public calls were duly published, special instructions were prepared and they were published on the websites of the competent institutions for implementation of the specific measure.</p> <p>In the function of transparency, special web pages were created: <a href="https://kupuвамdomasno.gov.mk/mk/">https://kupuвамdomasno.gov.mk/mk/</a> and <a href="https://domasiedoma.gov.mk/">https://domasiedoma.gov.mk/</a></p> <p>The Ministry of Economy on its website <a href="http://www.economy.gov.mk/docs/oglasj">http://www.economy.gov.mk/docs/oglasj</a> has published public calls related to the implementation of measures within its competence.</p>
<p>14. Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy.</p>	<p>1) On April 24, 2020, the Government adopted the Decree with the Force of Law Amending the Decree with the Force of Law on the Application of the Law on Social Protection during State of Emergency ("Official Gazette of the Republic of North Macedonia" No. 198/20), which allowed facilitated access to the entitlement to Guaranteed Minimum Assistance (GMA) for persons who lost their employment during the pandemic, starting from April to December 2020.</p> <p>To be specific, the financial insecurity of households is established by calculating the amount of all incomes of all household members on all grounds in the month preceding the submission of the application for exercising the entitlement to GMA and in the month preceding the month for which the entitlement is granted, for the period from April to December 2020. Furthermore, the entitlement to GMA may also be granted in cases where a member of the household has been deleted from the register of unemployed persons due to irregular registration or whose employment has been terminated amicably, on their own request or because of violation of the obligations arising from the contract or other obligations arising from employment. The entitlement to GMA does not cease to be valid if the beneficiary fails to register with the competent Employment Center, and fails to regularly fulfill the registration obligations in compliance with the regulations on employment and insurance in case of unemployment.</p> <p>With the effect of the facilitated access to the entitlement to GMA, according to the dynamics of the submitted applications and the duration of the pandemic in the coming period, about 3,500 new households are expected to be covered by the end of 2020 (who will continue to exercise the right in 2021); 6,500 new households are to be granted this entitlement in 2021 (that is, 10,000 households in total).</p> <p>2) One of the strategic priorities of the Government and the MLSP is to reduce the informal economy, including the reduction of undeclared workers. In 2018, the first medium-term Strategy for formalisation of the informal economy 2018-2022 was adopted with an Action Plan for the period 2018-2020. During the second quarter of 2020, the Action Plan was revised. A report on its implementation was also prepared. The project named "Improving working conditions" has started with implementation. One of the main components of this project refers to strengthening the national capacities for improving the situation in the country in the area of informal economy and informal employment.</p> <p>Amendments have been made to the Operational Plan for Active Programmes and Employment Measures to mitigate the consequences of the COVID-19 pandemic, i.e. additional funds have been provided under the EU Action for Social Resilience, IPA Action Programme 2020, for two programmes. The programme "Support for self-employment and formalisation of existing businesses in conditions of COVID-19" provides support of 161,630,000 denars for opening 500 new businesses by the end of March 2021, 700 business in total by September 2021. With the "Programme for employment and growth of legal entities that create new jobs in conditions of COVID-19 pandemic", it was planned to open 600 jobs, for which 156,000,000 denars were earmarked. Namely, according to the IPA budget support, 1,100 unemployed persons shall be supported, i.e. 1,500 unemployed persons by September 2021 when the implementation of the IPA programme ends.</p> <p>Previous changes in June 2020 provided funds to support self-employment of additional 126 persons, i.e. a grant will be provided to support unemployed who lost their jobs due to COVID-19, beneficiaries of guaranteed minimum income who want to formalise their business or young unemployed people who want to start their own business. Further on, with the amendments to the Operational Plan in September 2020, the scope of persons for wage subsidies was increased, encouraging employers to create new jobs.</p>

<p>15. Create a register of para-fiscal charges to streamline their use and further decrease the administrative and regulatory burden of companies.</p>	<p>The Ministry of Economy published on its website a List of 377 para-fiscal charges for business entities, by competent authority, which were mapped based on the Catalog of public services of MISA which contains about 1000 services for citizens and businesses. The list was developed as part of the Exploratory Analysis of Para-fiscal Fees for Small and Medium Enterprises in the Republic of Northern Macedonia.</p> <p>A Working Group for Monitoring Activities Related to Para-fiscal Tax Policies has been established, composed of representatives from various institutions, which will be coordinated by the Ministry of Economy.</p> <p>The services that have the character of para-fiscal charges within each institution and are listed in the list of para-fiscal charges are being reviewed, in terms of justification for reduction or abolition of charges, including specific proposals for reduction or abolition of certain charges, the possibility for gradation in the price of certain fees according to the size of the enterprise, the age of the enterprise and the location, the possibility and the technical readiness for providing documents ex officio, as well as the possibility and the technical readiness for digitalisation of the service.</p> <p>More details on this are described in Chapter 5 of ERP 2021-2023 measure 10 Rationalising the use of para-fiscal charges).</p>
<p><b>Policy Guidance 6:</b> <i>Continue taking measures to preserve employment including by ensuring short-time work schemes and flexible working arrangements. Increase the capacity of and cooperation between the Employment Agency and Centres for Social Work to provide integrated services and measures for inclusion in the labour market including training upskilling and reskilling. Ensure adequate and sustainable funding to strengthen the health care sector with an aim to improve access to quality public health care for all citizens.</i></p>	
<p>16. Continue taking measures to preserve employment including by ensuring short-time work schemes and flexible working arrangements.</p>	<p>In 2020, for the implementation of the Operational Plan for active employment programmes and measures, funds in the amount of MKD 1,807,501,260 (more than EUR 29.3 million) were earmarked. The planned coverage of participants with active programmes and employment measures is 12,696 unemployed people. As of 31.12.2020, the implementation of the Operational plan is as follows:</p> <ul style="list-style-type: none"> <li>• within the Self-employment programme, contracts were signed with 1468 unemployed people;</li> <li>• the programme Support for creation of new jobs subsidised employment of 2,617 people;</li> <li>• the training programmes covered 607 unemployed people;</li> <li>• the Digital Skills Training programmes covered 180 unemployed people;</li> <li>• the Internship programme covered 1,544 unemployed people;</li> <li>• the Employment Programme covered a total of 1,063 unemployed persons.</li> </ul> <p>The financial agreement for the annual action programme for the Republic of North Macedonia „EU for social and economic resilience” for 2020, funded by the EU within IPA II, provides for 2 active employment programmes and measures aimed at mitigating the negative impact of COVID-19 on socio-economic sphere in the country, through job creation and economic support:</p> <ul style="list-style-type: none"> <li>- Support for self-employment (entrepreneurship) and formalisation of existing businesses in COVID-19 situation (planned coverage of 500 participants)</li> <li>- Employment and growth of legal entities that create new jobs in conditions of COVID-19 (planned coverage of 600 participants).</li> </ul> <p>A Decree with legal force was adopted for subsidising the social security contributions for the months of April, May and June 2020 in the amount of 50%. In addition, a special Decree with legal force was adopted for the application of the Law on Minimum Wage, which maintained the same level of the minimum wage from March 2020 in April, May and June 2020. The government issued recommendations that provided guidance on the possibility of working from home.</p>
<p>17. Increase the capacity of and cooperation between the Employment Agency and Centres for Social Work to provide integrated services and measures for inclusion in the labour market including training upskilling and reskilling.</p>	<p>Final beneficiaries of the IPA Project "Activation of vulnerable groups in the labor market" are persons who are beneficiaries of the guaranteed minimum assistance (GMA). Amendments to the Law on Social Protection envisage a new way of working - cooperation between the employment centers and the centers for social work. In order to facilitate integration in the labor market of Guranateed Minimum Assistance beneficiaries, a Rulebook was adopted regulating the cooperation for case management. So far, 735 individual activation plans have been developed. A procedure for selection of an external provider of psychosocial support is underway. In order to successfully implement the project, so far 169 ESA employees have attended training on integrated case management.</p>



<p>18. Ensure adequate and sustainable funding to strengthen the health care sector with an aim to improve access to quality public health care for all citizens.</p>	<p>The effectiveness and financial stability of the health sector is planned to be achieved through a rational allocation of financial and human capital to PHC, introduction of hospital procedures that require less hospital stay of the patient as well as significant reduction of unnecessary referrals to specialised diagnosis and unnecessary hospitalisations.</p> <p>According to the data of the Health Insurance Fund (HIF), the health system in the Republic of North Macedonia covers about 1.8 million insured persons (2019), which in relation to the total number of inhabitants in the country is 90% of the population. Regarding the structure of insurance holders, most of them are employed persons with 48.2%, followed by pensioners with 27.5%, the unemployed and persons insured through the Ministry of Health (MoH) with 21.5% and farmers and others with 1.6% and 1.1%. The insured receive the health services within the primary level of health care (general medicine, gynecology and dentistry), the secondary level (specialist-consultative health care) and the tertiary level (hospital health care).</p> <p>The budgets of the MoH - responsible for capital investments in public health institutions (infrastructure and medical equipment), as well as the HIF - responsible for public health expenditures, increased, but compared to the EU average of 9.9% of GDP, expenditures for public health are lower and amount to 6.58% for 2018. According to the WB Review of Public Finances, North Macedonia belongs to the group of countries that spend efficiently, given that they spend little on health care, but have a long life expectancy. However, in order to achieve the results in the health of the comparable countries, North Macedonia will have to give priority to the health in the public expenditures and to allocate the public funds for health more efficiently.</p>
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### 3. Macroeconomic framework

#### 3.1 Recent economic developments

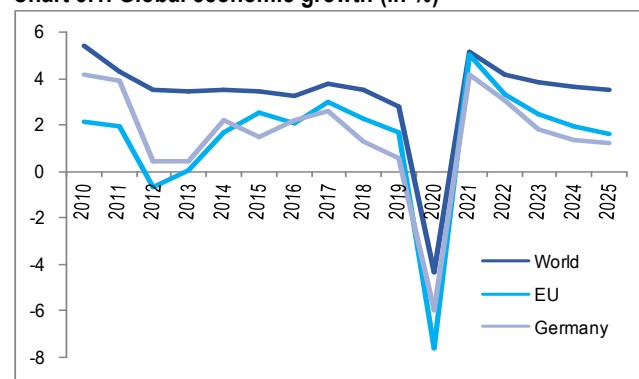
**International Economic Environment<sup>1</sup>.** Global economy in 2020 is under adverse impact of the Coronavirus pandemic, deteriorating the global demand and contributing to significantly reduced economic activity. Economic recovery, which commenced in the first half this year, is under strong impact of the uncertainty as regards the duration of the pandemic and it can be seriously hit by the recent re-increase of the number of newly infected. Social distancing restrictions are expected to continue to apply in 2021, however, to be gradually lifted.

Global economic activity is projected to decline by 4.4% in 2020, surging by 5.2% in 2021. In the period 2021-2025, 3.8% global economic growth is projected in average annually. The pandemic-induced crisis also hit the EU economy, causing similar consequences, envisaging 7.6% drop in 2020, with a growth rate of 5% in 2021. In the period 2021-2025, average economic growth in EU is projected at 2.3% annually. Economic activity in Germany, as the largest economy within the EU and our major trading partner, is projected to decline by 6% in 2020. German economy in 2021 is expected to grow by 4.2%, while in the medium term, i.e. in the period 2022-2025, average annual growth of 1.8% is projected (Chart 3.1). In fact, EUR 750 billion European

Union pandemic recovery package-fund is expected to boost the economic recovery. Countries with available fiscal room are recommended to deploy fiscal resources to public investments, as well as social transfers; while where inflation expectations are well anchored, monetary policy can help by containing borrowing costs. Thereby, limiting factor to EU economic growth is the increasing level of debt in many countries as a consequence of the increased need for funds to support the economies.

Risks as regards the projections mainly arise from the vast uncertainty with respect to the pandemic. The forecast rests on public health and economic factors that are inherently difficult to predict. The first set of factors relates to the path of the pandemic, the needed public health response and the associated disruptions at the affected activities. The second one pertains to the extent of global spillover from soft demand, weaker tourism and lower remittances. The third set of factors comprises financial market sentiment and its implications for global capital flows. Moreover, there is uncertainty

**Chart 3.1. Global economic growth (in %)**



Source: International Monetary Fund, October 2020 (forecast for 2020-2025)

<sup>1</sup>International Monetary Fund "World Economic Outlook", October 2020.



surrounding the damages to supply potential, which will depend on the persistence of the pandemic shock, the size and effectiveness of the policy response and the extent of sectoral resource mismatches.

#### Recent Economic Trends in the Republic of North Macedonia

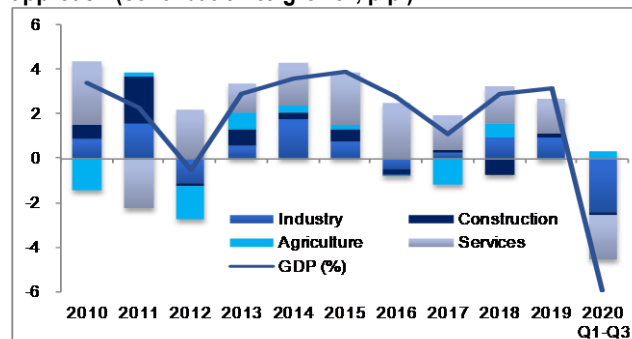
**Gross Domestic Product.** Domestic economic activity declined by 5.9% in the first nine months in 2020, mainly reflecting the unfavourable trends in the second quarter, when the economic activity dropped by almost 15% on annual basis, as a result of the containment measures for preventing the spread of Coronavirus and the deteriorated international economic environment, whereby industrial production, construction, trade, transportation and food and accommodation services were hit the most. Decline of economic activity significantly slowed down in Q3, when 3.3% decline was registered, in conditions of slowed down dynamics of the activity in the industry and the services sectors, and growth registered at construction and agriculture sectors.

Activity in the services sector dropped by 3.5% in the first nine months, being a result of the unfavourable trends in the Trade, transportation and food and accommodation services, experiencing 10.8% drop, being partially neutralised by the favourable trends in the ICT sector with 4% growth. Construction sector registered 2.5% decline in real terms which, in line with the high-frequency data, is due to the unfavorable trends in the construction activities as regards buildings, while construction activities as for civil engineering structures experienced growth (Chart 3.3). Agriculture sector experienced 4.1% growth in real terms.

Activity in the industrial sector dropped by 13.2% in the first nine months. According to the monthly data, the industry suffered the most consequences in April and May, when production experienced around 30% average decline, followed by significant mitigation of the decline, in particular, industrial production dropped by 9.3% in average in July and August and by 4.1% in September (Chart 3.4). Within the industrial sector, the highest drop in the first nine months was observed at Manufacturing, mainly as a result of the declined manufacturing of machinery, equipment, electrical equipment and motor vehicle, i.e. activities associated with the activity of the industrial capacities in the free economic zones which are mostly integrated in the global value chain, as well as the decline registered at the production of clothing and textile. Average utilisation of the capacities in the manufacturing industry gradually improved, reaching 67.5% in September, slowly approaching the pre-crisis level (71.4% in February).

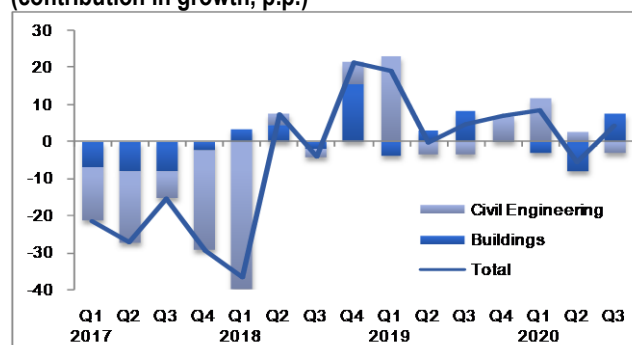
Decomposition of GDP, according to the expenditure side, shows that private consumption, investments and net-export had negative contribution to the economic activity in the first nine months, while public consumption had a positive contribution (Chart 3.5). Private consumption decreased by 6% in real terms, amid restrained consumption and decline of foreign remittances, which adversely affected the household income and subsequently the consumption. Thereby, more

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



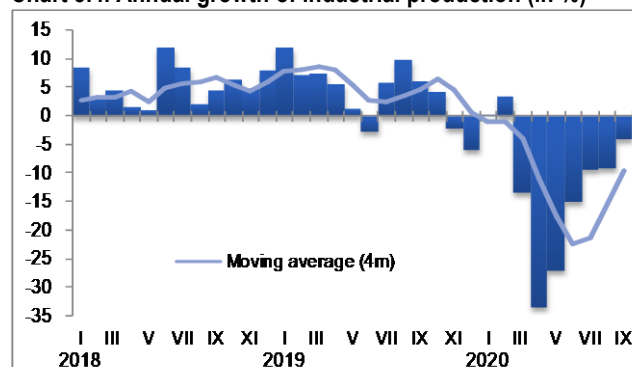
Source: SSO and calculations of MoF

**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

significant drop of consumption was prevented through the measure for financial support of enterprises for wage payment, the payment cards measure for higher spending, as well as credit support by the banks. In addition, declined total consumption is mitigated by the high increase of the public consumption by 11.3%, due to the expenditures related to managing the pandemic and its consequences on the citizens and the economy. Gross investments dropped by 8.8% in real terms, as a result of the investment decline in the second quarter which, according to the high-frequency data, corresponds to the investment decline in the construction works, machinery and equipment. Recovery of investments was observed in Q3, i.e. 4.2% annual increase.

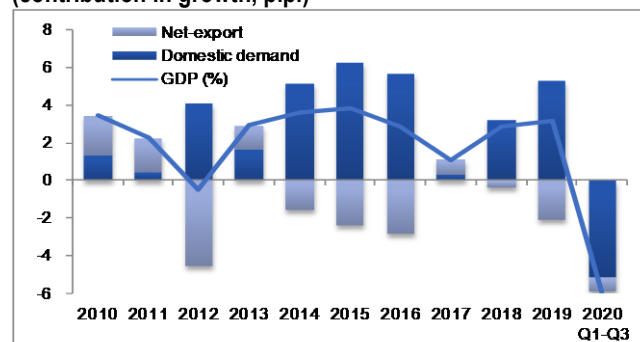
Export of goods and services dropped by 15.1% in real terms in the first nine months, being mainly a result of the deteriorated international economic environment and temporary disruption of global production chains, resulting mostly in drop of the export of machinery, transport equipment and chemical products. Import of goods and services decreased by 11.8%, conditioned mostly from the reduced import of intermediary goods. Monthly data on foreign trade show slowdown of the decline of export and import of goods in the period July-August, with export increasing by 4% in nominal terms in September and import by 3.5% on annual basis.

**2020 Assessment.** In times of significant deterioration of the international economic environment and significant drop of the foreign demand caused by the health crisis, as well as negative economic implications from the implementation of the measures aimed at preventing the spread of the Coronavirus in the country, economic activity in 2020 is expected to experience 4.4% drop, in line with the baseline scenario (Chart 3.12).

**Labour Market.** Positive trends on the labour market continued in Q1 2020, followed by a moderate deterioration induced by the pandemic, which was contained with the government support to the companies aimed at keeping the jobs and improving their liquidity. According to the Labour Force Survey, average number of employed persons in the first nine months in 2020 increased slightly by 0.3% compared to the same period in 2019, whereby employment mostly increased in ICT sector, financial services, trade, health and social protection. On the other hand, employment mainly dropped in the agriculture sector and electricity and water supply, while construction sector, food and accommodation services and transportation experienced slighter decline. Average employment rate in the first nine months amounted to 47.3%, remaining almost unchanged in relation to the same period in 2019. Unemployment rate, following the increase in the second quarter, registered certain decline, hence the average unemployment rate in the first nine months was 16.5%, being 1 p.p. decline compared to the same period in 2019. Active population in the analysed period account for 56.6% of the working-age population.

Average monthly net wage in the period January - September 2020 was higher by 8.1% in nominal terms, and by 7.2% in real terms. Following the strong wage growth in the first quarter, it slowed down in Q2,

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



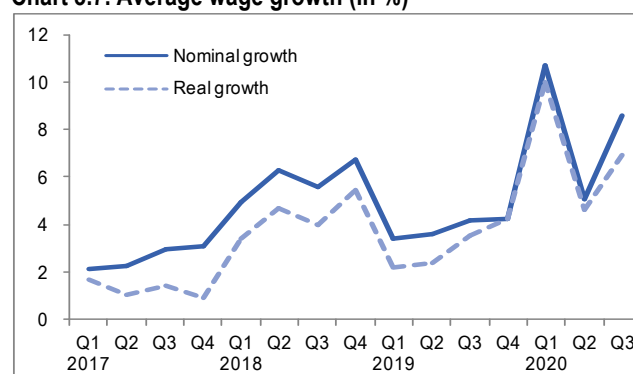
Source: SSO and calculations of MoF

**Chart 3.6. Number of employees and unemployment rate**



Source: SSO

**Chart 3.7. Average wage growth (in %)**



Source: SSO

reflecting the adverse impact of the pandemic on the domestic economy, wage growth gaining intensity afterwards (Chart 3.7). Wage growth in this period was a result of the increased level of minimum wage, the government measure for financial support to employers who had increased wages up to a certain amount, the effect from the increased wages in the public sector in September 2019, as well as the additional increase of wages in the education and the health sectors in 2020, while the fiscal measure for financial support to the employers hit by the economic crisis related to payment of wages mitigated the downward trend of wage growth in Q2. In nominal terms, wages in the education sector increased by 12.1%, in the ICT sector by 11%, in the trade sector by 9.2%, in the health sector and social protection and the construction sector by 9.1%, in manufacturing by 8.7%, etc. On the other hand, wages in food and accommodation services dropped by 2.4% due to the reduced scope of operations in this activity.

**External Sector.** In the first three quarters of 2020, the current account deficit was EUR 277 million or 2.5% of GDP. Compared to the same period last year, the current account deficit widened by 1.8 p.p. of GDP. Observed by component, there was a slightly lower trade deficit. Namely, the pandemic and containment measures adversely affected both sides of the foreign trade, with the imports decrease exceeding that of the exports. The primary income also registered a lower deficit, which together with the smaller trade deficit, narrowed the current account deficit. Surplus in services remained unchanged. This effect was completely offset by lower net inflows from secondary income. Within the secondary income, net income from purchased cash foreign currency on the currency exchange market (used as an indicator of the cash private transfers) was lower by about 46% compared to the same period last year.

**Table 3.1. Balance of payments**

(% of GDP)	2015	2016	2017	2018	2019	I-IX.2020
Current account deficit	-2	-2.9	-1	-0.1	-3.3	-2.5
Goods, net	-20.1	-18.8	-17.8	-16.2	-17.4	-11.9
Services, net	3.8	3.5	3.7	3.4	3.1	3.3
Primary income, net	-3.2	-4	-4	-4.2	-4.6	-2.6
Secondary income, net	17.4	16.4	17	16.9	15.6	8.7
Financial account, net						
(without foreign reserves)	-0.1	6.3	-0.5	5.1	6	4.1
FDI, net	2.2	3.3	1.8	5.6	3.2	0.9
Portfolio investments, net	0.7	4.4	-0.2	3	1.3	4.8

Source: NBRNM, SSO; NBRNM forecast for GDP in 2020.

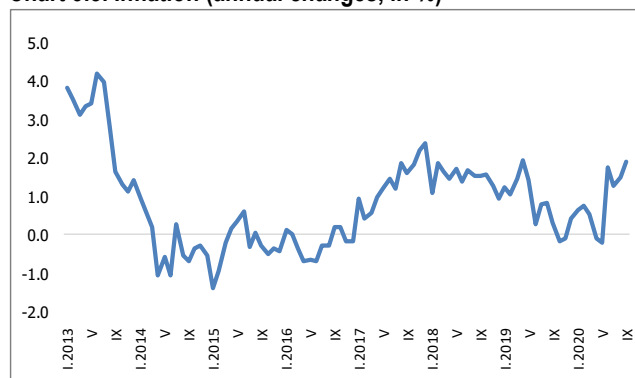
Compared to other crisis episodes, foreign exchange market response is marked by the absence of greater pressures on foreign currency demand, as opposed to the reduction of foreign currency supply. The reason for such economic agents' response is the specific itself, where most inflows are migrants' remittances which were absent in this period given the closed borders and limited movement. The expected synchronised economic contraction in most countries has had an adverse effect on employment and income globally, and therewith, on the disposable income and the ability to send a significant income portion to the home economy. Additionally, the current situation has hit mainly temporary workers abroad who have been prevented from traveling and working abroad during the pandemic. One should note the increase in remittances through official channels (by 44%), although their share in total private transfers is still smaller (increase in the share by around 10 p.p. to 21% of the private transfers).

In the first three quarters of 2020, **financial account** registered net inflows given the high inflows in the portfolio investments (new government Eurobond), as well as net inflows of foreign direct investment, long-term loans and trade credits. There were net inflows of foreign direct investments of EUR 97 million or 0.9% of GDP, as a result of the positive developments in equity and reinvested earnings, amid net outflows from debt instruments (intercompany debt).

At the end of September 2020, gross foreign reserves were EUR 3,480 million, up 6.7% compared to the end of 2019, mainly due to the government external borrowing, despite the National Bank net sale on the foreign exchange market. Foreign reserves were maintained at an adequate level, providing average coverage of import in the next year of nearly five months.

**Inflation.** In the period January-September 2020, the average annual inflation equaled 0.9%. Inflation trajectory was mainly determined by food prices with small positive contribution of prices of tobacco products (in line with the gradual increase in excise) and electricity. The average core inflation, excluding

**Chart 3.8. Inflation (annual changes, in %)**



Source: SSO

variable categories (food and energy), equaled 0.7% per annum (NBRNM calculations). Analysing the structure of headline inflation index, food contributed with 0.8 p.p., core inflation with about 0.3 p.p., while energy made a negative contribution of nearly 0.3 p.p.. The main contribution to core inflation was made by prices of alcoholic beverages and tobacco largely influenced by the 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 1.4% (SSO calculations).

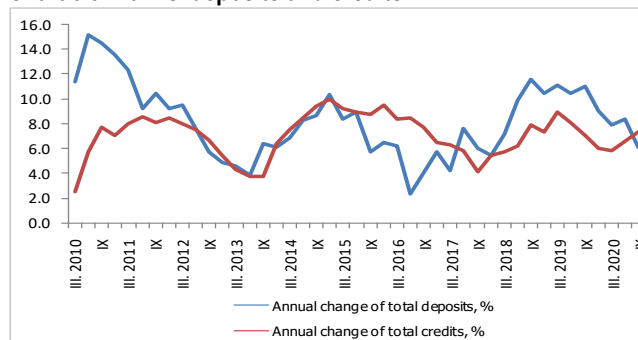
**Monetary Developments and Exchange Rate.** In the period January-September 2020, the monetary policy was further relaxed by gradual policy rate cut to 1.5% (first in January, and afterwards in March and May, upon the onset of the corona crisis.), which is the record low. Monetary policy was relaxed amid global risks of spread of the coronavirus, containment measures in the country and their impact on the economy, at low inflation and a solid external position. At the same time, measures were taken to increase banking system liquidity by reducing CB bill supply (twice during the second quarter), and to support lending by reintroducing the measure that reduces reserve requirements, this time on loans granted to the most affected sectors by the pandemic. These steps are aimed at supporting the Macedonian economy by maintaining credit flows and are complementary to the other measures, such as regulatory changes allowing greater banks' flexibility in the lending process. Given the solid foreign reserves level and absence of inflationary pressures, this monetary stance was assessed as appropriate to the current economic and financial developments, which are under strong influence of the COVID-19 pandemic and the containment measures to prevent the virus spread.

In August 2020, the ECB announced that it approved to the National Bank of the Republic of North Macedonia a repo line in euros for the first time, available until June 2021, unless an extension is decided. The repo line was set up to provide euro liquidity in the banking system, if necessary, which is an acknowledgement of the current National Bank policies and significant support for the management of the consequences of the pandemic.

It is worth noting that monetary and credit aggregates continued to grow during the pandemic. The annual growth of broad money M4 at the end of September 2020 was 6.9% (increase of 9.3% at the end of 2019). Analysed dynamically, money supply growth accelerated in the second quarter, partly attributable to the package of economic measures for addressing the COVID-19 crisis, where the government financially supported corporate and household sector aiming to increase corporate liquidity and to support household purchasing power. In the third quarter, the growth of the money supply slowed down, partly reflecting the effect of the closure of one bank. In September 2020, total private sector deposits were higher by 6.1% on an annual basis<sup>2</sup> (9.5% at the end of 2019). Analysing by sector, household deposits increased by 6.1% (by 7.9% at the end of 2019), with simultaneous growth in corporate deposits of 8% (14.6% at the end of 2019). In September, two-thirds of the annual growth of total deposits resulted from the growth of household deposits. Structurally observed, the annual growth of total deposits largely stems from the growth of the most liquid component, i.e. demand deposits, which partly refers to the pandemic-related consumption restrictions, with a positive contribution of short-term deposits.

From currency viewpoint, at the end of September 2020, the annual growth of denar deposits, including demand deposits, was 5.3%, and the growth of foreign currency deposits, including deposits with currency clause, was 7.5%, indicating changes in the economic agents' preferences in times of pandemic. However, the growth in denar deposits, including demand deposits, constituted 52% 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 2020 was 40%, which is moderately above the level at the end of 2019 (38.5%), significantly lower though than the level at the onset of the global financial crisis (of about 60%). It is worth mentioning that the growth of the share of foreign currency deposits is more pronounced in corporate sector and less in households.

**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.

<sup>2</sup> Adjusted for the closed bank, the annual growth of total deposits equals 6.8%.

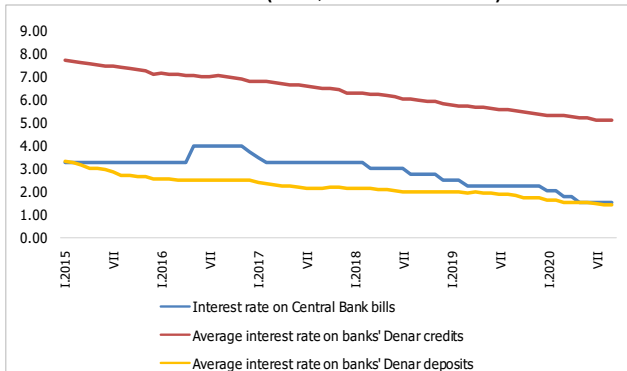


Bank loans to the private sector continued to grow in the first three quarters of 2019, whereby the banking sector supported the economy to overcome the consequences of the pandemic<sup>3</sup>. At the end of September 2020, their growth rate was 7.3%<sup>4</sup> (6% growth at the end of 2019).

The growth of household lending (9.5%) was more pronounced, compared to the corporate lending (5.2%). At the end of September, about two thirds of the annual growth of total loans stemmed from the growth of household loans, while the contribution of corporate loans is lower, yet higher compared to the end of 2019. According to the Lending Survey, during the year, banks mainly eased credit standards, amid net reduction of demand in both sectors.

Interest rates in the banking sector slightly decreased. The average weighted interest rates on denar loans and denar deposits equaled 5.1% and 1.4% per annum in September 2020, and compared to the end of 2019, both decreased by 0.2 p.p., respectively. Consequently, interest rate spread remained unchanged (3.7 p.p.) compared to the end of 2019. In September 2020, the average interest rates on foreign currency loans and deposits equaled 4.2% and 0.6%, respectively, and compared to the end of 2019 both interest rates were cut by about 0.2 p.p., thus keeping the interest rate spread unchanged to about 3.7 p.p.. Interest rate differential between denar and foreign currency deposit interest rate narrowed by 0.2 p.p. compared to the end of 2019, and equaled 0.8 p.p. in September 2020.

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

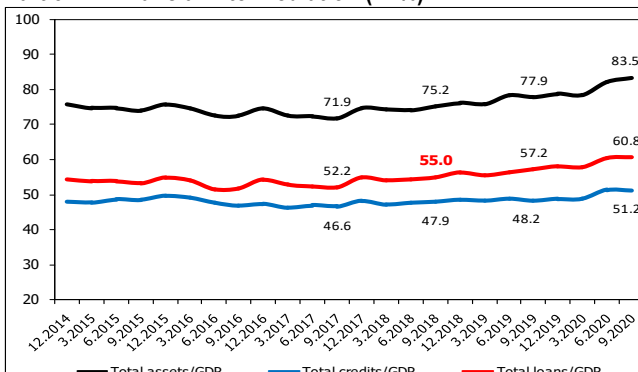


Source: NBRNM.

**Banking System.** The banking sector continues to be crucial for the financial sector stability, as its largest segment that includes non-financial sector savings as well as the assets of other financial institutions, which makes the banking sector stability a crucial link for the overall financial stability. The share of banking system in the financial system assets, although gradually decreasing over the years, is still quite high at 81.4% as of 31.12.2019<sup>5</sup>. In the third quarter of 2020, the number of banks that make up the banking system in the Republic of North Macedonia decreased by one and now it consists of fourteen banks. Ten of them are predominantly owned by foreign shareholders, six of which are foreign bank subsidiaries. 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 2020, despite all the risks that were markedly downward, and in terms of sources, almost entirely attributable to the COVID-19 pandemic, the banking system successfully maintained its stability. Given the strong and unpredictable health crisis and the wide range of virus containment measures, the banking system registered no major shocks. Changes to the banking system in the third quarter of 2020, despite the pandemic impact, were largely caused by the failure of one bank. However, the banking system performance remained solid. The annual growth of the total banking system assets at the end of September 2020 was 7.5%, with favorable developments in the banks' deposit and credit activity. As of 30.9.2020, the shares of total assets of the banking system, loans and deposits in GDP increased compared to the same period of 2019 to 83.5%, 51.2% and 60.8%<sup>6</sup>, respectively.

**Chart 3.11. Financial intermediation (in %)**



Source: NBRNM.

**Credit risk.** Credit risk is the most common risk in the banks' risk profile, and the exposure to this risk decreased in the third quarter of 2020. This is seen in the decrease of the rate of non-performing loans in the non-financial sector to a

<sup>3</sup> For more details about the regulatory changes aimed to ease the credit burden of banks' customers during the pandemic, see *Banking Sector*.

<sup>4</sup> Adjusted for the closed bank, the annual total credit growth is 9.1%. One should have in mind that the credit growth has been affected by the deferred repayments in the period of pandemic.

<sup>5</sup> Source: Financial Stability Report for the Republic of North Macedonia in 2019.

<sup>6</sup> The data for September 2020 are calculated using the latest available GDP data for the second quarter of 2020.

historic low of 3.4%. The majority of non-performing loans are non-financial company loans. The annual rate of corporate non-performing loans decreased by 2.6 p.p. (from 8.0% as of 30.9.2019 to 5.4% as of 30.9.2020). This rate was lower in households and equaled 1.6% (2.1% as of 30.9.2019). This is mostly due to the exit of one bank out of the banking system<sup>7</sup>. Non-performing loans reduced due to the mandatory write-offs of fully provisioned non-performing loans as well as collection, usually by foreclosure of collateral or by assuming debts by another party. As of July 2019, the National Bank introduced an obligation for mandatory write-off of non-performing exposures that were fully provisioned for more than one year<sup>8</sup>. The high coverage of non-performing loans with impairment continued in the third quarter of 2020 (75.4%), which along with the satisfactory volume and quality of own funds, limited the potential adverse effects of the default of these loans on the banks' solvency. Banks are prudent when calculating expected credit losses, and therefore ensure greater coverage with provisions compared to the historical loan default rates. This is particularly pronounced in the corporate loan portfolio, whose inherent risk is higher compared to the household loan portfolio.

In addition to this regulatory change, the National Bank has made regulatory changes to the credit risk management methodology to mitigate the effects of the COVID-19 epidemic. Thus, in order to temporarily reduce the credit burden of bank customers, as well as facilitate future access of customers to the credit market, banks are allowed, upon borrower's consent, to somewhat ease credit standards, including temporary deferral of loan liabilities, without being treated as restructured. In addition, there was a certain easing regarding the recognition of the non-performing status, i.e. the threshold for receiving a non-performing status was moved from 90 to 150 days. The introduced regulatory flexibility refers to loans that were regularly collected before the outbreak of the corona crisis. The regulatory change was introduced in March 2020 allowing banks, in the period March-September 2020, to modify contractual terms and conditions for credit exposures that were regular and performing before 25 March 2020, without such credit exposures to receive status of restructured credit exposures. Amid protracted pandemic, in September 2020, a new offer followed for changing the contractual terms of household loans, but only for the most affected categories of customers (those who have lost jobs, experienced significant income reduction, faced with increased medical treatment costs). According to the latest available data as of August 2020, cumulatively, banks eased the terms and conditions of 44.6% of the total loan portfolio, with higher easing of household credit standards (54.8%, mainly postponed repayment). This percentage is much lower in corporate loans (33.4%).

Amid more pronounced downward risks caused by the pandemic, the **consumer loan growth** went down. Unlike the period before the health crisis, when in certain periods (November 2019 - February 2020) the annual growth rate of consumer loans was over 13%, since May 2020, it has significantly reduced (below 10%). The share of non-performing consumer loans in total consumer loans also decreased, and as of 30.9.2020, it reduced to 1.8%. The National Bank closely monitors the consumer loan movements and is ready to take further action, as necessary.

**Corporate and Household Debt.** The Macedonian banking system mainly operates on the domestic market through financial intermediation with the non-financial sector, and therefore, the performance and the level of corporate and household debt are crucial for maintaining its stability and the stability of the other financial sector segments. The domestic corporate debt increased in 2019, but its share in GDP decreased (from 66.9% in 2018 to 65.8% in 2019). Domestic companies do not use market financing, and their main creditors are non-residents, who contributed the most to the growth of total corporate debt in 2019. The borrowing from domestic banks also increased. However, the level of corporate debt has for many years been stable and among the lowest compared to EU countries, which mitigates the risk of over-indebtedness. The main challenge for the domestic corporate sector in the period ahead and a potential source of risks to the financial stability will be the ability of the corporate sector to overcome the initial pandemic-related liquidity shock and to prevent it from becoming a solvency shock, which would materialise the credit risk in the domestic banks' balance sheets. It is expected that the National Bank measures taken in response to the pandemic, together with the Government economic measures, will facilitate the overcoming of financial hurdles of the businesses and mitigate these risks.

Risks to the household financial stability are limited, but may become relevant in the context of the corona crisis. In 2019, the growth of disposable income contributed to the household debt sustainability and to the further growth of financial assets, which for the most part remain placed in deposits with domestic banks. Most of the household debt is still to domestic banks, with an increase in the debt to financial companies. When the risks to household financial stability exacerbate due to the corona crisis, a positive indicator is the good sector solvency, which increases the resistance to shocks. Despite the intensified increase in recent years, household debt to GDP is not high and at the end of 2019, it

<sup>7</sup> On 12 August 2020, the National Bank Governor revoked the founding and operating license of Eurostandard Bank AD Skopje.

<sup>8</sup> For comparison, from 1.1.2016 to 30.6.2019, the period of mandatory write-off of fully provisioned non-performing exposures was two years.

equaled 26.8%. The systemic vulnerability of the sector, seen through the level of aggregate systemic risk indicator, is relatively limited.

**Profitability.** The trend of banks' positive financial result continued in the first nine months of 2020, more intense compared to the same period of the previous year<sup>9</sup>. However, the banking sector profitability and efficiency ratios are lower compared to the first nine months of 2019, and amounted to 1.4% (ROA), 12.3% (ROE) and 47.9% (cost to income). Amid protracted adverse effects of the COVID-19 pandemic, the banking system increased the impairments and special reserve in order to cover the actual credit losses (from non-performing loans), and the future expected credit losses (from the regular loan portfolio). On the other hand, higher capital gains from the sale of part of the foreclosed assets made a more significant positive contribution to profit growth. Net interest income continues to be the driving force of total banks' income (two-thirds), which, in the first nine months of 2020, continued to decrease moderately, given the low interest rates and the faster decrease in lending than deposit interest rates. The expectations for increased default rates and the subsequent increase of impairment costs, caused by the mass approval of grace periods for regular loans, are expected to affect the banking system financial result in the upcoming period.

**Table 3.2. Main banking system indicators (in %)**

	2014Q4	2015Q4	2016Q4	2017Q4	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3
<b>Capital adequacy</b>												
Capital adequacy ratio	15.7	15.5	15.2	15.7	16.5	17.0	17.4	16.9	16.3	16.5	17.0	16.9
<b>Asset quality</b>												
NPLs / gross loans (non-financial entities)	11.3	10.8	6.6	6.3	5.2	5.2	5.5	5.0	4.8	5.0	4.7	3.4
Total provisions to Non-Performing Loans (non-financial entities)	104.7	108.4	114.9	110.7	118.9	119.8	113.3	108.8	109.6	108.9	118.2	136.7
<b>Profitability</b>												
ROAA	0.8	1.1	1.5	1.4	1.7	1.5	1.4	1.5	1.3	0.8	1.0	1.4
ROAE	7.4	10.4	13.6	13.5	16.0	13.5	12.5	13.5	11.7	7.5	8.6	12.3
Operational costs / total income	55.5	51.6	49.8	48.7	46.2	50.9	50.9	50.0	50.1	51.9	48.9	47.9
<b>Liquidity</b>												
Liquid assets/total assets	33.2	31.4	30.9	29.8	30.6	31.2	31.3	32.4	31.9	29.7	29.5	29.9
Liquid assets to total short-term liabilities	59.2	54.9	53.5	51.7	53.2	54.7	54.2	56.4	54.8	51.0	49.8	50.3
<b>Sensitivity to market risk</b>												
Net foreign exchange position / owned funds	17.5	11.1	14.5	6.2	3.8	1.9	1.8	5.1	6.0	-0.6	3.8	3.4

Source: NBRNM

**Insolvency Risk.** The banking system remains stable and well capitalised. As of 30.9.2020, the capital adequacy ratio was 16.9%. The major driver of the banking system solvency in the first nine months of 2020 was the growth of own funds, primarily from reinvested earnings, as well as the new issue of shares in one bank. Aggregately, the banking system still has available capital over the regulatory and supervisory requirement (10.1% of total own funds). Analysed by purpose, almost half of the own funds are capital allowances determined under supervisory assessment, as capital buffers or they are 'available', above the requirement, which is especially relevant in case of downward shift of the economic cycle in times of crisis, when these buffers of own funds can be used to fight off various challenges.

**Liquidity risk.** Traditionally, the banking system maintains a high volume of liquid assets that ensure high resilience to shocks as well as capacity for further credit support to the real sector. At the end of September 2020, the liquidity indicators were solid and within a satisfactory range - liquid assets to total assets, to household deposits and to short-term liabilities were 29.9%, 58.9% and 50.3%, respectively. Loan to deposits ratio of the banking system is still below 100% (84.3%) and indicates acceptable range of liquidity risk to banks and room for increased lending supported by domestic funding sources.

**Stress testing.** The banking sector resilience to shocks has also been confirmed with the stress tests that show a generally efficient capacity of banks to absorb credit losses, even in most extreme and unlikely shocks, which would mean more pronounced credit risk materialisation. Credit risk, as the most common in the domestic banks' risk profile, is particularly pronounced in these times of pandemic, increasing the likelihood of reducing the ability of borrowers to regularly settle loan liabilities. Such likelihood of credit losses creates risks of decelerating credit growth, which may adversely affect the pace of economic recovery and the bank profitability. However, unlike the period before the global financial crisis, which was marked by strong credit growth and subsequent credit risk materialisation, the current situation does not indicate credit market imbalances. The results of stress testing in the second quarter of 2020 show that the banking system is more resilient to the simulated shocks compared to the previous quarter. The capital adequacy ratio of the banking system does not go below 8% in individual hypothetical simulations (although, analysed by bank, there is need of recapitalisation). The hypothetical shocks on the part of the credit risk have the greatest impact on the stability of the banking system, and the results of the stress test simulations for credit risk materialisation say that the drop of capital adequacy ratio below 8% requires the non-performing loan exposure to non-financial sector to increase as much as

<sup>9</sup> The significant increase in banks' profit is somewhat due to the exclusion from the banking system of one bank that reported a negative financial result, thus reducing the profit of the overall banking system.

309.5% (294.6% as at 31.3.2020). In other words, it takes 16.2% of the regular credit exposure to the non-financial sector to receive non-performing status (15.5% as of 31.3.2020), for the capital adequacy of the banking system to drop to 8%.

### 3.2 Medium-term macroeconomic scenario

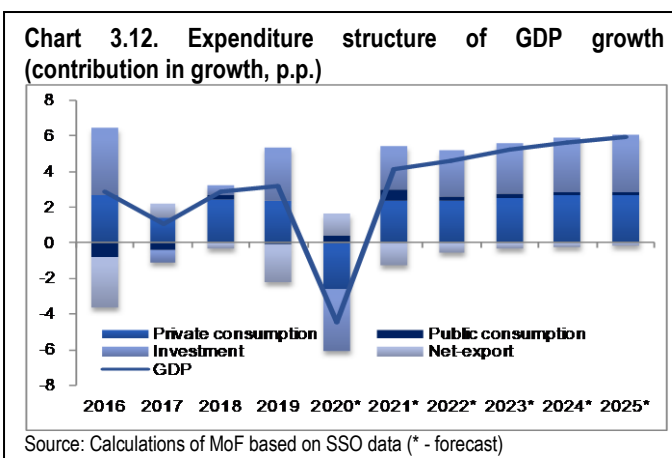
Macroeconomic policy of the country is aimed at supporting the macroeconomic stability and laying the foundations for accelerated economic growth in the longer term, increasing the growth potential of the economy and ensuring sustainable and inclusive growth, implementing capital infrastructure projects, supporting the investment and the export activity of the companies, increasing the employment through active employment measures and raising the living standard of citizens.

**Gross Domestic Product.** The responsiveness of the fiscal policy to the pandemic in the country was rapid and significant in supporting the companies and the employees in the most affected industries, as well as the vulnerable groups of citizens. State support, which will underpin domestic demand and export activity through various measures, will continue in 2021, all to the end of faster recovery of domestic economy and creating basis for intensified economic growth in the longer run.

Economic growth in the country is expected to shift to the positive zone in 2021, amid expected recovery in investments, consumption and external demand, whereby 4.1% growth is projected according to the baseline scenario, which is based on weakening of the health crisis and gradual improvement of the epidemiologic picture, improved utilisation of the production and the services capacities, favourable effects from the economic measures, as well as boosted confidence of both the consumers and the investors.

Redesigning of the budget policy and the policies aimed at economic recovery and intensified growth (SmartER Growth) are solid basis for accelerating the economic growth in the coming period, getting the economy back to the pre-crisis trajectory in the second half of 2022 and ensuring accelerated growth dynamics thereafter. Hence, according to the baseline medium-term scenario, average annual growth in the period 2022 - 2025 is projected at 5.3%, i.e. economic growth in 2025 is expected to reach 5.9%.

Export activity is expected to grow by 14% in 2021 as a result of exhausting the unfavourable economic effects from the pandemic and improved utilisation of the production capacities of the domestic companies, as well as due to the low comparative basis. Projected growth of external demand is expected to contribute thereto in conditions of positive outlook for the economic activity in the EU and the other country's trade partners. In the medium term, in conditions of expected stabilisation of the growth of external demand and increased export potential in the country via inflow of FDIs, the export is expected to have a solid contribution to the economic growth, i.e. it is projected to experience average annual growth of 9.1% in real terms in the period 2022-2025. Following structural reform measures (Chapter 5): Implementation of Intelligent Transport System along Corridor 10 (Measure 4), Trade Facilitation (Measure 15), Facilitating North Macedonia - Serbia Cross-Border Crossing (Measure 16) and Strengthening the Internal Market in North Macedonia (Measure 17) are aimed at supporting the export of goods and services in the longer term, as well as the overall volume of external trade of good and services in general.



Contribution of the domestic demand to the economic growth is expected to shift to the positive zone in 2021, in conditions of recovery of the investment activity and the private consumption (Chart 3.12). Real growth of gross investments is projected at 7.7% in 2021, while in the period 2022-2025, average annual growth of gross investments is projected at 8.5%, whereby planned public investments, restored confidence of the business entities and higher inflow of FDIs are envisaged to have a significant impact on the investments. Investments will be also encouraged by the increased support to the private sector and the strengthening of the competitiveness, support to the innovative activity and technological development of the enterprises, structural reforms measure Support to Newly Established Companies and SMEs in Least Developed Regions (Measure 11) being aimed thereto.

Private consumption is projected to experience real growth of 3.5% in 2021, as a result of the expectations for improvement of the situation on the labour market, increased inflow of private transfers from abroad, as well as the credit



support from the banks. Favourable trends at the private consumption are expected to continue in the period 2022-2025, when 4% average annual growth is projected. Consumption during this period is expected to be also underpinned by strengthening the system for social inclusion of vulnerable groups of citizens (Measure 19).

Public consumption is projected to grow by 4.3% in 2021, whereby the expected fiscal impulse will be also channeled through the increased capital expenditures. In the coming years, public consumption is expected to grow with a slower pace, i.e. 1.5% average annual growth is projected in the period 2022-2025, as a result of the efforts to reduce the non-essential expenditures and their rationalisation, as well as implementation of the fiscal consolidation process.

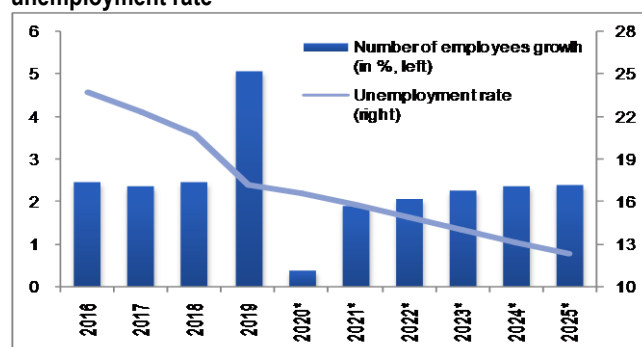
Recovery of the domestic demand and growth of the export activity in 2021 provide for increased import of intermediary, investment and consumer goods, the real growth of import of goods and services being projected at 13.2%, which implies a negative contribution of the net export to the economic growth. Certain stabilisation of the import demand is envisaged in the period to come, i.e. average annual growth of import of goods and services is projected at 7.9% in real terms in the period 2022-2025, with a gradual narrowing of the negative contribution of the net export to the economic growth (Chart 3.12).

**Labour Market.** Effects of the pandemic on the labour market were contained in 2020, considering the government measures to mitigate its consequences on the jobs. In the coming period, in conditions of improved expectations of the business entities, increased investments and economic activity, employment is envisaged to increase, encouraged by the active employment measures and programmes and the support to both the domestic and the foreign enterprises aimed at job creation.

According to the projections, in the period 2021-2025, 2.2% average annual increase of the number of employees is projected (Chart 3.13). Growth of demand in this period is expected to also reflect on the labour supply, which is projected to increase by 1.2% annually in average. Such trends on the labour market will contribute for the average unemployment rate in 2025 to drop to 12.4% and average employment rate to surge to 52.1%. Increase of the average net-wage in this period is expected to be 3.8% annually in nominal terms.

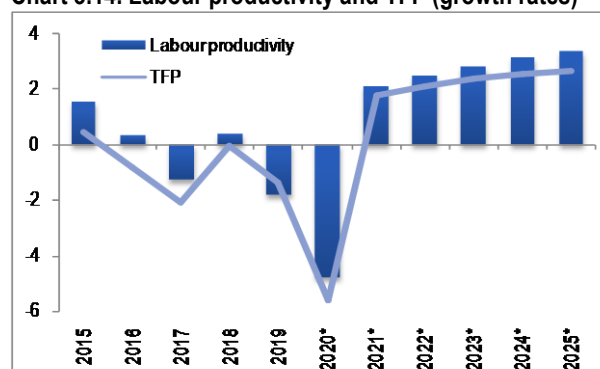
**Sources of Growth.** In 2020, decline of economic activity was accompanied by drop of investments in fixed assets and negative contribution of total factor productivity (TFP)<sup>10</sup> to the economic growth, in conditions of keeping the number of employees at similar level compared to the previous year. Chart 3.14 shows projections on both labour productivity and TFP by 2025. In the 2021–2025 period, productivity growth of production factors is expected to shift to the positive zone, following the downward trajectory in the previous two years. Hence, TFP contribution to economic growth in this period has an average share of around 45%. Labour is expected to contribute to economic growth with 28%. Physical capital, according to the projections on investment growth, in the analysed period, is expected to grow by 3.8% in average on annual basis, contributing with 27% to total economic growth.

**Chart 3.13. Growth of number of employees and unemployment rate**



Source: SSO and MoF forecast (\* - forecast)

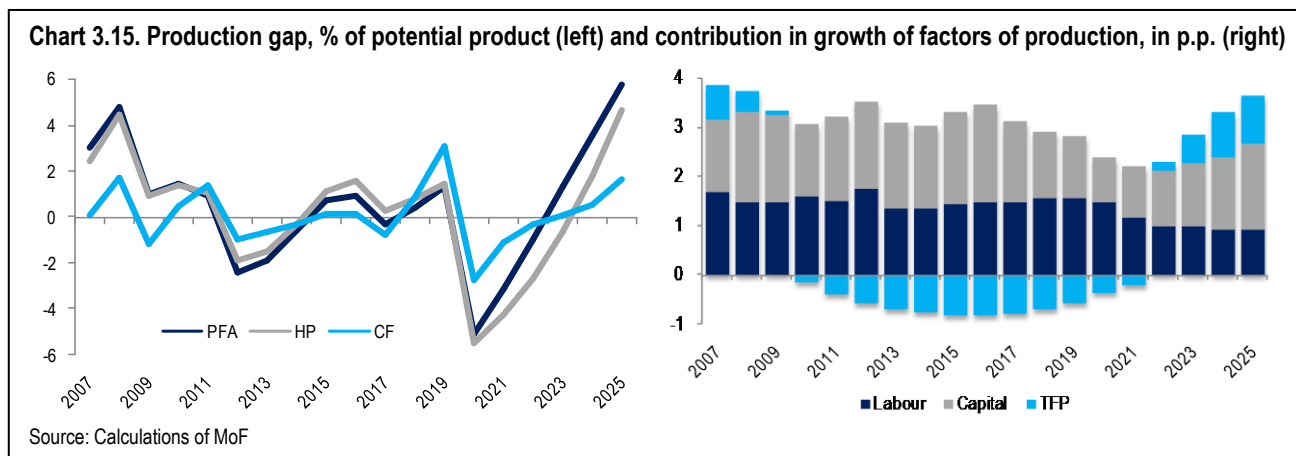
**Chart 3.14. Labour productivity and TFP (growth rates)**



Source: Calculations of MoF (\* - forecast)

<sup>10</sup> 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 Berlemaann 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.

**Potential Growth and Production Gap.** 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 solely 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, while the second group, structural methods, applies the Production Function Approach (PFA), which is used by the EC<sup>11</sup>. Results from the calculation of potential output are presented in the charts below, as well as in Table 5 in Annex 1.

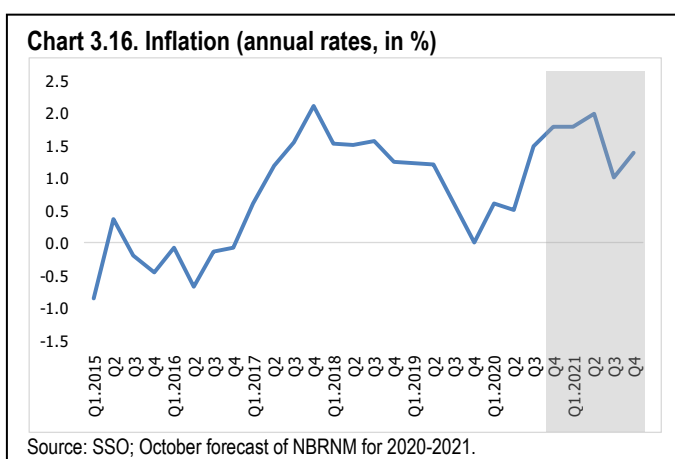


According to the projections on real GDP growth in the coming medium-term period and the estimations on the trends of the potential output, cyclical component of output is in the negative zone in 2020. In 2021 and 2022, negative production gap is estimated to narrow, according to both types of methods, before shifting to the positive zone in 2023 according to the calculations based on the production function method, i.e. in 2024 according to the group of statistical methods.

Potential growth, following the slowed down dynamics in 2020, with negative contribution of TFP and deceleration of growth of physical capital, is estimated to gradually intensify in the coming period, underpinned by measures and policies for accelerated, inclusive and sustainable economic growth, strengthened competitiveness of the private sector and investments in physical and human capital, to be implemented within the Strategy for Economic Recovery and Accelerated Growth (SmartER Growth) and the Public Investments Plan, which will provide for positive impact by productivity of production factors, as well as more significant impact by physical capital on the growth potential of the domestic economy.

**Inflation.** Foreign effective inflation factors in the medium term indicate moderate inflation trends. Foreign effective inflation<sup>12</sup> in 2020 is estimated at 0.5% (significant downward revision from last year's scenario when foreign effective inflation in 2020 was expected to be 1.6%). In 2021, foreign inflation is expected to accelerate to 1.4%, and to reach 1.7% in 2022.

In the last quarter of 2020, the average annual inflation rate in the Macedonian economy is expected to remain moderate. Consequently, the average inflation rate in 2020 is expected to be 1.1%, with positive contribution of the food component and core inflation, despite the negative changes in the energy component. Compared to last year's scenario (inflation of about 1.5%), inflation expectations for 2020 in this scenario are lower, due to the lower performance, amid reduced economic activity and a significant decline in prices of primary commodities, in particular the



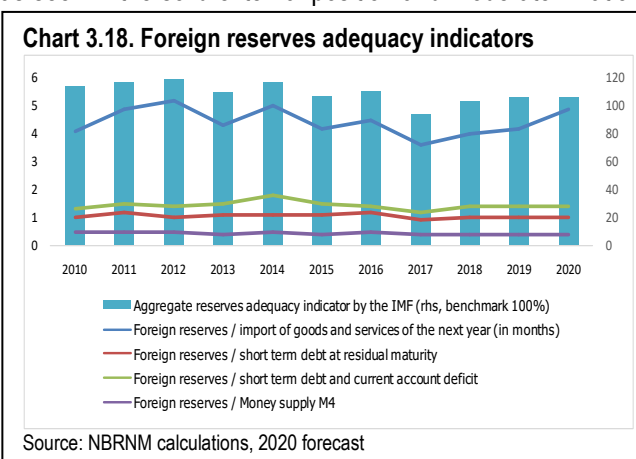
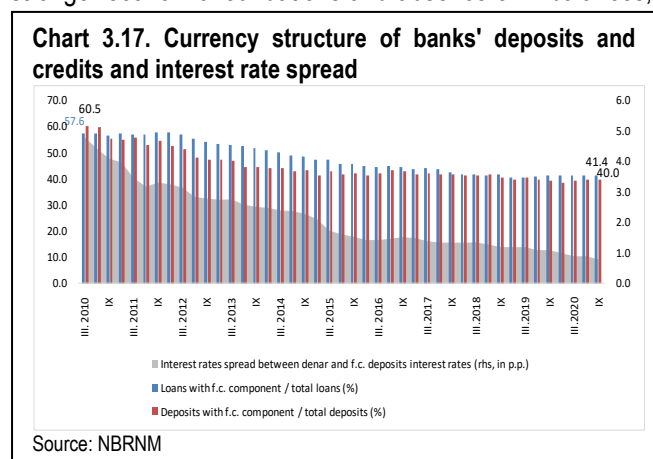
<sup>11</sup> Based on the study of Havik et al, The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps, 2014.

<sup>12</sup> The 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 North Macedonia. Weighted structure is based on normalized shares of nominal imports from each country in the total nominal imports in the period Q3.2013 - 2016.

price of oil on the world markets. In conditions of domestic economic contraction, no pressures from domestic demand have been assessed.

In 2021, amid expected economic recovery, slight acceleration of inflation to 1.5% is expected, given the positive contribution of all three inflation components (core inflation, food prices and energy component). Amid further economic expansion and moderate increase in world prices, inflation in the next two years is forecast to gravitate around the historical average of 2%. The main risk to the inflation forecast remains associated with the uncertainty regarding the future dynamics of the world prices of primary commodities as well as the effects of any supply restrictions in the period of pandemic.

**Monetary and exchange rate policies.** Monetary policy is focused on preserving price stability by maintaining a stable exchange rate of the denar against the euro. Amid low and stable inflation, solid external position and risks posed by the pandemic both globally and nationally, the National Bank continued to conduct accommodative monetary policy. In the first nine months of 2020, the policy rate was cut three times by 0.25 p.p., to 1.5%, which is the historically lowest level. This is the first crisis where the initial monetary authority response is to loosen rather than tighten monetary policy. During the global financial crisis, the lower capital inflows in the Macedonian economy and then increased propensity of economic agents to the euro, led to increase of the policy rate to stabilise expectations. The corona crisis arose in conditions of high and appropriate level of foreign reserves that have been consistently increasing in recent years, stronger economic foundations and absence of imbalances, as seen in the solid external position and moderate inflation.



Given the severity of the pandemic shock, the experience of the global financial crisis and the availability of the unconventional toolkit in place, the National Bank response was rapid and appropriately targeted. The monetary measures contributed to further reducing of banks' interest rates, while maintaining a solid credit support. Moreover, for further dealing with the consequences of the corona crisis, it is worth mentioning that the ECB has provided repo line for euro liquidity to the National Bank until the end of June 2021, unless an extension is decided.

The National Bank conducts ongoing monitoring of the movements in the currency structure of deposits and loans, as well as in the interest differential for instruments in domestic and foreign currency. The multiyear trend of denarisation in the post-crisis period, supported through the differentiation of the reserve requirements ratios from currency aspect, was shortly interrupted in 2016 due to the increased internal uncertainty. In the next two years, this process stagnated and was reinforced in 2019. Maintaining the benefits from deeuroisation in recent years has increased the monetary policy credibility that aims towards stability of the exchange rate of the denar against the euro. Also, a Denarisation Strategy was adopted in late 2018, which defines measures for comprehensive treatment of this issue, the implementation of which has been underway in the period 2019-2020. In 2020, the uncertainty caused by the pandemic moderately increased the share of deposits with currency component, which is more pronounced among companies and less among households. The interest rate differential on denar and foreign currency deposits has been declining for several years, reflecting the relaxed domestic and global financial conditions, which indicates a significantly depleted space in this area.

Analysing the set of monetary policy instruments, in March 2020, the measure for releasing the banks from the obligation for reserve requirement was reintroduced, this time for loans approved to the sectors most affected by the pandemic (by the end of 2019, this measure covered export and energy sector). In the first few months of implementation, loans covered by this measure were mainly approved to transport, and hotels and restaurants, as sectors most affected by the pandemic. In May 2020, the National Bank expanded the range of domestic banks' securities acceptable as collateral instruments when injecting denar liquidity in the banking system. With these changes, when conducting securities

purchase operations on a temporary or outright basis, the National Bank may also accept domestic government bonds with the longest maturity (15 and 30 years), as well as Eurobonds issued by the government on the international financial markets. In order to maintain and increase euro liquidity of the banking system, in August 2020, foreign currency deposit auctions were reintroduced, where domestic commercial banks can place 1- and 3-month euro deposits with the central bank, at fixed interest rates, once a month.

In the next three years, the monetary policy will remain focused on preserving price stability by maintaining a stable exchange rate of the denar against the euro. The results of the estimation models of the equilibrium denar real effective exchange rate<sup>13</sup> as of the last quarter of 2019, did not indicate major deviations from the equilibrium, and were maintained within acceptable range of +/-5% in the period 2003-2019<sup>14</sup>. Regarding the monetary policy conduct, we should mention the results of the monetary transmission models that, with the latest update as of 2019, indicate stronger transmission of the change in CB bill rate to the interest rates on denar loans, and slower transmission to other interest rates.

In general, recent macroeconomic indicators and assessments indicate strong pandemic effects on the global and domestic economies. Although the economic fundamentals are assessed as sound in the medium term, the monetary policy environment is volatile, with extremely high uncertainty. Risks to both global and domestic economies are related to the possible protraction of the infection and possible containment measures to protect public health, as well as to the changes in the behavior of economic agents in terms of their consumption and investment decisions. The National Bank measures are expected to provide further and adequate credit support to the domestic economy by the banks, in the absence of inflationary pressures. Foreign reserves are as expected and assessed to remain in the safe zone. Inflation is estimated to remain within acceptable level. In the period ahead, the National Bank will continue to carefully monitor the trends and potential risks from the domestic and external surrounding in the context of the monetary policy setup.

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 risks. 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 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.**<sup>15</sup> For 2020, banks' deposit growth is expected to be maintained at 4.4% per annum (growth of 8.5% per annum was expected in the last year's scenario). In line with the expected economic growth, the expected balance of payments inflows and the expectations of economic agents for the next three years, there are assumptions for further maintenance of the propensity to save in banks, and accordingly, deposit growth of about 7.3% per annum for 2021-2023.

In 2020, loans registered a moderate increase, with the expected credit growth being revised upwards and expected to amount to 5.3% at the end of the year (which is still lower than the expected growth of 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 2021-2023, moderate acceleration of credit growth is expected at a rate of about 7% 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.

**External sector.** Structural changes in the economy over the last few years have strengthened the exports and improved the currency account balance. Current account deficit in the period 2010-2019 averaged 1.9% 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 trends and estimates for the last quarter of 2020, the current account deficit for 2020 is estimated at 3.7% of GDP, which is wider compared to the previous year (3.3% of GDP), yet moderate.

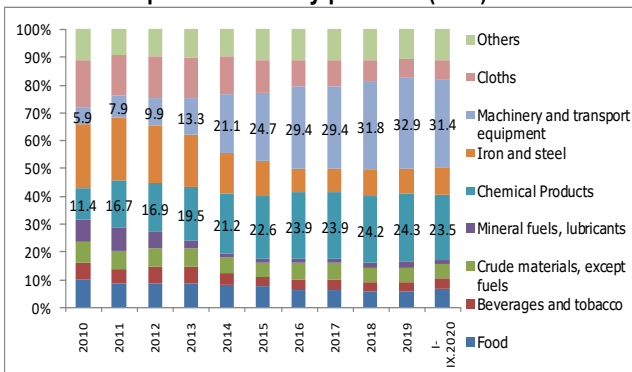
<sup>13</sup> Source: NBRNM. Based on the BEER (behavioural equilibrium exchange rate) approach for assessment of the equilibrium denar exchange rate, which is based on a narrower definition of the real effective exchange rate and is designed on the basis of the five EU major trading partners of North Macedonia. Models (with different specification and evaluated by various techniques), include differential in productivity, trade openness, public consumption and total net foreign assets, as independent variables.

<sup>14</sup> IMF's analyses also indicate no significant deviation in the real exchange rate (IMF Staff Report 2019 Article IV Consultation, January 2020, p.32). 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.

<sup>15</sup> The external and monetary sectors forecasts of the National Bank rely on the Draft Budget for 2021 and the 2021-2023 Fiscal Strategy.

In the period January-September 2020, the total trade deficit<sup>16</sup> narrowed by 6.2% amid annual export fall of 15.2% and simultaneous fall in imports of 13.2% (with higher absolute fall in imports). The decrease in exports is widely dispersed among product groups, depicting the effects of the pandemic, with the largest contribution (about 68%) of the lower exports of machinery and transport equipment and chemical products, which mainly reflects the export of export-oriented facilities with foreign capital, given their dominant share in total exports. Imports decreased mainly due to the lower import of raw materials, equipment and energy, given the economic contraction due to the pandemic and the decrease in import prices of oil derivatives. 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.

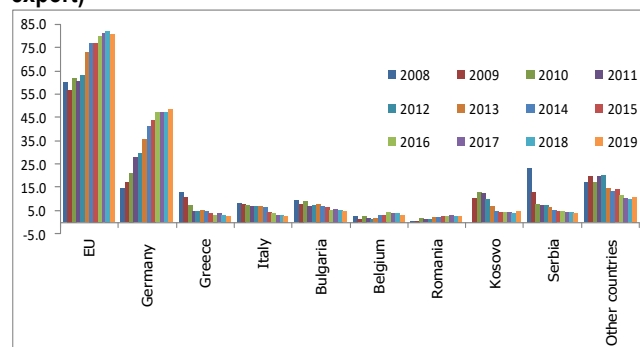
**Chart 3.19. Export structure by products (in %)**



Source: SSO

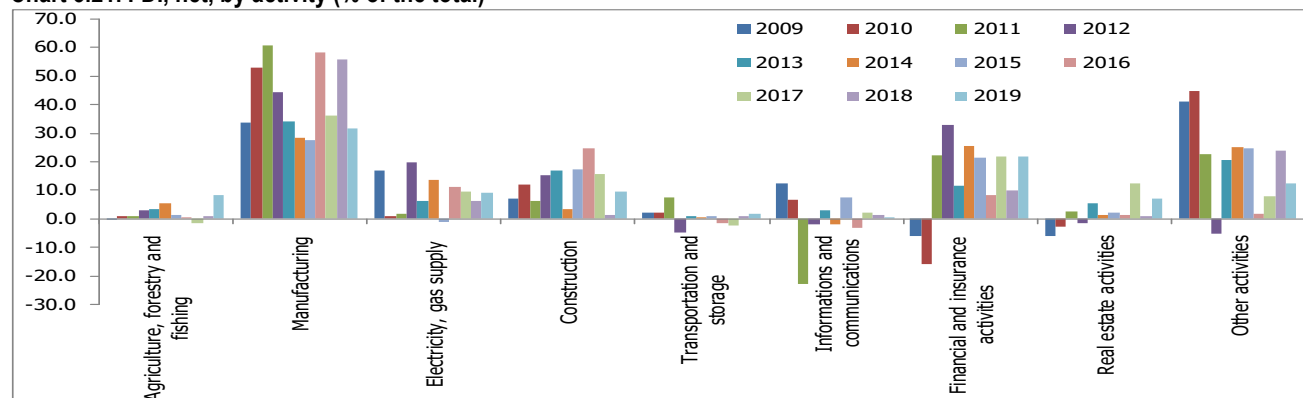
Analysing the structure, export structure has significantly improved in recent years as a result of the new capacities in the economy. It is due to the gradual increase in the share of products with higher value added in exports, mainly chemicals, and machinery and transport equipment, which reached 57% at the end of 2019. Changes in export structure correspond with foreign direct investment, which have been mainly concentrated in these sectors in recent years. On the other hand, there was a decrease in the share of traditional export products - iron and steel, and textile products, with their joint share declining from the dominant 40% in 2010 to nearly 16% at the end of 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 the times of global financial 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, slightly increased in 2018<sup>17</sup> and remained at that level in 2019. In the first nine months of 2020, new export activities registered lower share in the total exports, unlike the increased share of the traditional activities.

**Chart 3.20. Geographical breakdown of the export (% of total export)**



Source: SSO

**Chart 3.21. FDI, net, by activity (% of the total)**



Source: NBRNM

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

<sup>17</sup> Considering the restart of a large facility.



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 is relatively high and stabilised to 52% of total exports in the first nine months of 2020. 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 33% share in total imports in the first nine months of 2020).<sup>18</sup> The new foreign-owned companies reported a positive net foreign trade balance which averaged 0.4% of GDP in the period 2011-2013, while in the next period it intensified and peaked (5.4% of GDP) in 2018, preserving at 4.7% of GDP in 2019.

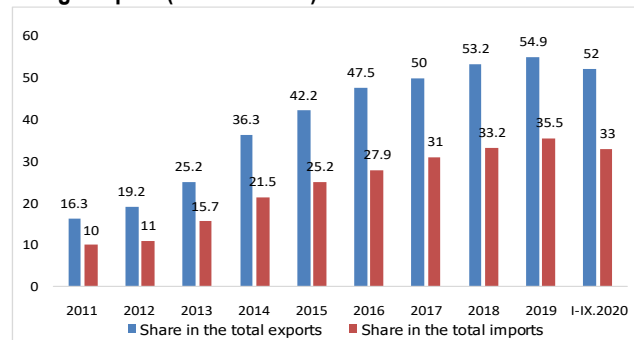
Besides the direct effects on exports and employment, FDIs in the tradeable sector have multiple positive effects on the economy. It mainly implies possibilities of transfer of new technologies, modernisation of production structure, and increased demand for raw materials from local companies that improves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

The analysis of geographic distribution of Macedonian exports confirms the EU dominance as a major export destination, which in the period January-September 2020 imported around 80% 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 Hungary, Romania and Belgium, 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 2020 accounted for about 69% of the total trade of North Macedonia, while the faster fall in exports compared to the fall in import of goods resulted in a moderate deficit (almost balanced stock in the same period last year).

In the period January-September 2020, the real effective exchange rate (REER)<sup>19</sup> of the denar deflated by CPI registered a small annual appreciation of 0.6%, while excluding primary commodities, the denar REER deflated by the same price index appreciated by 0.4%, compared to the same period last year. Such movements in the two indices reflected the appreciation of the nominal effective exchange rate of the denar against the currencies of some of the trading partners, amid fall in relative prices. Nominal unit labour cost increased by 13.9% p.a. in the first three quarters of 2020, amid wage growth and productivity decline (considering GDP fall).

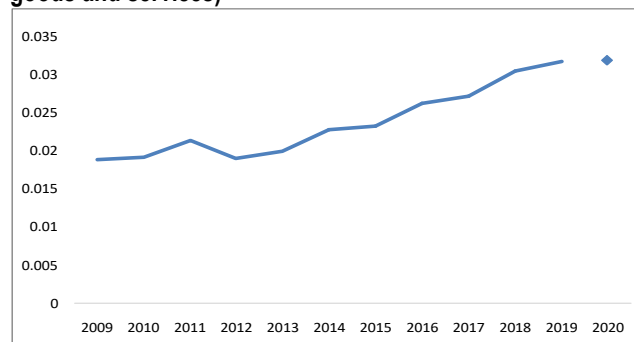
The export market share of the economy in the world

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



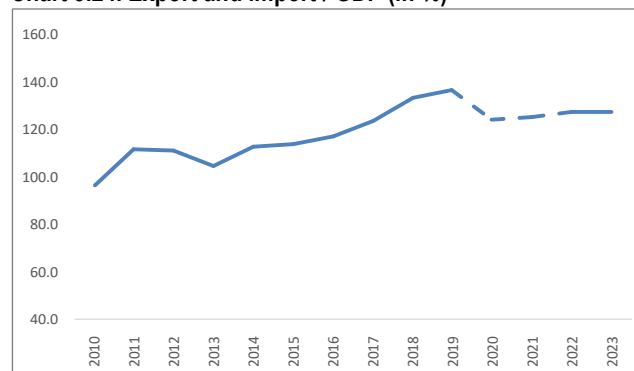
Source: NBRNM and SSO

**Chart 3.23. Export market share (% of the world export of goods and services)**



Source: IMF, SSO; NBRNM forecast for 2020

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



Source: SSO; NBRNM forecast for the period 2020-2023.

<sup>18</sup> 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.

<sup>19</sup> Source: NBRNM. Within the REER, the calculation of the nominal effective exchange rate and relative prices includes 15 major trade partners of North Macedonia, by share in foreign trade, in the period 2010-2012 and base period 2010.

exports increased in 2019 as a continuation of the growth that started in 2013. In 2020, the export market share in the world export of goods and services is expected to register minor upward trend amid slightly slower fall of the Macedonian exports despite the decline in 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, which in 2019 reached 137% of GDP. Total foreign trade to GDP is estimated to slow down in 2020 due to the pandemic, with the expectation of a mild acceleration in the next three years, but at a lower level compared to the period before the pandemic.

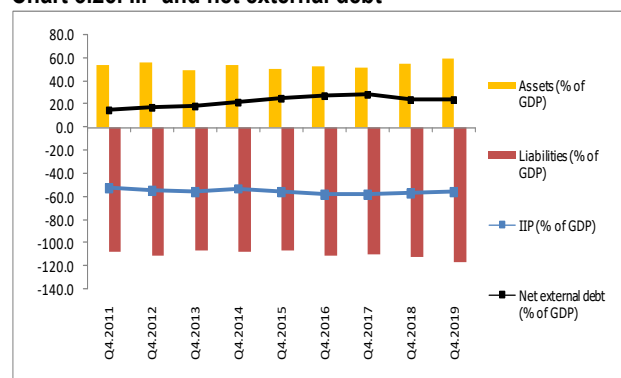
**International investment position and external debt.** At the end of the third quarter of 2020, the net negative international investment position (IIP) increased by 5.8% compared to the end of 2019, amid higher increase in external liabilities compared to the increase in assets (in absolute amounts). The expansion of the negative IIP is mainly due to the increased negative net position of the government<sup>20</sup>, amid slight expansion of the negative net position of depository institutions, which was only partially offset by the increase of the positive IIP of the monetary authority (reflecting the growth of foreign reserves) and slight reduction of the negative net position in the other sectors. In September 2020, the negative IIP was 62.7% of the estimated GDP, and compared to the end of 2019, it was higher by 5.1 p.p..

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 determinants, such as net external debt, which includes only net debt instruments. At the end of the third quarter of 2020, net external debt accounted for 28.8% of the estimated GDP, up 3.8 p.p. from the end of 2019, which is due to the increase in public net debt, whereas the net private debt slightly decreased.

At the end of the third quarter of 2020, the gross external debt accounted for 81.3% of GDP (without the NBRNM repo transactions, which appear in almost the same amount on the liabilities side and the claims on non-residents). Compared to the end of 2019, gross debt increased by 8.6 p.p. of GDP. This increase is mainly due to public sector debt by 6.3 p.p. of GDP, given the new borrowing from abroad to overcome the pandemic effects, while the increase in private sector debt is moderate and amounts to 2.3 p.p. of GDP. The long-term debt, occupying above 70%, still dominates the debt structure. For more information about the external debt sustainability analysis, see Annex 5.

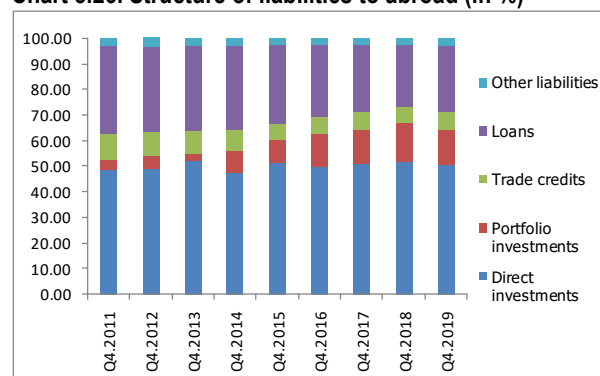
At the end of the third quarter of 2020, the coverage of short-term debt by residual maturity with foreign reserves was 1, which indicates solid liquidity in terms of external payments amid increase in short-term debt by residual maturity and in foreign reserves, both. The analysis of foreign indebtedness<sup>21</sup> 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

**Chart 3.25. IIP and net external debt**



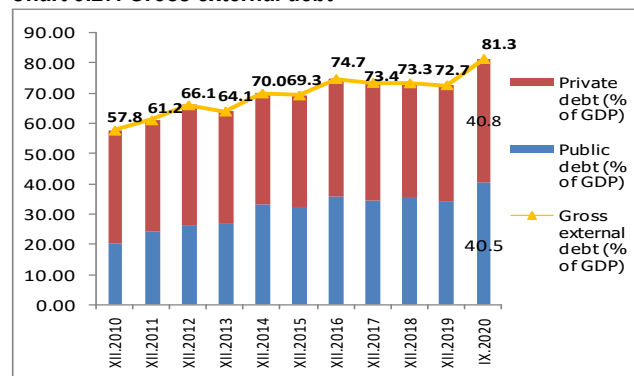
Source: NBRNM and SSO

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



Source: NBRNM

**Chart 3.27. Gross external debt**



Source: NBRNM

<sup>20</sup> Government sector includes central government, local government and social security funds.

<sup>21</sup> 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.

gross debt-to-GDP indicates high indebtedness.

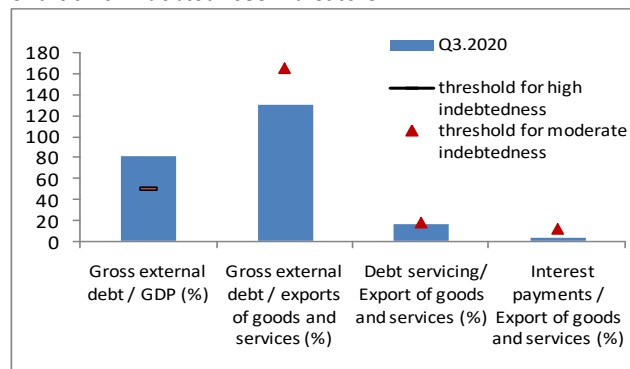
**Forecasts of the Balance of Payments.** After the contraction in 2020 caused by the pandemic effects, in the next few years, the global economy is expected to recover, but surrounded by risks. The foreign effective demand for Macedonian products<sup>22</sup> was revised downward in 2020 and was estimated to decrease by 6.3%, conversely to the expected increase in last year's scenario (1.3%). The downward revision is largely due to the effects of the pandemic on EU economies as well as on other important trading partners. The economic activity of the trading partners for 2021 is expected to rise by 4.6%, and for 2022, the growth of foreign demand is expected to increase by 3%.

After the shock in 2020 posed by the consequences of the pandemic, the latest estimates of the external sector in the next three years suggest retaining a moderate current account deficit at around 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. Capital inflows are expected to help maintain adequate level of foreign reserves and coverage of over four months of import of each next year.

After the fall during the pandemic in 2020, along with the recovery of foreign demand, with positive effect of the existing foreign capital companies and greater utilisation of their capacity, exports of goods and services in the next three years are expected to continue to grow although slower than in the pre-corona crisis period. Despite the fall in 2020, in the next three years, imports would experience moderate increase, mainly driven by the increased imports for the purposes of export production and investment consumption as well as the energy imports. For 2020, amid faster fall of imports compared to exports, trade deficit in goods and services is expected to moderately narrow to 12.9% of GDP (deficit of 14.3% of GDP in 2019). This assessment is based on the estimated lower trade deficit in goods and the slightly higher surplus in services. Trade balance narrowed mainly due to the reduced deficit in energy trade balance. The estimated deficit in 2020 is close to the expectations of the last year's scenario (13% of GDP). In 2021, the trade deficit is estimated to expand slightly (to 13.3% of GDP), and in the next two years it would remain at a similar level, with a slight narrowing to 12.9% of GDP in 2023. This forecast is based on the expectation that after the pandemic shock in 2020, foreign trade exchange would rebound to the previously expected trajectory. In this context, slight widening of the energy trade deficit is expected for the next three years, and further narrowing of the non-energy deficit as a result of new and traditional export activities. After the moderate growth in 2020, the balance of services in the next three years would be relatively stable, with solid export prospects of the service sector (mainly processing services, transport services and travel, IT services).

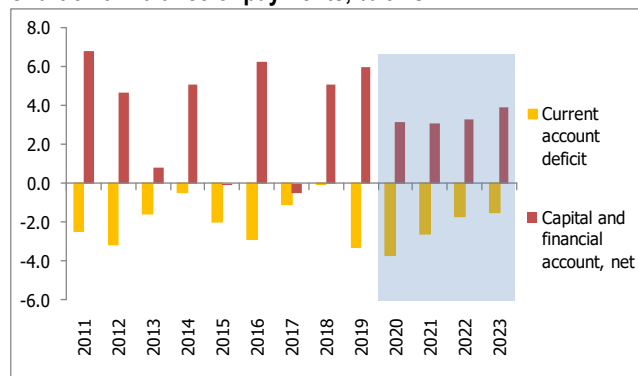
A significant part of the trade deficit will still be financed

**Chart 3.28. Indebtedness indicators**



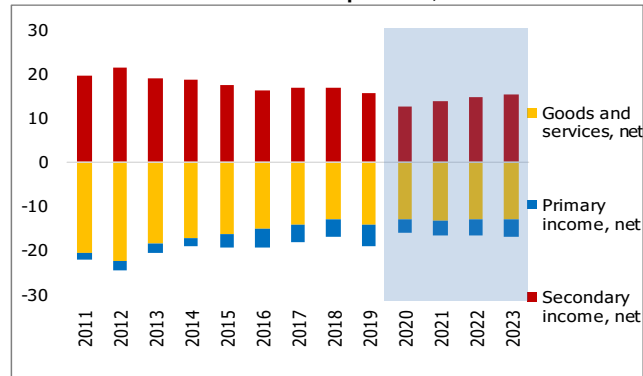
Source: NBRNM calculations

**Chart 3.29. Balance of payments, % of GDP**



Source: NBRNM. Estimate for 2020 and forecasts for 2021-2023

**Chart 3.30. Current account components, % of GDP**



Source: NBRNM. Estimate for 2020 and forecasts for 2021-2023

<sup>22</sup> Calculation by NBRNM. 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 Q1 2013 - Q3 2016.



by inflows of secondary income (which primarily reflects the net purchase on the currency exchange market as the main component of private transfers). Reduced global activity and restriction of cross-border movement due to the pandemic are expected to slow down net inflows from secondary income in 2020 to 12.5% of GDP (15.6% of GDP in 2019). In 2021, the net inflows in the secondary income are expected to gradually normalise and even increase (14% of GDP), and in the next two years they would see a slight upward trend (up to about 15% of GDP in 2023). The primary income deficit for 2020 is estimated to drop to 3.2% of GDP, while in the next three years, it is expected to increase mildly to 4% of GDP, in line with the forecasts for growth in the foreign investors' capital income.

Amid such forecasted current account developments for 2020, the current account deficit is estimated to slightly increase by 3.7% of GDP, mainly due to the lower net inflows from the secondary income. In the next three years, when some current account items are expected to normalise, deficit would remain at around 2% of GDP, with a mild downward trend (from 2.6% in 2021 to 1.5% of GDP in 2023). Amid small changes in the trade deficit, the minor widening of primary income deficit is expected to be offset by the gradual acceleration of private transfer inflows. 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 the last decade 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 demand, narrowed and stabilised trade deficit (as a comparison, the trade deficit in goods and services in 2009 was 22.7% of GDP).

In 2020 and the next three years, capital inflows will mainly generate from the expected FDI and the expected external public and private borrowing. In 2020, most of the inflows came from external government borrowing (Eurobond and net government loans of 5% of GDP), for the purposes of dealing with the consequences of the corona crisis. FDI in 2020 is estimated at 1.6% of GDP, which is a deceleration compared to 2019 (3.2% of GDP), which mainly reflects the higher uncertainty in times of pandemic. The growth recovery of domestic economy after pandemic, along with the moderate growth of global economy are expected to create stable perceptions among investors, and FDIs at about 3% of GDP in the next three years. This forecast is similar to last year's scenario and is due to the continuity of inflows of FDIs (including in years of crisis). In addition, such a forecast is supported by the ongoing policies to attract new FDIs and pursue reforms for improving business environment. Amid FDI net inflows, loans and portfolio investment, there are estimates for net inflows on the financial account of 3.2% of GDP in 2020. In the next three years, the total net inflows would be around 3% of GDP (amid expected government deleverage on the basis of the issued Eurobonds in 2021 and 2023). 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.

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

- in the first half of 2021, Law on Financial Stability will be adopted, harmonised with Regulation 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board. Under the Law, a body will be established to identify the threats and the risks to financial stability and to undertake, in a synchronous manner, macro-prudential measures for the purpose of maintaining the financial stability in the Republic of North Macedonia. National Bank of the Republic of North Macedonia will have the leading role in creating and implementing the macro-prudential policy and maintaining the fiscal stability.
- in the first half of 2021, Law on Payment Services and Payment Systems will be adopted, transposing the following Directives: Directive (EU) 2015/2366 on payment services in the internal market, Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions, Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, Directive 98/26/EC on settlement finality in payment and securities settlement systems and certain stipulations from the Regulation (EU) 2012/260 establishing technical and business requirements for credit transfers and direct debits in euro.

Adoption of the Law on Payment Services and Payment Systems will provide for the following:

- opening the payment services market for providers of payment services other than banks, as well as for new issuers of e-money and increasing the competition in this segment;

- establishing harmonised prudent regime for giving authorisations to payment services providers other than banks, as well as to new issuers of e-money, for the purpose of providing adequate level of safety of the users of payment services;
  - introducing harmonised operational manuals to be applied on all payment services providers and issuers of e-money for the purpose of providing equal access to the market of payment services;
  - minimising the systemic risks to the payment system participants, as well as maintaining stability of the payment systems;
  - improving the transparency and the comparability of fees charged for the payment services, and
  - access to payment accounts for a broader scope of consumers.
- by the end of 2021, 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) 575/2013 on prudential requirements for credit institutions and investment firms. The new Law will provide further strengthening of the banks' capacity to adequately manage the risks associated with their activities, and absorb the losses that can occur in their operational business.
  - by the end of 2021, Law on Bank Resolution will be adopted, which will implement Directive 2014/59/EU establishing a framework for the recovery and resolution of banks and will prescribe instruments that could be taken by the competent bank resolution body, as well as its authorisations for quick response in case of serious problems in the banks' operations.
  - at the beginning of 2022, Law on Modifications and Amendments to the Law on Deposit Insurance Fund will be adopted, thus further harmonising it with Directive 2014/49/EC on deposit guarantee schemes in terms of the increase of the amount of deposits to be subject to reimbursement, as well as reimbursement of deposits to legal entities, in addition to natural persons.
  - by the end of March 2021, two new laws in the field of capital market (Law on Financial Instruments and Law on Securities Prospectus and Issuers' Transparency Requirements) will be adopted, harmonised to a great extent with the latest EU Acquis in the field of capital market. 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.
  - by the end of 2021, Directive 2011/61/EU on Alternative Investment Fund Managers and Regulation (EU) 345/2013 on European venture capital funds are planned to be implemented in the national legislation. Implementing the Directive will provide for strengthening the rules and the procedures for the operations of the private investment funds, as well as regulating the procedure on approval of private investment funds' managers. Implementation of the Regulation on European venture capital funds will provide for detailed governing of the requirements to be met by this type of funds should they wish to use "venture capital funds" in their name. Technical assistance from the World Bank is provided therefore and a consultant is selected to work on the implementation of the respective Directive and Regulation. In the coming period, an action plan will be determined with the consultant, with set time framework for their implementation.
  - by the end of 2021, Insurance Law will be adopted. The new Insurance Law will be harmonised with Directive 2009/138/EC on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II), thus achieving compatibility and competitiveness of the domestic insurance industry with the one in the EU Member States. The Law will provide for increased security and stability of the insurance sector, enhancing the insured persons' protection. Capital requirements on operations of insurance undertakings will be strengthened, supervisory measures will be prescribed, adequate to the irregularities detected in the undertakings' operations, and efficient mechanisms on protection of the rights of consumers of insurance services will be established.
  - by the end of 2022, new Law on Intermediaries is planned to be adopted, to be harmonised with Directive (EU) 2016/97 on insurance distribution (Insurance Distribution Directive - IDD). Under the new Law, same level of consumer protection will be ensured. The goal of the Law is to promote a level playing field and competition under equal terms among the intermediaries, regardless of whether or not they are tied to an insurance undertaking. As regards the consumers, they will be provided availability and distribution of insurance products through different channels and through intermediaries with different forms of cooperation with insurance undertakings, under similar or same terms and conditions and rules.

### 3.3 Alternative scenarios 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 integrated in the global supply chains and are closely linked to the international trade policies. Hence, projected real growth of export was lower by 2.5 p.p. in average annually compared to the baseline scenario, i.e. average annual growth of 7.5% 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 machinery and equipment, also implying lower growth of import of capital goods. As result thereof, the projection on real growth of gross investments amount to 6.2% in average annually in the forecasting period, compared to the projected growth of 8.3% 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.

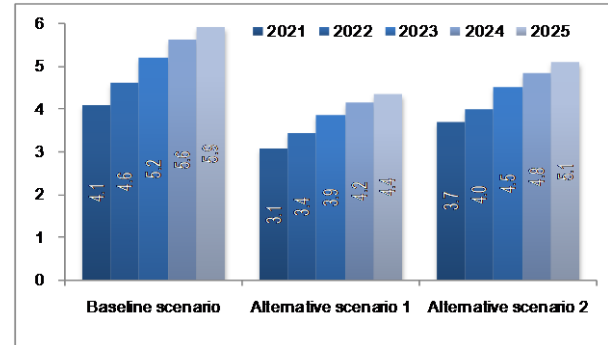
Effects on the consumption are expected to be smaller in relation to the other components. Hence, real growth of public consumption is projected at 1.5%, while real growth of private consumption is projected at 2.9% in average annually in the forecasting period. Lower growth of both export and domestic demand implies slower growth of import which, in the analysed period, is envisaged to surge by 6.7% in average annually, as opposed to the projected growth of 8.9% according to the baseline scenario. Such adjustments with respect to GDP components imply economic growth of 3.1% in 2021 and average annual growth of 4% in the next four years (Chart 3.31).

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 5.4% in average annually in the forecasting period, being lower by 3 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 8.3% in average annually in the forecasting period, compared to almost 9% p.p. in line with the baseline scenario. Effects on the export in this period are expected to be lower, whereby net export has lower negative contribution to the economic growth in the period 2021-2023 under the baseline scenario, having slight positive contribution in 2024 and 2025. 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 3.7% in 2021, with 4.6% in average annually in the coming four years (Chart 3.31).

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 13.4% in 2025. According to the second alternative scenario, growth of employment in the forecasting period is projected to be 1.9% in average annually, resulting in decline of unemployment rate to 12.9% in 2025.

As regards inflation rate, 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, in particular in 2024 and 2025, taking into account that the estimated production gap is significantly lower. Effects of the alternative scenarios on the budget deficit are presented in point 4.7. Sensitivity Analysis.

**Chart 3.31. Economic growth, baseline and alternative scenarios**



Source: MoF forecast

**Risks.** Baseline macroeconomic scenario is accompanied by risks, which are mainly related to the protraction and the consequences of the health crisis, the intensity of the effects on the economy and the results from the economic measures for its mitigation. In fact, further protraction of the Coronavirus infection, both in the country and globally, can result in repercussions on the external demand, deteriorated expectations of the businesses and the households, reduced inflow of investments and foreign pecuniary remittances, hence adverse consequences on the overall national economic activity.

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.

Long-term economic growth is to a great extent conditioned by 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. Thereby, maintenance of the political stability in the country is a key precondition for achieving the projected economic growth rates.

The main risks to the external sector scenario in the period ahead primarily arise from the global surrounding, particularly the uncertainty about the pandemic and the pace of recovery of our major trading partners after the pandemic. Compared to the last year's scenario, the risks from the global surrounding are 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 for growth 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 will be minor, 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. The recovery of the German economy is a particular risk, given the strong trade link with this country, through value-chain companies. Contrary to the pronounced global risks, the improved Euro-Atlantic perspectives of the country point to potential upward risks to the scenario.

The balance of payments forecast, after the pandemic shock in 2020, assumes gradual normalisation and return to normal dynamics. The assessment and the extent of the effects of the new export facilities in the economy are crucial for the trade balance forecast. The current scenario incorporates an expectation that in the next three year 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. Changes in production structure are expected to further diversify exports and improve export performance, which is conducive to strengthening the economic resilience to external shocks. After the slowdown in 2020, the forecast of net inflows from secondary income (within them, net purchased currency on the currency exchange market) shows a gradual normalisation of their share in GDP in the last three years. Following the uncertainty caused by the pandemic, FDI-based net inflows are expected to return to the current average moderate levels, taking into account the continuity of these inflows (at a moderate level, even in years of crisis), as well as the continuation of policies for attracting FDIs.

Risks to inflation forecast are mainly determined by the assumptions about the movements in prices of primary commodities, and in the period of pandemic, by the potential supply restrictions. 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, funding sources and the loan portfolio quality would, as before, affect the banks' risk perceptions and consequently, lending. In the short to medium term, the effects of the pandemic on the loan portfolio quality will be especially relevant for the credit growth. In the post-crisis period, the restoration of the capital buffers used during the pandemic will be crucial, in order to maintain the banking system resilience to unexpected shocks. Risks arising from business strategies of foreign banking groups and changes in the regulatory requirements could also affect the banks.

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

## 4. Fiscal framework

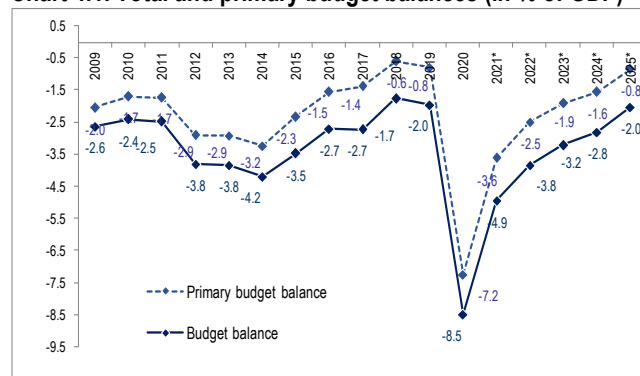
### 4.1 Policy strategy and medium-term objectives

In the interest of improved fiscal predictability, medium-term planning under the Fiscal Strategy 2021 – 2023<sup>23</sup> covers the period 2021 – 2023, as well as prospects\* for the following two years.

Key elements of the medium-term fiscal policy are redesigning of the budget policy and the fiscal consolidation, aimed at supporting the macroeconomic stability, accelerating the economic growth, thus strengthening the growth potential of the national economy.

Despite the still present unpredictability and the risks related to the duration and the intensity of the pandemic globally, its implications on the budget and the economy as a whole, taking into account the so-far implemented four sets of economic measures, medium-term projections for the period 2021-2025 are expected to ensure fiscal sustainability, redesigning the public expenditure structure, fiscal consolidation through gradual reduction of the budget deficit, as well as continuation of the positive trends of the Macedonian economy.

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



Source: MoF, \* - forecast

Table 4.1. General Government Budget

	in Denar million						% of GDP					
	2020	2021*	2022*	2023*	2024*	2025*	2020	2021	2022	2023	2024	2025
<b>Central Budget</b>												
Revenues	101,933	115,876	123,234	134,176	147,109	162,001	15.3	16.4	16.3	16.6	16.9	17.2
Expenditures	156,771	150,806	152,177	160,125	171,585	181,102	23.6	21.3	20.2	19.8	19.7	19.2
Budget balance	-54,838	-34,930	-28,943	-25,949	-24,476	-19,101	-8.2	-4.9	-3.8	-3.2	-2.8	-2.0
<b>Budget Funds</b>												
Revenues	67,104	70,450	73,856	77,434	81,190	85,134	10.1	10.0	9.8	9.6	9.3	9.0
Expenditures	68,760	70,458	73,864	77,442	81,198	85,142	10.3	10.0	9.8	9.6	9.3	9.0
Budget balance	-1,656	-8	-8	-8	-8	-8	-0.2	0.0	0.0	0.0	0.0	0.0
<b>Budget of RNM (Central Budget and Funds)</b>												
Revenues	169,037	186,326	197,090	211,610	228,299	247,135	25.4	26.4	26.1	26.1	26.2	26.2
Expenditures	225,531	221,264	226,041	237,566	252,783	266,244	33.9	31.3	30.0	29.4	29.0	28.2
Budget balance	-56,494	-34,938	-28,951	-25,956	-24,484	-19,109	-8.5	-4.9	-3.8	-3.2	-2.8	-2.0
<b>Local Government Budget</b>												
Revenues	44,586	44,176	44,314	45,478	46,605	48,879	6.7	6.2	5.9	5.6	5.3	5.2
Expenditures	44,051	44,176	44,314	45,478	46,605	48,879	6.6	6.2	5.9	5.6	5.3	5.2
Budget balance	535	0	0	0	0	0	0.1	0.0	0.0	0.0	0.0	0.0
<b>Consolidated General Government Budget</b>												
Revenues	213,623	230,502	241,404	257,088	274,904	296,014	32.1	32.6	32.0	31.8	31.5	31.3
Expenditures	269,582	265,439	270,355	283,044	299,387	315,123	40.5	37.6	35.8	35.0	34.3	33.4
Budget balance	-55,959	-34,937	-28,951	-25,956	-24,483	-19,109	-8.4	-4.9	-3.8	-3.2	-2.8	-2.0

Source: Ministry of Finance, \* - forecast

To that end, budget deficit is projected to gradually reduce from 4.9% of GDP in 2021 to 2% of GDP in 2025, and primary budget deficit will accordingly decline from 3.6% of GDP in 2021 to 0.8% in 2025 (Chart 4.1).

Projected revenues of the General Government Budget in the next five-year period will decline relatively, as a share of GDP, from 32.6% in 2021 to 31.3% in 2025 (Table 4.1). As a result of continuous disciplined budget policy and strengthened control over the public spending, in the period 2021-2025, total expenditures of the consolidated budget will also decline from 37.6% in 2021 to 33.4% in 2025. Subsequently, and in line with the gradual fiscal consolidation, the General Government Budget deficit will reduce from 4.9% of GDP in 2021 to 2.0% of GDP in 2025.

<sup>23</sup> Revised 2021-2023 Fiscal Strategy (with prospects until 2025) is published on Ministry of Finance website <https://finance.gov.mk/wp-content/uploads/2020/12/REVIDIRANA-Fiskalna-Strategija-na-RSM-2021-2025.pdf>

## 4.2 Budget implementation in 2020

In the course of 2020, Coronavirus-induced health and economic crisis significantly affected the Budget projections and execution. Measures adopted by the Government to contain COVID-19 spreading strongly hit the economic activity, which reflected on revenue performance and expenditure execution. For the purpose of managing the pandemic, comprehensive measures were implemented in the past period, aimed at protecting the jobs, ensuring Budget liquidity, servicing the highest-priority obligations, as well as reducing the less productive budget expenditures to the minimum.

**Table 4.2. Budget Execution as of November 2020**

	Supplementary Budget 2 2020	Realisation January- November 2020	Realisation January- November 2019	Realisation January- November 2020/Supplementary Budget 2 2020	Realisation January- November 2020/Realisation January- November 2019
				in %	
<b>Total revenues</b>	<b>196,343</b>	<b>170,114</b>	<b>183,137</b>	<b>86.6%</b>	<b>-7.1%</b>
<b>Tax revenues and contributions</b>	<b>174,271</b>	<b>155,444</b>	<b>161,612</b>	<b>89.2%</b>	<b>-3.8%</b>
Tax revenues	109,218	95,688	105,905	87.6%	-9.6%
Personal income tax	18,700	15,949	16,398	85.3%	-2.7%
Profit tax	10,600	9,569	10,657	90.3%	-10.2%
VAT (net)	48,000	42,371	47,215	88.3%	-10.3%
Excises	23,350	20,394	24,077	87.3%	-15.3%
Custom duties	5,500	6,065	5,458	110.3%	11.1%
Other taxes	3,068	1,340	2,100	43.7%	-36.2%
Contributions	65,053	59,756	55,707	91.9%	7.3%
<b>Non-tax revenues</b>	<b>15,123</b>	<b>10,369</b>	<b>16,386</b>	<b>68.6%</b>	<b>-36.7%</b>
<b>Capital revenues</b>	<b>2,139</b>	<b>1,625</b>	<b>1,652</b>	<b>76.0%</b>	<b>-1.6%</b>
<b>Grants</b>	<b>4,810</b>	<b>2,676</b>	<b>3,487</b>	<b>55.6%</b>	<b>-23.3%</b>
<b>Total expenditures</b>	<b>252,838</b>	<b>210,167</b>	<b>190,590</b>	<b>83.1%</b>	<b>10.3%</b>
<b>Current expenditures</b>	<b>233,774</b>	<b>199,361</b>	<b>179,458</b>	<b>85.3%</b>	<b>11.1%</b>
Wages and allowances	30,143	27,249	25,306	90.4%	7.7%
Goods and services	17,997	13,222	13,657	73.5%	-3.2%
Transfers to LGUs	21,440	19,591	17,444	91.4%	12.3%
Subsidies and transfers	32,059	20,644	15,264	64.4%	35.2%
Social transfers	123,836	110,928	99,968	89.6%	11.0%
Interests	8,299	7,727	7,819	93.1%	-1.2%
<b>Capital expenditures</b>	<b>19,063</b>	<b>10,806</b>	<b>11,132</b>	<b>56.7%</b>	<b>-2.9%</b>
<b>Deficit</b>	<b>-56,495</b>	<b>-40,053</b>	<b>-7,453</b>	<b>70.9%</b>	<b>437.4%</b>
<b>Deficit (% of GDP)</b>	<b>-8.5%</b>	<b>-6.0%</b>	<b>-1.1%</b>		
<b>Primary deficit (% of GDP)</b>	<b>-7.2</b>	<b>-4.9</b>	<b>0.1</b>		
<b>Deficit financing</b>	<b>56,495</b>	<b>40,053</b>	<b>7,453</b>		
<b>Inflows</b>	<b>98,602</b>	<b>71,891</b>	<b>22,466</b>		
Domestic sources	36,287	23,361	17,206		
Foreign sources	65,052	63,330	9,315		
Deposits ("-" is accumulation of account)	-2,737	-14,800	-4,055		
<b>Outflows</b>	<b>42,107</b>	<b>31,838</b>	<b>15,013</b>		
Repayment upon domestic borrowing	15,252	6,336	10,294		
Repayment upon foreign borrowing	26,855	25,502	4,719		

Source: Ministry of Finance

In the past period, on the basis of Decision on Reallocation of Funds between Central Government Budget Users and the Funds (Denar 6.5 billion being reallocated) and, on two occasions, on the basis of 2020 Supplementary Budgets, the Government implemented four sets of measures aimed at amortising the blow on the economy and stimulating consumption. Goal of the set of measures adopted by the Government was to support the domestic economic activities and jobs, ensure stability of social transfers and policies to further help in implementing fast exit strategy, all to the end of continuation of the positive trends of the Macedonian economy.

Total revenues under the Second 2020 Supplementary Budget are projected at Denar 196.3 billion, equal to the projected revenues under the First Supplementary Budget, i.e. by 11.5% lower in relation to the initial Budget projections.



Total expenditures under the Second 2020 Supplementary Budget are projected at Denar 252.8 billion or by 4.1% (around Denar 10 billion) higher compared to the First Supplementary Budget, being by 5.5% higher in relation to the initial Budget projections. Deficit in 2020, on the basis of such projected revenues and expenditures, is projected in the amount of Denar 56.5 billion, i.e. 8.5% of GDP.

Current transfers are projected by around 13.3% higher compared to the 2020 initial projections, pertaining mainly to the measures undertaken to ensure funds for implementation of the economic measures adopted by the Government of the Republic of North Macedonia to manage the pandemic-induced crisis, which will have a direct effect on the national economic activity, the labour market and the vulnerable groups.

Under the First 2020 Supplementary Budget, initial projections on the expenditure side of the Budget underwent changes, above all as regards the implementation of activities envisaged in the first three sets of measures, while under the Second 2020 Supplementary Budget, changes made pertained to the implementation of activities envisaged in the fourth set of measures, aimed at continuation of the measures within the previous three sets of measures to the end of further recovery of the national economy, amortising the blow on the affected domestic companies by stimulating the private consumption and support to the private sector, i.e. the economic activity and jobs.

In the period January - November 2020, total budget revenues were collected in the amount of Denar 170.1 billion (86.6% of 2020 projections<sup>24</sup>), being by 7.1% lower compared to the budget revenues collected in the same period in 2019, as a result of the measures aimed at mitigating the effects of the health crisis on the economy and the consequences from the declined economic activity on the tax revenues (Table 4.2).

Total budget expenditures in the period January - November 2020 were executed in the amount of Denar 210.2 billion (83.1% of the projections), being by 10.3% higher compared to the budget expenditures executed in the same period in 2019, mostly as a result of the increased health-related expenditures to manage the pandemic and the undertaken fiscal measures aimed at supporting the economy, i.e. managing the negative consequences from the health crisis on the economy.

Thus, current expenditures amounted to Denar 199.4 billion, being higher by 11.1% compared to last year. As of November inclusive, budget subsidies in the amount of around Denar 8.2 billion were paid as support to companies and citizens hit by the health crisis. In the period January - November, capital expenditures were executed in the amount of Denar 10.8 billion (56.7% of the projections). Thus, budget deficit in this period amounted to Denar 40.1 billion, accounting for 6% of the projected 2020 GDP. Primary balance as of the analysed period inclusive, accounted for 4.9% of the projected GDP.

Table 4.3 shows assessed fiscal implication caused by the health and the economic crisis.

**Table 4.3. Estimated Fiscal Impact of COVID-19 crisis in 2020**

Estimated Fiscal Impact of COVID-19 crisis in 2020	Due to discretionary measures (in % of GDP)	Due to the slowdown of economic activity (in % of GDP)
on budget expenditures	2.8	0.3
on budget revenues	0.1	3.1
<b>Total Budget impact</b>	<b>2.9</b>	<b>3.4</b>
on public debt	5.8	
on contingent liabilities	0.6	

Note MoF: With respect to discretionary measures, the effect on the budget expenditures reflects the projected expenditures under the COVID-19 Programme in the Budget and the additional expenditures executed through the Health Insurance Fund, while the effect on the budget revenues covers mainly the measures for deferred payment of taxes. As regards the public debt, following is included: first tranche of the EU loan, IMF loan and World Bank Loan, as well as the borrowing higher than the projections via issuance of eurobond and government securities, while with respect to the contingent liabilities, COVID-19 credit lines of the Development Bank are included

### 4.3 Budget plans for 2021

Total revenues of the 2021 Budget of the Republic of North Macedonia are projected at Denar 212.6 billion, being higher by 8.3% in relation to the second 2020 Supplementary Budget, while expenditures are projected at Denar 247.5 billion, being lower by 2.1% in relation to the second 2020 Supplementary Budget.

<sup>24</sup> Pursuant to the 2020 Supplementary Budget of the Republic of North Macedonia ("Official Gazette", no. 262/20)

Such projected revenues and expenditures result in budget deficit of 4.9% of GDP or Denar 34.9 million in absolute terms. Projected deficit is in line with 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.

**Table 4.4. Budget of the Republic of North Macedonia (Denar million)**

	Budget 2020	Budget 2021	Difference Budget 2021 - Budget 2020	Budget 2021/ Budget 2020(%)
<b>TOTAL REVENUES</b>	<b>196,343</b>	<b>212,630</b>	<b>16,287</b>	<b>8.3</b>
Tax revenues and contributions	174,271	186,282	12,011	6.9
Tax revenues	109,218	117,982	8,764	8.0
Contributions	65,053	68,300	3,247	5.0
Non-tax revenues	15,123	16,954	1,831	12.1
Capital revenues	2,139	3,187	1,048	49.0
Donations	4,810	6,207	1,397	29.0
<b>TOTAL EXPENDITURES</b>	<b>252,838</b>	<b>247,567</b>	<b>-5,271</b>	<b>-2.1</b>
Current expenditures	233,775	223,512	-10,263	-4.4
Wages and allowances	30,143	31,394	1,250	4.1
Goods and services	17,997	21,322	3,325	18.5
Transfers to LGUs	21,440	21,315	-125	-0.6
Subsidies and transfers	37,311	19,351	-17,960	-48.1
Social transfers	118,584	120,653	2,069	1.7
Interests	8,299	9,478	1,179	14.2
Capital expenditures	19,063	24,055	4,992	26.2
<b>BUDGET BALANCE</b>	<b>-56,495</b>	<b>-34,937</b>	<b>21,558</b>	<b>-38.2</b>
<b>FINANCING</b>	<b>56,495</b>	<b>34,937</b>	<b>-21,558</b>	<b>-38.2</b>
Inflows	98,602	78,290	-20,312	-20.6
Domestic sources	36,287	23,437	-12,850	-35.4
Foreign sources	65,052	53,542	-11,510	-17.7
Deposits ("-" is accumulation of account)	-2,737	1,311		
Outflows	42,107	43,353	1,246	3.0
Repayment upon domestic borrowing	15,252	6,119	-9,133	-59.9
out of which continuous GS	6,589	4,679	-1,910	-29.0
Repayment upon foreign borrowing	26,855	37,234	10,379	38.6
<b>Memorandum</b>				
Net Domestic Borrowing	21,025	17,008		
Net Domestic Borrowing (continuous GS)	21,515	18,448		
Net Foreign Borrowing	37,707	15,808		
Primary Budget Balance	-48,196	-25,459		
Primary Budget Balance (% of GDP)	-7.2	-3.6		
Budget balance, % of GDP	-8.5	-4.9		

Source: Ministry of Finance

The Budget revenue projections for 2021 are based on the following assumptions:

- revenue collection in the current 2020,
- expectations for economic performance in the next year,
- tax policy aimed at improved tax revenue collection, 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.

Tax revenues in 2021 are projected at around Denar 118 billion with 8% growth in relation to the second 2020 Supplementary Budget. VAT accounted for the most of the projected tax revenues, accounting for 44.3%, while excise duties accounted for 21.4% thereof.

Under 2021 Budget, Denar 17 billion is projected to be generated on the basis of non-tax revenues (administrative fees, concessions and other non-tax revenues) and Denar 3.2 billion as capital revenues (on the basis of sale of social flats and agricultural land and on the basis of planned dividend by AD Macedonian Telecom).



Social contributions, as genuine revenues of the Pension and Disability Insurance Fund and the Employment Agency, are projected at Denar 68.3 billion, or by 5% higher in relation to the second 2020 Supplementary Budget.

During 2021, on the basis of donations, Denar 6.2 billion is envisaged, which are planned for the budget users to realise through special revenue accounts for specific projects, as well as on the basis of disbursements under the EU pre-accession funds.

Next year's Budget expenditure projections have been prepared on the basis of the following assumptions:

- harmonisation of the revenue projection with the planned economic trends,
- ensuring fiscal consolidation, economic recovery and accelerated growth,
- regular and undisrupted fulfillment of all legal obligations,
- continuous disciplined budget policy and strengthened control over public spending,
- support to the national economy, the private sector and the citizens,
- accelerated implementation of infrastructure projects, attracting foreign investments and innovations of domestic companies,
- support to the policies for economic growth and higher living standard of the population,
- priority for the integration processes of the Republic of North Macedonia in the EU, and the obligations arising from the NATO membership and similar.

To that end, significant amount of funds is allocated for the needs of the Ministry of Defence, which arise from the NATO membership. The projected amount of funds will provide for defense sector reforms in line with the NATO standards, modernising, equipping and professional training of ARNM soldiers, as well as implementation of Medium-Term Defence Capability Development Plan.

The current expenditures for 2021 are projected in the amount of Denar 223.5 billion or by 4.4% higher in relation to 2020 second supplementary budget, intended for regular payment of wages of the public sector employees, timely and regular payment of pensions, guaranteed minimum income and other social allowances, payment of agricultural subsidies, support to small- and medium-sized enterprises, support and subsidising of innovation activities, as well as support to the health sector. Hence:

a) expenditures for payment of wages and allowances are projected in the amount of Denar 31.4 billion, adhering thereby to the commitment to optimise the administration by control over new employments, as well as raising the living standard of employees and increasing the incentive for professional, quality and fulfillment of the working tasks,

b) expenditures related to goods and services are projected in the amount of Denar 21.3 billion, providing for regular and undisrupted settlement of liabilities of the budget users by reducing all their less productive budget spending to the minimum, providing funds for healthcare of the citizens, organising the local elections and the Census in 2021, as well as fulfillment of NATO standards.

c) current transfers and subsidies are projected in the amount of Denar 161.3 billion, mainly including the following:

- Social transfers are projected in the amount of Denar 120,6 billion, as follows:
  - Denar 62.3 billion is allocated for payment of pensions, all to the end of providing appropriate level of living standard for the elderly persons as well,
  - Denar 10.5 billion is allocated for payment of social protection benefits for the most vulnerable, also including the social protection system reform by introducing a guaranteed minimal income, thus redesigning the types and the targeting of social assistance, as well as ensuring social safety of elderly and higher level of social justice,
  - Denar 1.6 billion is allocated for payment of unemployment benefit,
  - Denar 1.4 billion is allocated for implementation of active employment policies and measures, aimed at creating employment programs, measures and services to the end of improving the functioning of the labour market, supporting the job creation, employing young persons, supporting employment of disabled persons, activating the users of guaranteed minimum assistance (GMA) in a manner that the working-able household members will be included in the active employment policies and measures,
  - Denar 34.4 billion is allocated for health protection realised through the Health Insurance Fund. These funds are mostly intended for financing healthcare services, measures for pandemic containment and availability of pharmaceuticals to the citizens.
  - Transfers to LGUs are projected in the amount of Denar 21.3 billion, intended for financing the competences transferred to the municipalities and grants to municipalities on the basis of average generated VAT revenues in

the last three years. Funds are also allocated for operating costs and payment of wages to employees in the institutions with competences transferred to LGUs, i.e wages for employees at schools, kindergartens, elderly homes, cultural institutions and firefighters.

- Agricultural subsidies and funds under the IPARD Programme, which will provide for strengthening and supporting the agriculture sector, all to the end of boosting the export of Macedonian agricultural products, conquering new markets and achieving greater efficiency in using the agricultural subsidies.
- Subsidies to the private sector, intended for supporting small and medium-sized enterprises, boosting the competitiveness, innovation activity, technological development and research, new investments, supporting the export and conquering new markets, supporting job creation etc.

Capital investments are projected in the amount of around Denar 24 billion or by 26.2% more compared to 2020 second supplementary budget, whereby funds are projected to be provided from several sources: 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.

The projected deficit for 2021 in the amount of Denar 34.9 billion, repayment of foreign debt principal in the amount of Denar 37.2 billion and domestic debt repayment in the amount of Denar 6.1 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: repayments of government bonds in the amount of Denar 4.7 billion and repayment of structural bonds in the amount of Denar 1.4 billion.

Domestic borrowing is projected in the amount of Denar 23 billion, which will be provided by borrowing with GS. 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.

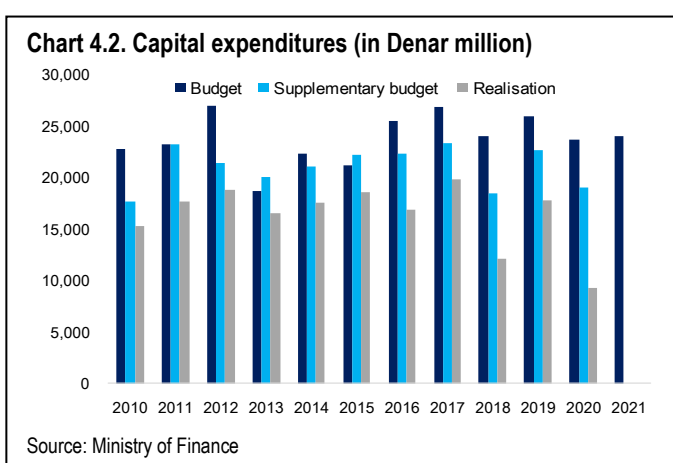
Foreign borrowing may be realised through issuance of Eurobond on the international capital market and by disbursement of funds under favourable loans from foreign financial institutions and credit lines intended for financing certain projects. Thereby, the choice of a financing source will be based 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 genuine revenues of the Budget of the Republic of North Macedonia (central government and Funds) for the period 2021-2025 are projected to around 29.6% of GDP. Revenue projections in the coming medium-term period are based on revenues generated in the previous years and the effects from the planned tax and pension reforms.

Main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of tax revenues on regular basis. Main priorities are:

- greater vertical equity, in order to ensure that everyone meets its social obligation and pays its fair share of tax,
- increased efficiency and productivity of the tax system for the purpose of improved revenue collection, via more efficient fight against illicit activities and tax evasion, and a strengthened institutional capacity, as well as reduction of the tax arrears,
- increased tax transparency, including an improvement of the exchange of information between tax authorities and other entities, to be, in particular, based on e-services, which will result in enhanced fiscal literacy and increased voluntary compliance,



- improved quality of services, designed to simplify and speed up the procedures and reduce the administrative burden, by increasing digitalised services, better management of the import-export licenses' issuance, elimination of unnecessary non-tariff barriers and improved internal and tax controls,
- introducing green taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction.

Expenditure side of the Budget of the Republic of North Macedonia in the next period is fully created in terms of achieving the strategic priorities, accelerating the economic growth and the EU integration process. In the period 2021-2025, average share of total expenditures of the Budget of the Republic of North Macedonia accounts for around 33% of GDP. Expenditure projections in the state Budget for the next medium-term period are prepared on the basis of three key postulates:

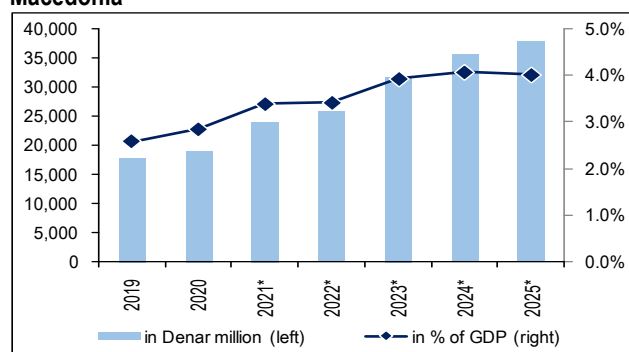
- compliance of the revenue projections with the planned economic activities;
- total budget expenditure projections ensure continuous fiscal consolidation, and
- projected expenditures provide for regular and undisrupted fulfilment of all legal obligations.

Following assumptions are taken into account when forecasting the amount and the structure of current expenditures for the coming period, intended for regular payment of wages to employees in the public sector, timely and regular payment of pensions, guaranteed minimum income and other social allowances, payment of agricultural subsidies, support to small- and medium-size enterprises, as well as subsidising of innovation activities:

- as regards expenditures related to wages and allowances, medium-term projections include the commitment to strict control over new employments;
- timely payment of pensions and social allowances, reformed social protection system (guaranteed minimum income), to the end of ensuring safe well-being of the beneficiaries of these rights;
- health protection realised through the Health Insurance Fund, mainly pertaining to the financing of health services and measures undertaken in this field, such as capitation increase, availability of pharmaceuticals etc.;
- implementing the active employment policies and measures, which will be aimed at creating employment programs, measures and services to be carried out for the purpose of improving the functioning of the labour market, supporting job creation, as well as employing young persons - youth guarantee;
- ensuring funds 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 in the Republic of North Macedonia, 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.

**Public Investments Plan for 2021-2025.** To the end of ensuring sustainable and inclusive growth, in line with the priorities in the Programme of the Government of the Republic of North Macedonia, in the period 2021-2025, the Government will focus on implementation of the capital infrastructure projects in the road and the rail infrastructure, the energy and the utilities infrastructure, as well as the capital investments aimed at improving the conditions in the health, the education and the social systems, the agriculture sector and the environmental protection. To that end, a significant amount of capital expenditures is planned (Chart 4.3). In particular, in the period 2021-2025, total amount of EUR 3.2 billion is projected for capital projects, out of which EUR 1.28 billion as budget funds, EUR 112.8 million as grants (through IPA funds), and funds in the amount of EUR 1.84 billion for capital investments from international financial institutions/bilateral creditors (including investment grant funds under the Western Balkans Investment Framework - WBIF).

**Chart 4.3. Capital expenditures in the Budget of North Macedonia**



Source: MoF, \* - forecast

In the period 2021-2025, within the financial perspective under IPA 2 for the period 2014-2020, it is planned for capital projects in the total amount of EUR 142.1 million to be financed, EUR 112.8 million out of which as IPA funds, EUR 29.3 million as national co-financing from the Budget of the Republic of North Macedonia and EUR 124 million will be provided

through loans from international financial institutions (the amount of EUR 124 million is intended for Rail Corridor VIII, phase 3, and it is already included in the amount of EUR 1.84 billion).

In addition to the major capital projects, in the coming period, significant projects will be implemented in the above-mentioned areas, all to the end of implementing the reform measures aimed at improving the social and the educational conditions for the citizens, as well as measures for managing the consequences induced by COVID-19.

As regards the road infrastructure, loan funds are projected for construction of Skopje-Blace highway section and Kicevo-Gostivar highway section, improvement of road infrastructure in the municipalities in the Republic of North Macedonia through the Local Roads Construction and Rehabilitation Project, financing of Road Corridor VIII - Kumanovo-Rankovce section, Rankovce-Kriva Palanka, Kriva Palanka - Bulgarian border, financing Kicevo-Ohrid highway section, Stip-Radovis road section, Tetovo-Gostivar highway extension, National Roads Programme, Western Balkans Trade and Transport Facilitation Project, as well as Skopje Rapid Bus Transit Project (*linked to measure 4, Chapter 5*).

With respect to railway infrastructure, following is envisaged: financing of the three phases of construction and rehabilitation of eastern part of Rail Corridor VIII, i.e the part towards the Republic of Bulgaria, EUR 130 million grant funds from the EU being provided for the second and the third phase, as well as commencing the Project for Construction of New Railway Section Kicevo-Border with Republic of Albania as part of Corridor VIII. Construction of Tabanovce joint border station with accompanying facilities between the Republic of North Macedonia and the Republic of Serbia is planned, to be financed with grant funds from the Western Balkans Investment Framework and EBRD loan (*linked to measures 15 and 16, Chapter 5*).

Regarding gasification, construction of national gas pipelines Skopje-Tetovo section, Gostivar-Kicevo section and Sveti Nikole-Veles section is envisaged, as well as construction of interconnection gas pipelines between the Republic of North Macedonia and the Republic of Kosovo and between the Republic of North Macedonia and the Republic of Greece.

Among the major projects envisaged to be realised during this period in the field of utilities infrastructure are the first and the second phase of the Water Supply and Wastewater Collection Project.

Following are major projects in the field of agriculture: Irrigation Programme North Macedonia and Agriculture Modernisation Project. Construction of irrigation systems in Valandovo is envisaged, to be financed with KfW loan and grant funds by implementing the second phase of the Irrigation Programme Southern Vardar Valley (*linked to measure 5, Chapter 5*).

With respect to environment, important capital project is the construction of wastewater treatment plant in Skopje, as well as solid waste plants in Southeast, Southwest, Vardar, Pelagonija and Skopje regions.

As for the health sector, construction of University Clinical Centre in Skopje and reconstruction and extension of Regional Clinical Hospital in Stip are capital projects. Taking into account the need to support the healthcare system for the purpose of managing and mitigating the impact of COVID-19, World Bank loan is provided for financing the Emergency COVID-19 Response Project (*linked to measure 20, Chapter 5*).

With respect to the education sector, financing the reconstruction of student dormitories in the Republic of North Macedonia is envisaged, while implementation of the "Project for Construction of Physical Education Facilities in Secondary Schools" and the "Project for Construction of Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools" will continue, being financed under CEB loan and national co-financing, all to the end of improving the physical education, as well as the overall conditions for studying for the pupils in primary and secondary schools. For the purpose of improving the studying conditions in the primary education in the country, "Primary Education Improvement Project" will be launched with a World Bank loan (*linked to measure 18, Chapter 5*).

Related to the development of skills and innovations, the implementation of a project which, among other things, supports the activity of the Fund for innovations and technological development will continue until April 2021 (*linked to measure 13, Chapter 5*).

To the end of improving the access to social rights and services, as well as expanding the capacities for preschool care and upbringing through construction of new facilities and repurposing/upgrading the existing infrastructure of preschool institutions, implementation of the "Social Services Improvement Project", funded with a World Bank loan, will continue in 2021. Implementation of the "Social Insurance Administration Project", funded with a World Bank loan, will also continue. For the purpose of improving the conditions for socially vulnerable groups, implementation of the "Project for Housing of Vulnerable Groups", funded with a loan from the Council of Europe Development Bank, will continue in the coming period.

As for the judiciary, “Project for Reconstruction of Houses of Correction”, financed with a Council of Europe Development Bank loan, will be implemented (*linked to measure 19, Chapter 5*).

Two major capital projects are financed in the field of municipal infrastructure: “Municipal Services Improvement Project” and “North Macedonia Public Sector Energy Efficiency Project”. Under the “Municipal Services Improvement Project”, funded with a World Bank loan, municipalities and public utility enterprises are provided for financing investment projects in line with their priorities in the field of water supply and wastewater drainage, management of solid waste and other investments in municipal services, which have potential for generating revenues, i.e. making savings, or are of high priority for the municipalities. “North Macedonia Public Sector Energy Efficiency Project” will provide for financing energy efficient projects in the municipalities, as well as public health institutions at central government (*linked to measure 3, Chapter 5*).

As regards energy infrastructure, projects envisaged to be financed are those implemented by AD ESM and AD MEPSO: Wind Park Bogdanci, phase 2, district heating system for Bitola, 400kV interconnection transmission line Macedonia (Bitola) - Albania (Elbasan), Photovoltaic Power Plant Oslomej, Wind Park Miravci, Lindane Cleaning Project (OHIS), Photovoltaic Power Plant Oslomej 2 Project and Photovoltaic Power Plant Bitola Project (*linked to measures 2 and 3, Chapter 5*).

With respect to public financial management reforms, improved fiscal framework, strengthening the process of Budget planning and execution, improved revenue collection, strengthening the public procurement system, internal and external control and transparent reporting, a project for introduction of integrated IT system for public finance management and integrated tax IT system are envisaged to be implemented (*linked to measure 9, Chapter 5; also, for more, see sections 4.8 and 4.9*).

For the purpose of supporting the private sector, Project for Small- and Medium-Sized Enterprises and Priority Lending - phase 6 will be implemented.

**Projected Deficit and its Financing.** Financing the projected deficit, as well as debt repayment, will be provided by foreign and domestic borrowing (Table 4.5). At the beginning of 2020, the Government borrowed a short-term loan from the domestic banks in the amount of EUR 132.9 million, intended for repayment/re-financing part of the long-term loan in the amount of EUR 155 million. As a result of the newly occurred situation with COVID-19, the increasing needs were financed by borrowing from the IMF, the World Bank, the EU and through issuance of a Eurobond, as well as by borrowing on the domestic government securities market. Under such financial structure, the Government can uninterruptedly finance the budget deficit and repay the liabilities on the basis of debt falling due in the course of the year. In the period 2021-2025, 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 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 issuance of government securities, thus providing for additional financing under favourable terms and conditions, by using the low interest rates and the interest of the investors. For the purpose of optimising the payments and reducing the refinancing risk, Ministry of Finance will continue issuing government securities with longer maturities, thus reducing the debt refinancing risk. To the end of efficiently managing the public debt, 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 4.5. Needs and sources of financing (in Denar million)**

	Realisation 2019	2020	2021*	2022*	2023*	2024*	2025*
<b>Budget balance</b>	<b>-13,501</b>	<b>-56,495</b>	<b>-34,937</b>	<b>-28,951</b>	<b>-25,956</b>	<b>-24,482</b>	<b>-19,109</b>
<b>Deficit financing</b>	<b>13,501</b>	<b>56,495</b>	<b>34,937</b>	<b>28,951</b>	<b>25,956</b>	<b>24,482</b>	<b>19,109</b>
<b>Inflows</b>	<b>29,569</b>	<b>98,602</b>	<b>78,290</b>	<b>39,920</b>	<b>74,468</b>	<b>54,905</b>	<b>74,247</b>
Domestic sources	19,058	36,287	23,437	25,808	30,155	38,925	27,276
Foreign sources	9,243	65,052	53,542	8,890	50,666	12,500	47,325
Deposits ("-" is accumulation of account)	1,268	-2,737	1,311	5,222	-6,353	3,480	-354
<b>Outflows</b>	<b>16,068</b>	<b>42,107</b>	<b>43,353</b>	<b>10,969</b>	<b>48,512</b>	<b>30,423</b>	<b>55,138</b>
Repayment upon domestic borrowing	10,314	15,252	6,119	4,677	12,092	17,746	12,197
Repayment upon foreign borrowing	5,754	26,855	37,234	6,292	36,420	12,677	42,941
<b>Memorandum:</b>							
Net domestic borrowing	8,744	21,035	17,318	21,131	18,063	21,179	15,079
Net foreign borrowing	3,489	38,197	16,308	2,598	14,246	-177	4,384

Source: Ministry of Finance, \* - forecast

**Local Government Budget.** In the course of 2021, as well as 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.

Decentralisation process, paying particular attention to fiscal decentralisation, will continue in the medium term as well. It will provide for better democracy in the society, more efficient and cost-effective service rendering and delivery, as well as intensified local development. Transfer of competences to the local government ensures more efficient fund management by the local government and greater participation of the citizens in local policy making. In parallel to improving the fiscal capacity of the municipalities and ensuring better local and regional development, accountability and transparency in municipalities' operations will be enhanced.

Stable revenues are allocated to the municipalities from the Budget of the Republic of North Macedonia on the basis of VAT grant (general grant), in the amount of 4.5% of VAT collected in the previous year. In the period to come, more attention will be paid to introducing the revenue equalisation system, by introducing a criterion to the existing VAT grant allocation, thereby taking account of the fiscal effort put by each municipality. This provides for more equal allocation of the VAT grant on one hand, at the same time stimulating the municipalities to undertake measures and activities for collecting the legally prescribed revenues, on the other hand.

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 determined in the coming period. On the basis of a detailed analysis on the developments in the areas in which block and earmarked grants are allocated, in the coming period, the competent ministries need to consider the possibilities for redefining the manner and the determining of the criteria on distribution of block and earmarked grants. At the same time, amount of grants will be determined according to the municipalities' needs, adhering thereby to the legal provisions, whereby local institutions need to be reorganised and equal access to all municipal services to the citizens needs to be ensured. At the same time, activities will be undertaken aimed at improving the quality of local services for the transferred competences.

As a result of the adopted legal solutions, municipalities are allocated stable revenues by allocating funds from lease of state-owned agricultural land, the proportion of which is 50% of generated revenues 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 generate 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.

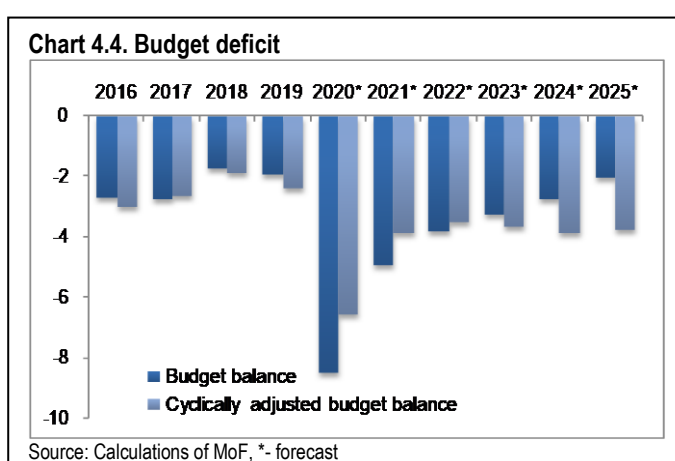
In the coming period, higher revenues are expected to be generated by determining the real market value of the real estate after completing the procedure on treatment of illegally built facilities on construction and agricultural land. In addition, municipalities will ensure additional sources of revenues on the basis of performing the transferred competences for management of construction land and treatment of illegally built facilities on construction and agricultural land.

Increased property tax rate for higher-value properties could be an additional source of revenues, whereby once the rate is increased, it is of essential importance for assessment and auditing capacities be ensured in order to avoid reporting property at lower value.



#### 4.5 Structural balance (cyclical component of the deficit, one-off and temporary measures, fiscal stance)

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 2020, as a result of the pandemic effects on the economic activity, projected GDP is substantially below the potential one, hence the cyclical budgetary component is negative, accounting for around 2%. Thus, cyclically adjusted budget deficit accounts for 6.6% of the potential GDP, pointing out to a fiscal impulse<sup>25</sup> of around 4% (Chart 4.4).

**Table 4.6. Aggregate Fiscal Indicators (%)**

	2020	2021	2022	2023	2024	2025
<b>Total budget balance</b>	<b>-8.5</b>	<b>-4.9</b>	<b>-3.8</b>	<b>-3.2</b>	<b>-2.8</b>	<b>-2.0</b>
Primary budget balance	-7.2	-3.6	-2.5	-1.9	-1.5	-0.9
Cyclical budget component	-1.9	-1.1	-0.3	0.4	1.1	1.7
Cyclically adjusted total budget balance	-6.6	-3.8	-3.5	-3.7	-3.9	-3.8
Cyclically adjusted primary budget balance	-5.3	-2.5	-2.2	-2.4	-2.6	-2.6

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 2021 and 2022, in conditions when the production gap remains in the negative zone, automatic stabilisers have negative effect on the budget balance, whereby the estimated cyclically adjusted budget deficit is lower than the projected budget deficit for this period, at the same time narrowing to 3.5% in 2022. In the period 2023-2025, cyclical budget component shifts to the positive zone, while cyclically adjusted budget deficit stabilises to around 3.8%. In the period 2021-2025, cyclically adjusted primary budget deficit accounts for 2.5% on average annually (Table 4.6).

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

At the end of Q3 2020, general government debt of the Republic of North Macedonia<sup>26</sup> amounted to EUR 5,573.1 million, i.e. 51.5% of the projected GDP. At the end of the third quarter, total public debt<sup>27</sup>, which includes the general 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 6,571.5 million, accounting for 60.7% 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 17<sup>th</sup> 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. Thus, starting Q2 2019, public debt stock also includes non-guaranteed debt of the public enterprises. In Q3 2020, it amounted to EUR 40.8 million, i.e. it accounted for 0.38% of GDP. During the analysed period, domestic general government debt accounted for 37.7% in the total general government debt, while the external general government debt accounted for 62.3%. Share of external general government debt increased by 1.6 p.p. compared to end-2019 as a result of higher borrowed amount in the course of 2020 from the international financial institutions and borrowing through issuance of a Eurobond in order to manage the consequences caused by COVID-19 pandemic. Exposure of general government debt portfolio to market risks registered further decline, in accordance with the favourable changes in both the

<sup>25</sup> Difference of cyclically adjusted budget balance in two consecutive years, as percentage of the potential product.

<sup>26</sup> General 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.

<sup>27</sup> Public debt comprises the general 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.



interest and the currency structures. From interest structure point of view, fixed interest rate debt dropped by 0.2 p.p. compared to end-2019. Share of fixed interest rate debt in the total general government debt is significantly above the minimum share of 60% determined under the Fiscal Strategy, amounting to 78.35% in Q3, as opposed to the variable interest rate debt, which was 21.65%. As for the currency structure of foreign currency debt, share of euro-denominated debt in the foreign currency general government debt portfolio is 90.6%, significantly above the minimum share of 85% determined under the Fiscal Strategy and, compared to end-2019, it declined by 1.8 p.p..

**Table 4.7. Public Debt Stock (EUR million)**

	2012	2013	2014	2015	2016	2017	2019	K-3 2020
<b>External Public Debt</b>	<b>1,941.2</b>	<b>2,078.7</b>	<b>2,725.1</b>	<b>2,847.5</b>	<b>3,286.0</b>	<b>3,187.5</b>	<b>3,709.35</b>	<b>4,433.05</b>
General Government Debt	1,615.9	1,597.5	2,092.2	2,096.7	2,446.6	2,376.8	2,763.54	3,470.31
Guaranteed debt	325.3	481.2	633.0	750.8	839.4	810.7	929.94	947.33
Non-guaranteed debt							15.87	15.41
<b>Domestic public debt</b>	<b>967.6</b>	<b>1,202.7</b>	<b>1,196.2</b>	<b>1,379.7</b>	<b>1,425.4</b>	<b>1,599.4</b>	<b>1,831.56</b>	<b>2,138.49</b>
General Government Debt	938.6	1,174.1	1,170.3	1,356.6	1,404.9	1,581.7	1,793.29	2,102.83
Guaranteed debt	29.0	28.6	25.9	23.2	20.5	17.7	12.27	10.23
Non-guaranteed debt							26.00	25.43
<b>Total public debt pursuant to the Public Debt Law</b>	<b>2,908.8</b>	<b>3,281.4</b>	<b>3,921.3</b>	<b>4,227.2</b>	<b>4,711.4</b>	<b>4,786.9</b>	<b>5,540.91</b>	<b>6,571.54</b>
Total public debt as % of GDP	38.3	40.3	45.8	46.6	48.8	47.7	49.43	60.71
<b>Total general government debt</b>	<b>2,554.5</b>	<b>2,771.6</b>	<b>3,262.5</b>	<b>3,453.3</b>	<b>3,851.5</b>	<b>3,958.5</b>	<b>4,556.83</b>	<b>5,573.14</b>
General government debt as % of GDP	33.7	34.0	38.1	38.1	39.9	39.4	40.65	51.49
<b>Total guaranteed debt</b>	<b>354.3</b>	<b>509.8</b>	<b>658.9</b>	<b>774.0</b>	<b>859.9</b>	<b>828.4</b>	<b>942.21</b>	<b>957.56</b>
Guaranteed debt as % of GDP	4.7	6.3	7.7	8.5	8.9	8.3	8.4	8.8
<b>Total non-guaranteed debt</b>							<b>41.87</b>	<b>40.84</b>
Non-guaranteed debt as % of GDP							0.38	0.38

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

Pursuant to the amendments to the Public Debt Law, starting 2020, public debt management policy will be set out in a separate Public Debt Management Strategy, and adopted by the Government of the Republic of North Macedonia. 2021-2023 Public Debt Management Strategy (with 2025 prospects) was adopted on 10<sup>th</sup> December 2020.

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, 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 medium term. The projects will be implemented by the state administration bodies, the municipalities, the public enterprises and the companies being predominantly owned by the state. The projects will be co-financed with foreign loans, the Government thereby being strongly committed not to disrupt 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 uninterrupted Budget execution. Furthermore, part of the borrowing will also be intended for repayment of debt liabilities falling due in the coming period. Thereby, in 2021 and 2023, around EUR 950 million is to be repaid on the basis of two previous borrowings, EUR 500 million for the Eurobond issued in 2014 and EUR 450 million for the Eurobond issued in 2016, as well as other principal repayments on the basis of borrowing on both the domestic and the external markets.

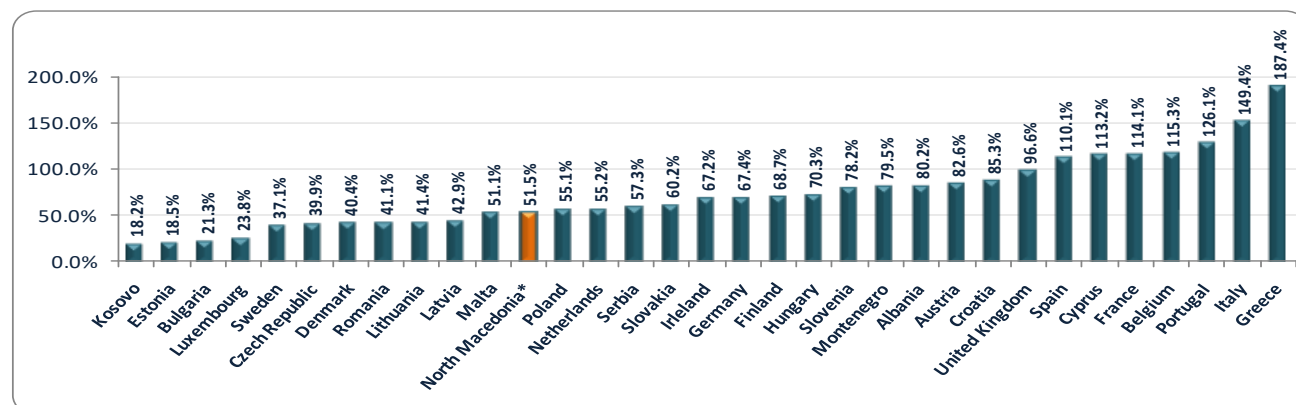
In order to reduce the exchange rate risk, the Strategy sets limits on the currency structure of the general government debt, whereby the minimum threshold of euro-denominated debt in the debt portfolio denominated in foreign currency should be 85%. The Strategy also sets a limit on the interest rate structure of general government debt, i.e. fixed interest rate debt should account for at least 60% of the total debt portfolio.

In order to protect the central government debt portfolio against the re-financing risk, minimum threshold of "average time to maturity" indicator in 2021 should be 4 years.

In the coming period, Ministry of Finance will continue considering the possibility and the conditions for debt restructuring by actively managing the debt portfolio. For the purpose of further smoothening of the redemption profile and reducing the re-financing risk, as well as generating additional interest savings, in the coming period, Ministry of Finance will continue

considering the possibility and the conditions for optimisation of debt-servicing costs by actively managing the debt portfolio.

**Chart 4.5. Government Debt of EU Member States and Countries in the Region in Q2 2020 (% of GDP)**



\* Data for North Macedonia is as of Q3 2020

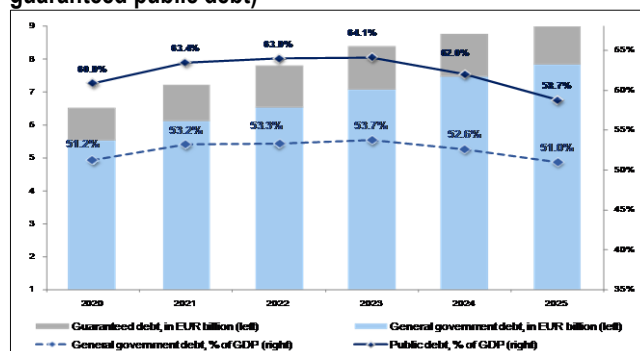
Source: Ministry of Finance, Eurostat, October 2020

In order to protect the central government debt portfolio against the interest rate risk, minimum threshold of “average time to re-fixing” indicator in 2021 should be 3 years.

**Guaranteed Debt.** On the basis of the analyses made on trends of projected guaranteed public debt in the period 2021-2025, it is expected to moderately increase by 2023, 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 stabilise and reduce to 7.6% of GDP in 2025. Thereby, level of guaranteed debt throughout the whole period is below the set maximum limit.

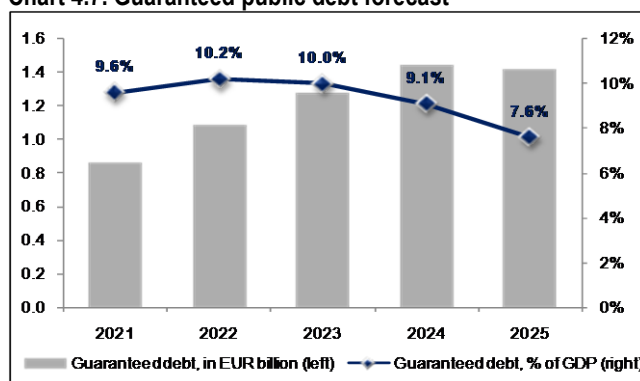
Pursuant to the latest modifications and amendments to the Public Debt Law, legal obligation is introduced for the Ministry of Finance to assess the creditworthiness of public debt issuers requesting issuance of sovereign guarantee, on the basis of their financial analysis and their outlook during the guarantee period, including analysis of the following indicators: liquidity, solvency and profitability of public enterprises and companies, as well as indicators of budget and financial performance of municipalities and public institutions established by the Republic of North Macedonia. As of 30th September 2020 inclusive, issued sovereign guarantees amounted to EUR 957.6 million, accounting for 8.8% of GDP (included in the public debt which accounted for 60.7% of GDP).

**Chart 4.6. Forecast of total public debt (government and guaranteed public debt)**



Source: Ministry of Finance forecast

**Chart 4.7. Guaranteed public debt forecast**



Source: MoF forecast

**Primary Government Securities Market.** According to the Calendar for Issuance of Government Securities (GS) on the Domestic Market, in the period January - September 2020, Ministry of Finance issued 3-, 6- and 12-month treasury bills, as well as 2-, 5-, 15- and 30-year treasury bonds.

During this period, total of 27 auctions of GS were held, i.e. 17 auctions of treasury bills and 10 auctions of treasury bonds. Total amount offered for sale at the auctions was Denar 38,325.62 million, demand amounted to Denar 61,862.85 million and the amount realised accounted for Denar 37,944.68 million.

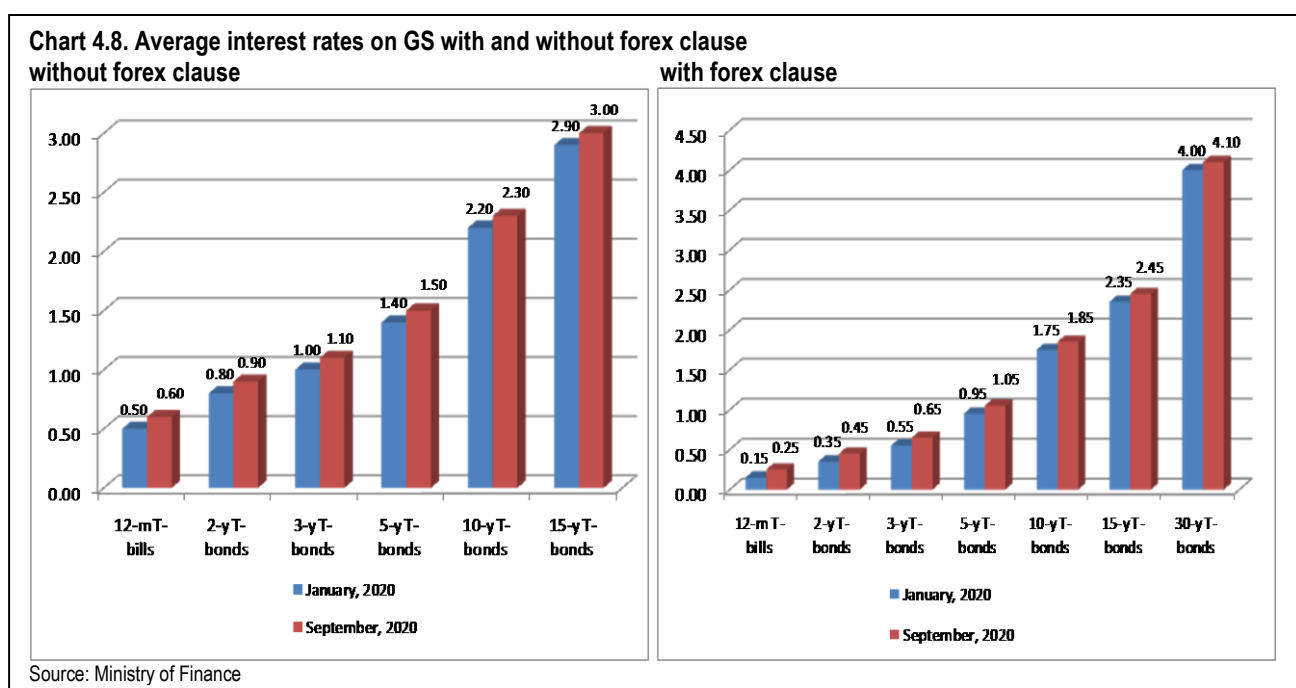
In the course of 2020, Ministry of Finance carried out measures adopted under the Denarisation Strategy, i.e. issuance was focused on Denar-denominated securities which, as of the third quarter inclusive, amounted to Denar 35,204.01 million as opposed to Denar 2,740.67 million issued through government securities with forex clause.

Chart 4.8 shows interest rates on government securities applied in the period January 2020 - September 2020, which increased in May 2020 as a result of the newly occurred COVID-19 induced crisis. As of September 2020 inclusive, stock of outstanding GS amounted to Denar 118,228.41 million, Denar 38,460.98 million out of which as treasury bills and Denar 79,767.43 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 on the Macedonian Stock Exchange AD, as well as trading in continuous GS on over-the-counter markets.

Total volume of trading in treasury bonds on the Macedonian Stock Exchange in the period January - September 2020 amounted to Denar 251.36 million, decreasing by Denar 64.42 million compared to the same period last year.

During the same period, 8 transactions pertaining to treasury bills and 12 transactions pertaining to treasury bonds were



realised on the OTC market. Total nominal trading amounted to Denar 3,893.52 million. Compared to the trading by September 2019, it can be concluded that less transactions with government securities were realised as of 30th September 2020 inclusive, while total nominal amount of trading was higher by Denar 3,113.85 million.

**International Capital Market.** On 3<sup>rd</sup> June 2020, Ministry of Finance issued the seventh Eurobond of the Republic of North Macedonia on the international capital market, amounting to EUR 700 million, priced at 98.556% of the nominal amount and coupon interest rate of 3.675%, with 6-year maturity, i.e. by 3<sup>rd</sup> June 2026. Hence, in the course of 2020, 5 Eurobonds issued by the Republic of North Macedonia were traded on the international capital market, which fall due in 2020, 2021, 2023, 2025 and 2026, the yield to maturity of which as of 30<sup>th</sup> September 2020 inclusive amounted to 1.482%, 1.647%, 1.983%, 2.136% and 2.336% respectively.

**Credit Rating of the Republic of North Macedonia.** On 13<sup>th</sup> January 2020, “Fitch” Credit Rating Agency affirmed the Republic of North Macedonia’s “BB+” rating with a stable outlook. In addition, on 19<sup>th</sup> June 2020, “Fitch” Credit Rating Agency affirmed the Republic of North Macedonia’s “BB+” rating, revising the outlook to negative from stable.

On 6<sup>th</sup> March and 4<sup>th</sup> September 2020, “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 and comparison with the previous programme

**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 macroeconomic 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 2021 - 2025 is 3.8%, i.e. it is by 1.3 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 4% of GDP on average annually in the coming five-year period, i.e. deficit widening by 0.7 p.p. on average compared to the baseline projections. Table 4.8 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 two thirds 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 0.3 p.p. on average annually compared to the baseline scenario in the period 2021 - 2025.

**Table 4.8. Sensitivity Analysis of Budget Deficit**

	2021	2022	2023	2024	2025
<b>Budget deficit (% of GDP)</b>					
<b>Baseline Scenario</b>	-4.9	-3.8	-3.2	-2.8	-2.0
<b>Scenario 1.</b> Lower economic growth	-5.3	-4.3	-3.8	-3.5	-2.9
<b>Scenario 2.</b> Lower execution of capital expenditures	-5.0	-4.0	-3.5	-3.0	-2.4
<b>Scenario 3.</b> Lower collection of tax revenues	-5.8	-4.7	-4.1	-3.7	-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 4.2% of GDP on average annually during the analysed period, the deficit not exceeding 3% of GDP in 2025.

Materialisation of any of the above risk scenarios in the upcoming period would result in relatively limited effects on the budget deficit, i.e. sustainability of fiscal policy in the medium term is in no case disrupted.

**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, a 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 2021-2025, 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 4.9. Sensitivity analysis of servicing-related costs of the external government debt when changes occur in the interest rates and the foreign exchange rates**

Index figures	2021	2022	2023	2024	2025
<b>Baseline Scenario</b>	100.0	100.0	100.0	100.0	100.0
Scenario 1: increase of respective interest rates by 1 p.p.	107.5	108.2	108.8	109.5	108.1
Scenario 2: appreciation of other currencies in the portfolio in relation to the euro by 10%	100.3	100.9	100.3	100.5	100.2

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 2021 surge by 1 p.p. in relation to the baseline projection, it would cause for interest-related costs to increase by 7.5%, i.e. by EUR 7.3 million, with similar effects in 2022 to 2025. Such sensitivity could be explained as exposure of debt portfolio to interest rate risk;
- possible 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 0.3% in 2021, i.e. by EUR 2.0 million. Given the obtained results, it may be concluded that possible unfavourable trends at exchange rates of other currencies in relation to the euro will not cause any significant increase of the servicing-related costs, as a result of the fact that most of the external general government debt is euro-denominated.

#### **4.8 Quality of public finances**

Tax System Reform Strategy (2021-2025) was prepared by the Ministry of Finance, and in the course of 2020, consultations were held with the public, the stakeholders including the international organisations, the civil society, the Unions, the business and the academic communities, and number of remarks were proposed and accepted. Government of the Republic of North Macedonia adopted the Strategy on 29<sup>th</sup> December 2020.

Its main objective is to ensure fair, efficient, transparent and modern tax system based on contemporary digital technologies and innovations, all to the end of attaining an accelerated, inclusive and sustainable economic growth. By managing the reform process, i.e. through complementary measures, the competent authorities will strive for obtaining the highest economic efficiency, as well as political and social support to the process, constantly improving the tax collection and the tax compliance by continuous investments in human capital and in technology.

The Strategy comprises five priorities:

1. The first priority, Increased Vertical Equity, refers to improvement of the tax system, introducing greater fairness and harmonisation with the best European practices.
2. The second priority, Improved Revenue Collection through Increased Efficiency and Effectiveness of the Tax System, includes more efficient and more productive tax system, i.e. reducing the tax evasion and the informal economy in the society by reducing cash payments, improved fiscalisation, strengthened control mechanisms, reduction of debt arrears, strengthened capacities of the tax system by improving the personnel capacities and technical improvements in the tax institutions.
3. The third priority, Increased Tax Transparency, covers increased transparency of the tax system, i.e. exchange of information between the tax authorities and the other entities will be improved on the basis of the set measures and activities, as well as overall transparency of the tax issues will be enhanced.
4. The fourth priority, Improved Quality of Services, aims to improve the quality of services the tax authorities render to the taxpayers, aimed at increasing the economic feasibility of the procedures, simplifying and accelerating the process and reducing the administrative burden thereto.
5. The fifth priority, Introduction of Green Taxation, pertains to tax policy aimed at protecting both the human health and the environment.



On the basis of the priorities, the measures and the activities contained in the Strategy, annual action plans will be prepared, elaborating in details all steps for implementation of the activities pertaining to the respective priorities.

Implementation of the Strategy will be assessed on the basis of Performance Assessment Framework, containing detailed instructions on the assessment of each measure. Tax System Reform Working Group will monitor and report on the implementation of the Tax System Reform Strategy. The reports will be reviewed by the PFM Sector Working Group, approved by the PFM Council and adopted by the Government, within monitoring the implementation of the Public Financial Management Reform Programme 2018-2021.

**Capital investment** in 2021-2025 is expected to significantly increase their share in total expenditures, i.e. from 9.7% in 2021 to 12.8% in 2025.

**Table 4.10. Projected Capital Expenditures in the period 2021-2025**

2021-2025 Budget of the Republic of North Macedonia	2021	2022	2023	2024	2025
<b>GDP</b>	706,834	754,135	809,217	872,478	944,281
<b>Total expenditures</b>	247,567	252,483	265,172	281,515	297,251
<i>Capital expenditures</i>	24,055	25,890	31,828	35,637	37,981
Capital expenditures (% of total expenditures)	9.7	10.3	12.0	12.7	12.8
Capital expenditures (% of GDP)	3.4	3.4	3.9	4.1	4.0

Source: Ministry of Finance forecast

In order to improve capital expenditure execution, new mechanism is introduced with the Law on 2021 Budget Execution, i.e. an obligation for the budget users to execute 15% of the capital expenditures in the first quarter, 40% as of the second quarter inclusive and 65% as of the third quarter inclusive. In case of failure to do so, Ministry of Finance reallocates the unused funds up to the prescribed limit to item 414 - Capital Expenditures Reserves at the respective budget user, without any right to spending. Should the budget users spend the funds up to the prescribed limit in the next quarter, i.e. should they execute 70% of the capital expenditures by 15 November inclusive, Ministry of Finance, ex officio, returns the reduced funds to the appropriate sub-programme and item where they were reallocated from. Should the budget users fail to spend the funds up to the prescribed limit in the next quarter as well, the Parliament, upon proposal by the Government, decides on the use of the funds reallocated to item 414 - Capital Expenditures Reserves. Thus, the budget users would be encouraged to execute the capital expenditures in the envisaged scope and for the account of the budget users having underperformed, i.e. budget users having executed the capital expenditures in line with the approved Budget would obtain more funds.

**Government assets.** Maintaining overall fiscal discipline and fiscal consolidation in the medium term are the top priorities in the planning and budgeting process, whereby provisions pertaining to management and disposal of financial and non-financial assets of the state and the municipalities are introduced under the new Budget Law, all to the end of improved utilisation and management of government funds. The Law provides a framework defining that the Ministry of Finance will keep summary registry of all concession agreements, while the parent budget users should keep separate registries for their concession and public private partnership agreements and they should submit these data to the Ministry of Finance.

Under the new Law, Registry of Public Entities, publicly available, has been established for the first time. This Registry will keep records of all legal entities established, directly or indirectly, by the state or the municipalities, thus providing for comprehensives and transparency for all public entities regardless of whether they are at central or local level.

#### **4.9 Fiscal governance and budgetary frameworks**

The existing Budget Law, which dates from 2005, with several additional amendments and clarifications, regulates the procedures for preparation, adoption and execution of the Budget of the Republic of North Macedonia, and the budgets of the local government units and the City of Skopje, as well as the reporting on the budget execution. However, the new trends, recommendations and directives call for new solutions as regards public financial management, in line with the good practices of the international financial institutions and the EU Directives.

Therefore, the new Budget Law regulates the fiscal rules and the fiscal principles, the establishment of the Fiscal Council, the medium-term budget planning, the management of state and municipal funds, as well as the monitoring of financial results of public enterprises and companies established by the state and the municipalities, and the financial responsibility and the basis for establishment of an integrated PFM IT systems.

The improvement of the public financial management and strengthening the medium-term budget planning in the next 5 years is one of the top priorities of the Government of the Republic of North Macedonia as part of the EU accession process. This legal solution provides for strengthening the commitment to strategic planning, giving a medium-term public finance framework, i.e. medium-term budget planning, whereby this process will be additionally strengthened by introducing fiscal policy statement to be submitted to the Parliament within 45 days from forming the Government. The statement will contain Fiscal Strategy guidelines during the Government term of office. As regards the process of preparing the Fiscal Strategy, it is envisaged for the existing timeframe to be shifted, i.e. the Strategy to be published at the beginning of the calendar year, and its structure and contents to be improved. In fact, some of the Medium-Term Fiscal Strategy postulates for a period of 5 years, containing projections on growth, deficit and capital projects, have already been set in the 2021 Budget.

The Budget will be presented more clearly through plenty of well-structured information, and it will be divided into general, special and development parts. The general part will contain all budget inflows and outflows during the respective fiscal year. The special part will thoroughly present the expenditures of budget users, while the project part will contain information on the public investment projects, with data on the duration and total value of each project, data on the so-far performance and the planned medium-term investments.

New deadlines for the budget preparation process are envisaged with the Law, shifting its timeframe, all to the end of greater predictability, public inclusion and transparency.

At the same time, provisions are envisaged for introduction of numerical fiscal rules, designed in a way in which they will comply and be consistent with the EU fiscal rules, thus making the fiscal policy more predictable and more accountable. Therefore, following rules are being introduced:

- general government deficit for the respective year not to exceed 3% of nominal GDP,
- total general government debt not to exceed 60% of nominal GDP,
- guaranteed public debt not to exceed 15% of GDP.

Should general government debt reach 60% of GDP, the Government is to prepare a Strategy with specific measures and activities in the medium run, which will provide for debt reduction.

The Government may apply the escape clauses with respect to the set fiscal rules in case of occurrence of any of the following exceptional circumstances:

- natural disasters and external shocks jeopardising the national security or the life and the health of the citizens;
- state of emergency;
- severe financial or economic shocks, the overcoming of which requires significant transfers of funds from the Budget.

Established numerical fiscal rules on deficit and general government debt include the institutions classified in State Sector (C.13), according to the National Classification of Institutional Sectors of the State Statistical Office, however, additional 2-year adjustment period will apply from the application of this Law as regards the deficit.

With respect to the Fiscal Council, it is envisaged to establish an independent body composed of 3 members proposed by the Macedonian Academy of Sciences and Arts, the State Audit Office and the National Bank, who will be elected by the Parliament. Members should be experts in the field of public finances, macroeconomics or economics.

In addition, the Law stipulates general provisions for public debt management and issuance of guarantees, thereby determining the borrowing procedures for the needs of the central and the local government, as well as the issuance of guarantees. At the same time, reporting quality and quantity are envisaged to be improved.

Activities are underway for the establishment of an Integrated PFM IT system, which includes several modules, as follows: Budget planning, Budget execution, Accounting for the needs of the general ledger and reporting, Debt management, Establishment and management of necessary registries, Connecting with the other systems for automatic data exchange and other necessary components to support the Law implementation. This system will provide for better implementation of all processes, as well as their monitoring and control.

#### **4.10 Sustainability of public finances**

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

- average labour productivity growth of 2.7%;



- increase of male participation rate from 77.3% in 2019 to 85.6% in 2060;
- more intensive increase of female participation rate (from 54.8% in 2019 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 6.2% the same year, and with lower intensity in the remaining 20 years, whereby unemployment rate is projected to account for 3.5% in 2060.
- gradual increase of the share of population above 65 years of age, reaching around 34% in 2060.

On the basis of the employment and wages growth projections, an average annual growth of 6.2% of revenues on the basis of pension insurance contributions is envisaged in the analysed period, while their share in GDP amounts to around 6.5%. As for pension-related expenditures, it is worth mentioning that only those of the state Pension and Disability Insurance Fund are taken into account. Taking this into account, and according to the projected demographic trends, 4.8% average annual increase of pension-related expenditures is envisaged in the analysed period, while their share in GDP is envisaged to gradually reduce, which is expected to be 6.2% in 2060. Public expenditures for health protection as percentage of GDP are projected to gradually increase, reaching 8% in 2060. mainly as a result of the effects of population aging. Education-related expenditures are envisaged to increase by about 7% on average annually in the next forty years, so their share in GDP is expected to reach 5.2% in 2060. Interest-related costs are envisaged to account for 0.9% of GDP on average in the analysed period, and are expected to decrease to below 1% after 2040, in line with the projected trend of budget balance, i.e. government debt and projected effective interest rate.

## **5. Structural reforms in 2021-2023**

### **5.1. Identification of the key challenges for competitiveness and inclusive growth**

In the first nine months of 2020, domestic economic activity declined by 5.9%, due to the unfavorable developments in the second quarter, with decreased economic activity by almost 15% on annual basis, as a result of the restrictive measures for preventing the spread of COVID-19 and the aggravated international economic environment, which hit industrial production, construction, trade, transport and accommodation and food services, the hardest. In the third quarter, the decline in economic activity slowed down significantly, ie it was registered a drop of 3.3%, in conditions of slower pace of decline in activity in the industrial and service sector, and growth in the construction and agricultural sector. Economic growth is expected to shift into the positive zone in 2021, amid expected recovery of investment, consumption and external demand, with a projected growth of 4.1% according to the baseline scenario, which assumes a weakening of the health crisis and a gradual improvement of the epidemiological situation, higher utilisation of production and service capacities, favorable effects of the economic measures, as well as an increased confidence among consumers and investors. The redesign of the budget policy and the policies aimed at economic recovery and accelerated growth, which for the first time are projected for a five year period represent a solid basis for accelerating the economic growth in the coming period. The return of the economy to the pre-crisis growth path is expected in the second half of 2022 and providing faster dynamics of economic growth thereafter. Thus, according to the basic medium-term scenario, the average annual growth in the period 2022-2025 is projected at 5.3%, ie economic growth in 2025 is expected to reach 5.9%.

Any further intensifying of the economic growth will undoubtedly be hampered by the pandemic's negative impact and the great uncertainty revolving around its length. Given that country's main trade partner is the European Union, the inconducive developing movements in its member states is expected to restrain the volume of export, whose growth has been an important growth factor in the past period. The declined economic activity along with the lower productivity puts at risk many jobs due to the necessity of caution and it can severely halt the accelerated fall of unemployment and rise of wages. Worsening of the country's fiscal indicators is expected as well and the projected economic contraction along with the newly emerging indebtedness needs will ruin the stabilisation period of debt stabilisation as a result of the reduced budget deficits in the last years.

Employment in the private sector is characterised by continuous increase, which reflects the creation of new jobs at the foreign companies operating with developing technologies and high value added. Yet, the employment growth is not followed by commensurate economic growth and many new jobs do not feature high productivity that the country inevitably is in a need of. The strategy to speed up the economic growth in the last period is largely based on the increased export activity of the foreign companies in the country, which is supported by the trade liberalisation and the vicinity of the large European markets. In that direction, the manufacturing has largest growth potential, whose share in the total export is already at the level of around 90%. Manufacturing employing medium and medium-high technologies records an increased share that, however, can not undermine the higher share of the labour-intensive industries with low productivity. On the other hand, the rise of the minimum wage, having not been followed by proportionate productivity

growth, puts pressure on the wage growth, further replicating on increased production costs and finally higher end price. This disharmony of the wage growth and productivity unfolds grave challenges that can significantly slow down the export growth in the long run, because the inflated end prices of products make them less competitive on the foreign markets.

According to UNIDO Competitive Industrial Performance Index 2019<sup>28</sup>, Macedonia ranks in 74<sup>th</sup> place out of 150 countries, indicating an improvement compared to the previous rankings, although still being in group of countries with necessity of increasing the share of manufacturing based on high value added in the economic growth. Nevertheless, the substantial change of manufacturing's structure in the past couple of years thanks to the increased share of production based on high technologies is still insufficient to convert into higher value added per capita as a measure of country's industrialisation level. The higher value added per capita could bring the standard of living up considering that the real GDP per capita accounts for only 37% of the EU-28's average in 2019. An IMF's analysis of the FDI in the new member states and Western Balkans<sup>29</sup> implies that a large portion of pre- and post-production processes capturing higher value added are transferred to the parent companies, meaning that the increased R&D activities in the meantime are conducted in the native countries. Consequently, domestic companies should forcefully accept the advantages brought by the digital technology to increase their productivity, competitiveness and share of the value added in the high-tech industries.

In that context, only the investment in R&D and innovations can earn success on the global market, which is becoming increasingly integrated to the value chains. According to the European Innovation Scoreboard 2020<sup>30</sup> North Macedonia is a modest innovator considering its performance level of around 45 percent relative to the EU's average. The report identifies that country's strongest innovation dimensions are Attractive research systems, Innovators and Firm investments, while the weakest dimensions are Employment impacts, Finance and support and Intellectual assets. The country has largest negative difference compared to the EU in Top R&D spending enterprises, GDP per capita and Employment share high and medium high-tech manufacturing.

OECD's *Competitiveness in South East Europe: A Policy Outlook 2018*<sup>31</sup> points out that, in a global economy relying on knowledge and skills, investment in education and professionalisation is of crucial importance to raise human capital and improve labour productivity, which is a long-term driver of economic competitiveness. The results from the PISA ranking put the country very low compared to similar countries from Central and Eastern Europe and the average of the OECD countries, and, along with Kosovo, the country is the lowest ranked amongst the countries of Southeast Europe. The inconsistencies between the needs of the private employers and the skills gained with the educational system pose a problem in reducing country's high unemployment rate, especially the youth unemployment rate which was 47.6% in 2017, being three times higher than the EU's average. In that direction, activation measures should play the main role to support the youth, long-term unemployed, women and vulnerable groups in order to find a suitable employment and thus increase their opportunities to work. Closely related to the foregoing is the necessity to enhance the integration of the social centres and employment agencies towards better targetting of the employability of the social benefit recipients.

A greater integration of companies to the global chains of higher technological value largely depends on the further improvement in the business environment. Yet the protracted improvement of the business regulations, there is the need of improving their enforcement, simplifying the current regulation and reducing the unnecessary expenses. The lack of innovation is closely linked with the lack of appropriate logistics, such as excellent public services, customs, communication networks and transport infrastructure. The country needs to keep up with its efforts to improve the competitiveness of the energy industry and specific attention should be dedicated on sustainable growth given the potentials for sustainable energy and efficient energy use.<sup>32</sup>

The need to implement overarching structural reforms is strengthened with the expected consequences of the COVID-19 pandemic, which is posing challenges related to the health system's efficiency, employment maintenance, securing of social protection and support to the private sector. In such circumstances, the effectiveness in their implementation mostly depends on the quality of coordination, management and inclusiveness, where the ability to perceive the informal sector that causes inequality between the companies paying taxes and social contributions, as well as carries large losses of public revenues, is of special importance. The lack of measures aimed at tightening the informal sector may slow down economic recovery from the crisis brought with the pandemic and it may also hamper the sustainability of economic growth in the long run.

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<sup>28</sup> <https://stat.unido.org/country/MKD.pdf>

<sup>29</sup> <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>

<sup>30</sup> <https://ec.europa.eu/docsroom/documents/41896>

<sup>31</sup> <http://www.oecd.org/south-east-europe/programme/competitiveness-south-east-europe.htm>

<sup>32</sup> <http://www.oecd.org/south-east-europe/programme/competitiveness-south-east-europe.htm>

Apart from the battle against the informal economy, other major challenges in the development of an inclusive society are the fight against corruption, rule of law, increased level of transparency and enhanced institutions. According to Transparency International's Corruption Perception Index 2019<sup>33</sup>, Macedonia occupies the 106<sup>th</sup> place amongst 180 countries and records a significant downfall compared to the ranking in the previous years, which places it in the country group that need to make substantial efforts to fight corruption and the institutional functionality.

The European Commission in its Assessment report on Economic Reform programme 2020-2022 identifies three key challenges that need to be addressed to boost competitiveness and inclusive growth:

- improving the quality and relevance of the education system;
- improving the competitiveness of domestic companies and integration in global value chains; and
- formalisation of the economy.

The results achieved in education are not sufficiently linked to the demands on the labour market and that prolongs the period for acquiring the required education degree and employment, which feeds up the informal economy and poverty. The informal economy worsens competitiveness, reduces the quality of business environment, creates a shortage of public revenues and leaves employees with no social protection and restricted rights. Coping with the elementary obstacles that restrain the competitiveness of domestic companies is key for exploiting the opportunities of their integration to the global value chains, which would allow them to grow their productivity further and it positively affects country's trade balance and its growth prospects.

The Joint Conclusions from the Economic and Financial Dialogue from May 2020 referring to needed structural reform policies are directly linked to the aforementioned challenges:

- Use fiscal policy to mitigate the crisis-induced impact on growth and employment. Adopt the Tax System Reform Strategy 2020-2023 and improve revenue collection capacities in line with the strategy. Further improve the transparency of public finances by publishing regular fiscal reports on public enterprises and taking steps towards incorporating them in the general government statistics in line with the excessive deficit procedure methodology.
- To support the economic recovery, improve public investment management to mitigate technical obstacles to implementation of capital spending. Establish a comprehensive registry of state aid and review firm-level subsidies based on their cost-effectiveness. Take initial legal and operational steps to establish fiscal rules and a fiscal council with a view to strengthening fiscal sustainability in the medium term.
- Closely monitor financial stability challenges arising as a result of the coronavirus pandemic and take appropriate action if needed. Operationalise the reconstituted Financial Stability Committee and ensure the legal clarification of the central bank's macro-prudential mandate. Work towards a further implementation of the denarisation and NPL resolution strategies, ensuring the effectiveness of the measures taken and making any adjustments deemed necessary.
- Ensure a whole-of-government approach and a cross-sectoral coordination across public administration to effectively respond to COVID-19. Maintain continuous dialogue with business organisations, social partners and civil society on all measures in response to the crisis. Take necessary actions to ensure easy access to digital public services for citizens and businesses.
- With a view to mitigate the economic consequences of COVID-19 pandemic and to stimulate economic recovery, establish an effective and transparent mechanism to support the businesses affected by the crisis, in particular micro, small and medium-sized enterprises and self-employed. Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy. Create a register of para-fiscal charges to streamline their use and further decrease the administrative and regulatory burden of companies.
- Continue taking measures to preserve employment including by ensuring short-time work schemes and flexible working arrangements. Increase the capacity of and cooperation between the Employment Agency and Centres for Social Work to provide integrated services and measures for inclusion in the labour market including training upskilling and reskilling. Ensure adequate and sustainable funding to strengthen the health care sector with an aim to improve access to quality public health care for all citizens.

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<sup>33</sup> <https://www.transparency.org/en/cpi/2019>

## 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
Measure 3: Improvement of energy efficiency
Measure 4: Implementation of an Intelligent Transport System (ITS) along Corridor 10
Agriculture sector development
Measure 5: Improving of irrigation systems
Measure 6: Consolidation and defragmentation of agricultural land
Measure 7: Agricultural cooperatives
Measure 8: Farm road (re)construction
Industry sector development
/
Services sector development
/
Business environment and reduction of the informal economy
Measure 9: E-marketplace for low value procurement
Measure 10: Streamline the use of para-fiscal charges This measure is linked to the <b>5<sup>th</sup> Policy guidance</b> from the Joint Conclusions of the Economic and Financial Dialogue from May 2020: “Create a register of para-fiscal charges to streamline their use and further decrease the administrative and regulatory burden of companies”.
Measure 11: Support start-ups and SMEs in selected less-developed regions of the country to grow, produce added value and create a local living economy
Measure 12: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities This measure is linked to the <b>5<sup>th</sup> Policy guidance</b> from the Joint Conclusions of the Economic and Financial Dialogue from May 2020 referring to provision of incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy.
Research, development and innovation and the digital transformation
Measure 13: Enhancing cooperation between the academy and the industry
Measure 14: Broadening the scope of digital services provided on National E-service Portal This measure is linked to the <b>4<sup>th</sup> Policy Guidance</b> from the Joint Conclusions of the Economic and Financial Dialogue from May 2020 in the context of taking necessary actions to ensure easy access to digital services for citizens and businesses.
Economic integration reforms
Measure 15: Trade facilitation
Measure 16: Facilitating North Macedonia-Serbia cross-border crossing
Measure 17: Strengthening the internal market in the Republic of North Macedonia
Education and skills

Measure 18: Further development of the qualification system
<b>Employment and labour market</b>
/
<b>Social protection and inclusion, including health care</b>
<p>Measure 19: Strengthening the system for social inclusion of vulnerable categories of people</p> <p>This measure is linked to the <b>5<sup>th</sup> Policy Guidance</b> from the Joint Conclusions of the Economic and Financial Dialogue from May 2020 referring to the extension of social protection coverage and the <b>6<sup>th</sup> Policy Guidance</b> referring to the increase the capacity of and cooperation between the Employment Agency and Centres for social work to provide integrated services and measures for inclusion in the labour market including training upskilling and reskilling.</p>
<p>Measure 20: Strengthening the quality of the Primary Health Care</p> <p>This measure is linked to the <b>6<sup>th</sup> Policy Guidance</b> from the Joint Conclusions of the Economic and Financial Dialogue from May 2020: “Ensure adequate and sustainable funding to strengthen the health care sector with an aim to improve access to quality public health care for all citizens”.</p>

### 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

Total electricity consumption in 2019 is 6,505 GWh. In the total amount of electricity for consumer needs for 2019, the import of electricity is around 24%. The country has limited range of options for energy supply and is highly dependent on energy imports as demand has outpaced domestic supply. The total installed capacity of the power plants from all installed generators is 2,087.86 MW for 2019 and it is for 10,9 MW bigger than 2018. Total number of final consumers of electricity for year 2019 is 8,684,614, out of which 102,518 are non-household consumers. According to these informations, real liberalisation of electricity market is 49,13%. There are 33 active traders on the free electricity market in 2019. Also, 7,231 measurement points changed their supplier in 2019, which points to an increase of 66.46% compared to 2018 (4,344).

**Table 5.1. Electricity market liberalisation**

	Year	
	2018	2019
Total number of final customers of electricity	741,867	868,614
Number of all customers connected to transmission system operator	12	14
Number of all customers connected to distribution system operator	742,023	868,600
Number of all household customers connected to distribution system operator	658,687	765,963
Number of all non-household customers	83,180	102,518
Customers who change their supplier	4,344	7,231
Number of active traders (suppliers)	32	33
Real liberalisation of electricity market in MK (%)	47.26	49.13

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 1,368 GWh, and the total installed capacity is 554 MW, of which 40% are owned by state owned company AD ESM for electricity generation.

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 CO<sub>2</sub> 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. 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 in December 2019. 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, the Government shall adopt Programme for implementation of the Energy Development Strategy.

Another significant reform for the next period is accelerating Innovations in clean technologies and opening new green jobs. Through on-going project, the Ministry of Economy will contribute to accelerate innovations in clean technologies by designing and implement a Climate Smart Urban Development Approach (CSUD) that increases and accelerates investments in innovative clean technologies in North Macedonia.

**Transport market.** Regarding the quality of the transport infrastructure, the 2019 Global Competitiveness Report<sup>34</sup> ranks the country 84th out of 141 economies. North Macedonia, among structural peers, ranks below Serbia (46th), but above Montenegro (106th), Bosnia and Herzegovina (108th) and Albania (120th).

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% 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.<sup>35</sup>

## 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 was 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. EVN HOME is universal supplier for households and small customers and it is established on the electricity market since 1 July 2019. Also this company is supplier of last resort for the customers whose supplier has failed to perform its activity. 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.

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

<sup>34</sup> [http://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf)

<sup>35</sup> <https://www.worldbank.org/en/country/northmacedonia/publication/fyr-macedonia-systematic-country-diagnostic-seizing-brighter-future-for-all>

Congestion Management). After NEMO designation in 2019, the Government adopted the rules for Organised Market Operator (MEMO). In September 2020 the Government made a decision for MEMO to be an organised market operator in the Republic of North Macedonia. So, the ongoing project of day ahead market coupling between North Macedonia and Bulgaria will proceed in 2021. This project was stopped because of the elections in 2020 and after that the new Government established the new company MEMO as organised market operator since October 2020.

In 2020 a Study on the opportunities for increased use of guarantees of origin was prepared with technical assistance. This study will be shared with the relevant stakeholders for consultation in order to define the key findings and recommendations which may cause the need for amendment of the existing Energy Law and bylaws, in order to set stable platform for this support measure. The initial proposal of the Study is that instead of the Energy Agency, MEMO will lead the whole procedure. The responsible authority as initial activity shall establish a system of issuance, transfer and cancellation of guarantees of origin or use an online platform that is already operational (<https://grexel.com>). The estimation is that the regular annual cost to use the services of this platform would be around EUR 22,700, except that in the first year this would cost double, in order to have full membership.

Electricity Market Rules have been adopted by the Energy Regulatory Commission<sup>36</sup>. 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	2019
Electricity price for open electricity market (EUR/MWh)	57.73	49.07
Electricity price for open electricity market for big eligible customers (EUR/MWh)	56.73	63.42
Electricity price for open electricity market for small eligible customers (EUR/MWh)	55.55	66.28
Average electricity price for tariff customers (EUR/MWh) (customers with regulated price)	64.85	63.82

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. The Balance Rulebook has been adopted.

In order to protect the vulnerable consumers, according to the Energy Law it is envisaged that the Government shall adopt annual Programme for Protection of Vulnerable Energy Consumers. The first Programme was adopted in 2020 and the next one is planned for 2021. This Programme is prepared by the ME in cooperation with the MLSP. The programme covers different types of energy consumers, not just electricity energy consumers but also natural gas consumers and heat energy consumers. Also, the programme defines measures for energy saving and energy efficiency, the measures taken by DSO distribution system operator and suppliers.

The Ministry of economy has conducted public announcements for reimbursement of the costs for pellet stoves with the accent on vulnerable consumers and the reimbursement covers 70% of the cost but not more than 25.000 denars (EUR 405). Also this type of reimbursement particularly for vulnerable was planned and for the other public announcements as PVC windows, solar panel collectors, but due to COVID-19 crisis, the funds provided were donated in the fund to deal with the crisis.

The implementation of the measure contributes to fulfilment of economic criteria regarding functioning of product market and quality of infrastructure.

This measure is in line with the Key challenge 2 from the Commission assesment of ERP 2020-2022 and with SDG 7 Affordable and clean energy. It is also connected with the goals for decarbonisation of the energy system from the EU Green Deal. *(For more infomation see Annex 7).*

#### **a. Planned activities for 2021**

1. Activities related to day ahead market coupling between IBEX (Bulgaria) and MEMO (North Macedonia).

Under the first activity, the following steps are planned:

<sup>36</sup> Official Gazette of RM No. 173/18 dated September 2018



- Amendment and approval of the new Project Roadmap
  - Finalisation of the selection of Service provider for LTS and PCR associate membership
  - HLMD (High level market design) drafting and approval (electricity market connection between EU and non EU connection)
  - Full CACM (legislation) adoption in North Macedonia
  - Local Macedonian day ahead market Go-live
  - Drafting and submission of the SDAC procedures amendments for inclusion of BG-MKD border of electricity
2. Training materials preparation and members' training organisation
  3. Amendments to the Energy Law and bylaws arising from the recommendations of the Study on the opportunities for increased use of guarantees of origin

#### **b. Planned activities for 2022**

- 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 MEMO and EU Member States, in accordance with the EU CACM Regulation.
- Setting up an operational platform for issuing guarantees of origin

#### **c. Planned activities for 2023**

- Another multi-regional merger of the electricity markets of the signatory countries of the Treaty establishing the Energy Community and the EU Member States

## **2. Results Indicators**

Indicator	Baseline (2020)	Intermediate target	Target (2021)
Electricity consumption in isolated regime via organised day-ahead market	-	-	at least 5%
Consumers on free electricity market	-	-	70 %

Source: Ministry of Economy

## **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.

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

The estimated costs of the measure are EUR 1,140,000.

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	660,000	480,000	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	660,000	480,000	0

\*national public finance sources

## **5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care**

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 20%.

## **6. Environmental impact**

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 SOx 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)	Planned mitigating action
Achieving liquidity in isolated mode	High	- In accordance with all adopted 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	Overcome. The recommendations of the Study are appropriately implemented in the domestic legal system for VAT
Greater risk and pressure on AD ESM (state company for electricity generation) revenues and profitability given the current situation in Europe, where liberalisation and decarbonisation brings challenges for power utilities	High	Overcome. 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

### 1. Description of 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 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 gross final energy consumption in 2018 was 18.2% and in 2019 is 16.8%<sup>37</sup>. The reduction of the share is due to the unfavourable hydrological conditions, which caused less production of electricity from hydro power plants (in 2019 is 1,183 GWh while in 2018 was 1,839 GWh).<sup>38</sup> Our Country will continue its efforts for achieving the RES targets through construction of new RES plants, as well as reinforced energy efficiency measures in accordance with our strategic documents.

**Table 5.3. Total installed capacity of producers from RES:<sup>39</sup>**

Producers from RES (types of power plants)	2018 (in MW)	2019 (in MW)
hydro power plants (large + small)	586.6	598.08
wind power plant	36.8	36.8
biogas plants	6.9	6.9
photovoltaic power plants	18.5	23.99
Biomass plants	0	0,60
<b>Total:</b>	<b>648.9</b>	<b>766.37</b>

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

<sup>37</sup> <http://www.stat.gov.mk/PrikaziSooopstenie.aspx?rbrtxt=64>

<sup>38</sup> [https://www.erc.org.mk/odluki/2019.07.23\\_GI%20za%20rabotata%20na%20RKE%20za%202018%20godina-ENG.pdf](https://www.erc.org.mk/odluki/2019.07.23_GI%20za%20rabotata%20na%20RKE%20za%202018%20godina-ENG.pdf)

<sup>39</sup> [https://www.erc.org.mk/odluki/2019.07.23\\_GI%20za%20rabotata%20na%20RKE%20za%202018%20godina-ENG.pdf](https://www.erc.org.mk/odluki/2019.07.23_GI%20za%20rabotata%20na%20RKE%20za%202018%20godina-ENG.pdf)

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).

According to the Decree on the Measures Supporting the Generation of Electricity from Renewable Energy Sources ("Official Gazette, no. 29/19), the Ministry of economy in 2019 conducted two separate auction for granting the right to use premium for construction of photovoltaic powerplants, one for state owned land and one for private land. In 2020 total of 35 Contracts were signed for installed capacity of 62MW. These powerplants should be operational by 2023. It is planned this measure to continue in 2021 by publishing public calls for additional installed capacity from photovoltaic power plants.

The Rulebook on Renewable energy sources ("Official Gazette" no. 112/19), introduces prosumers as new market participants. A prosumer is a household, small consumer, budget user or individual user that can install power plants for electricity production of renewable sources whereby the excess of the produced electricity can be delivered to a distribution network. The installed capacity of the power plant should not exceed 4kW for households and 20 kW for small consumer, budget user or individual user

Self-consumption can offer new opportunities to final customers to benefit from the technological development and reduce their energy bills, while contributing to the environmental and energy policy objectives. Due to an indicative analysis, a household which installs a 4kW PV plant on a rooftop, could save up to EUR 500 annually and the return of the investment is expected to be between 6-8 years, depending on the price of the equipment.

In order to promote the important role of the prosumers, the Ministry of economy with technical assistance will conduct an assessment of the main barriers (legal, administrative, regulatory, financial, technical, customer awareness, social acceptance, etc.) as a basis for the development of a framework addressing the barriers and enabling the attainment of the set targets. This activity has started in October 2020 and will continue in 2021. According to the draft NECP, the objective of the country up to for 2040 is to have 400 MW PV roof-top systems – either prosumers or systems from which the overall produced electricity will be used for own purposes or will be stored.

The Ministry of economy in the draft Budget for 2021 for the first time has proposed awarding subsidies to the households which will install photovoltaic power plants for self-consumption. This support measure will be part of the annual Programme for promotion of RES and improvement of EE in households

At the same time, the Programme for Encouraging Competitiveness, Innovation and Entrepreneurship will provide a measure to support companies in installing photovoltaic rooftop panels for electricity generation.

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

The NECPs covers 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 includes a perspective until 2050 in order to ensure consistency with long-term relevant policy objectives at EU, UNFCCC and Energy Community level. The NECPs takes a holistic approach and addresses the five main dimensions of the Energy Union in an integrated way.

The first draft of the NECP is prepared with technical assistance along with consultation with the relevant stakeholders. This document in the next phase shall include post COVID-19 measures and it will be available for public debate. Also, by the end of 2020 the Ministry of Economy will start the procedure for preparation of the Strategic Environmental Impact Assessment SEIA and this process will be finalised in 2021. The NECP is planned to be adopted by the Government by June 2021. In the meantime amendments to the Energy Law shall be adopted by the Parliament giving the NECP legal basis.

Law on biofuels. The Energy Law implements the provisions and obligations from the Third Energy Package of EU and the Directive for Renewable Energy Sources. This Directive is partially transposed, lacking the part that refers to the biofuels, which sets the need for preparation of separate law on biofuels. The Secretariat for European affairs provided technical assistance for the preparation of the Law on Biofuels under UNOPS instrument. With assignment of this experts, the process of legislative alignment is expected to be streamlined, which will result in better alignment with the acquis under the Energy Community Treaty and the EU energy acquis, better conditions for performing energy activities, a stable legal and regulatory framework and higher potential for investments in the energy sector. The production of biofuels in a direct or indirect way has other benefits from an economic and social aspect, such as: Job creation. The intensification of biofuel production leads to an increase in agricultural production, and thus the creation of a larger number of vacancies;

Reduction of energy dependence -This is especially important for those countries that do not have their own sources of fossil fuels and it can contribute to sustainable economic growth and development of rural areas.

This measure is related to the second strategic priority outlined in the North Macedonia and United Nations Sustainable Development Cooperation Framework 2021-2025 – “Climate action, natural resources and disaster risks management” and outcome 3 – Healthy environment. It is in line with the Key challenge 2 from the Commission assessment of ERP 2020-2022 and SDG 7 Affordable and clean energy. The measure is also connected with the goals for decarbonisation of the energy system from the EU Green Deal. *(For more information see Annex 7).*

#### **a. Activities planned in 2021**

- Preparation and Adoption of Programme for implementation of the Energy Development Strategy
- Assessment of main barriers for promoting of the prosumers in the electricity market Relevant legislation amended regarding the role of prosumers
- Assessment of current situation of heating and cooling sector in the country with measures for improvement
- Assessment for electrification of the transport, with focus of the public transport
- Conducting of the SEIA for the NECP
- Adoption of the Integrated National Energy and Climate Plan,
- Adoption of the Programme for Promotion of Renewable Energy Sources and Promotion of Energy Efficiency in Households
- Adoption of the Law on biofuels
- Payment of feed-in premiums for operational PV power plants
- Public call for granting the right to use premium for construction of photovoltaic powerplants
- Adoption of Programme for protection of vulnerable energy consumers

#### **b. Activities planned in 2022**

- Public call for granting the right to use premium for construction of photovoltaic powerplants
- Payment of feed-in premiums for operational PV power plants
- Action plan for biofuels
- Implementation of measures for improvement of the heating and cooling sector
- Implementation of measures for electrification of the public transport
- Adoption and implementation of the Programme for Promotion of Renewable Energy Sources and Promotion of Energy Efficiency in Households

#### **c. Activities planned in 2023**

- Public call for granting the right to use premium for construction of photovoltaic powerplants
- Payment of feed-in premiums for operational PV power plants
- Implementation of measures for improvement of the heating and cooling sector
- Implementation of measures for electrification of the public transport
- Adoption and implementation of the Programme for Promotion of Renewable Energy Sources and Promotion of Energy Efficiency in Households
- Adoption of bylaws arising from the Law on biofuels

## **2. Result Indicators**

The share of RES in the final consumption is set up to 23.9% by 2020, according to the Action plan for RES. Regarding the Strategy for Energy Development, the green scenario indicates that the share of RES in final consumption by 2030 shall be 38%.

Indicator	Baseline (2019)	Intermediate target (2022)	Intermediate target (2023)	Target (2025)
Share of RES in the final consumption <sup>40</sup>	16.77% <sup>41</sup>	26%	-	29%
Total installed capacity of RES <sup>42</sup>	766.37 MW	-	1,162 MW	1,493 MW

<sup>40</sup> <http://www.economy.gov.mk/doc/2759>

<sup>41</sup> <http://www.stat.gov.mk/PrikaziSooptstenie.aspx?rbtxt=64>

<sup>42</sup> <http://www.economy.gov.mk/doc/2759>

### 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. The increased number of prosumers shall enable development of the market, to attract more suppliers and to encourage the households to be supplied by them (and not by the universal supplier). In fact, the idea of liberalised market is to have as much as possible suppliers that will sell electricity to households. Use of renewable energy offers important economic development benefits. Local governments collect property and income taxes and other payments from renewable energy project owners. These revenues can help support vital public services, especially in rural communities where projects are often located.

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

The estimated cost for implementation of this measure is about EUR 5,307,800.

In EUR	2021	2022	2023
1. Budgetary expenditures*	1,220,000	1,464,000	1,756,800
2. Non-budgetary financing	867,000	0	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	2,087,000	1,464,000	1,756,800

\*national public finance sources

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

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. The construction of power plants using renewable energy sources positively affects on the local economic development by improving the infrastructure, new access roads, transmission lines, substations.

### 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)	Planned mitigating action
Delay of the construction of RES power plants	Medium	The country will continue its current support mechanisms for RES electricity generation via feed-in tariffs and feed-in premiums with auctions (granted in a tendering procedure). The country will promote further utilisation of RES in the electricity sector (without incentives), but also in the other sectors through the introduction of the "prosumer" concept and by electrification of the heating and cooling sector using high efficient heat pumps and district heating fuelled by CHP biomass, as well as by increasing the biofuels consumption in the transport sector.

## Measure 3: Improvement of Energy Efficiency

### 1. Description of the measure

This measure is related to the second strategic priority outlined in the North Macedonia and United Nations Sustainable Development Cooperation Framework 2021-2025 – "Climate action, natural resources and disaster risks management" and outcome 3 – Healthy environment.

The Law for energy efficiency, in which the Energy Efficiency Directive, the Energy Performance of Buildings Directive and the Regulation for establishing a framework for labelling of energy consumption, has been transposed, was

adopted in February, 2020 year. In order to enable full and uninterrupted implementation of the legal framework for energy efficiency, it is necessary to be adopted all bylaws arising from the Law on Energy Efficiency.

The three-year Forth Energy Efficiency Action Plan is currently under preparation and it is expected to be adopted in the beginning of 2021. It will determine how to set the targets for 2022 year.

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. The adoption of the Decree regulating the energy service contracts will fully open the market for the ESCO companies, especially for the public buildings sector.

Pursuant to the Law on Energy Efficiency, in order to monitor the implementation of energy efficiency measures, the Energy Agency establishes and maintains an MVP (monitoring and verification platform) tool. Depending on the fulfillment of the criteria regarding the type of implemented energy efficiency measure, the realised energy savings and the total usable floor area of the building, public sector entities, energy service providers and energy controllers after the adoption of the Rulebook on MVP will have obligations to enter data into the MVP tool. At the same time, the Energy Agency is responsible for establishing, managing, maintaining and upgrading the information system for monitoring and managing energy consumption of public sector entities.

Among the other, an optimal technical solutions for usage of natural gas in the industries for achieving potential energy savings will be considered in the Assessment of the potential for implementation of high-efficiency cogeneration of energy and efficient district heating and cooling systems which will be developed within the Programme for Realisation of the Strategy for Development.

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. Components two and three of the World Bank Energy Efficiency Project in the Public Sector, which is planned to start with implementation in 2021, provide technical support for the establishment of the Energy Efficiency Fund as well as start-up capital for the Energy Efficiency Fund in the amount of EUR 5 million.

With the World Banks Project for Energy Efficiency in Public Buildings where besides the funds planed for technical assistance and establishing of the Energy Efficiency Fond, another EUR 18 million as a loan will be lunched for implementation of energy efficiency measures in public buildings.

During development of the "Study for Energy Efficiency as part of COVID response in Energy Community Contracting Parties: Energy Community Secretariat and EBRD support" by the Energy Community Secretariat, the Ministry of economy has requested to be considered opportunity the hybrid/electrical vehicles to be added as additional technology with highly efficient features eligible for financing through the EBRD GEFF programme and credit line in the commercial banks as well as the opportunity for opening new credit line for financing energy audits or implementation of energy management systems for small and medium-sized enterprises.

With technical assistance from World Bank, it is going to be developed Sustainable Heating Assessment for the Urban Building Sector in three Western Balkan Countries including North Macedonia. Typology Approach for Building Stock Assessment will be developed as base for the development of the Strategy for building, also with technical assistance.

During the implementation of this measure, COVID-19 pandemic had the greatest impact on the timely adoption of bylaws arising from the Law on Energy Efficiency.

This measure is related to the second strategic priority outlined in the North Macedonia and United Nations Sustainable Development Cooperation Framework 2021-2025 – "Climate action, natural resources and disaster risks management" and outcome 3 – Healthy environment. This measure is linked with the Key challenge 2 from the Commission assesment of ERP 2020-2022 and with SDG 7 Affordable and clean energy. It is also in line with the goals from the EU Green Deal. (For more infomation see Annex 7).

#### **a. Activities planned in 2021**

- Adoption of bylaws arising from the Energy Efficiency Law Decree for establishing a binding energy efficiency scheme, Decree regulating the energy service contracts, 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), 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 amendments of Energy Efficiency Law and regarding the establishment of Energy Efficiency Fund.
- Starting preparation of Inventory for energy performance for public buildings on the territory of Republic of North Macedonia.

#### **b. Activities planned in 2022**

- Adoption of Strategy for reconstruction of buildings by 2030
- Establishment of Energy Efficiency Fund
- Continue with activities for Establishing of Inventory for energy performance for public buildings on the territory of Republic of North Macedonia.

#### **c. Activities planned in 2023**

- Establishment and full implementation of the Energy Efficiency Fund
- Preparation of a Report on the implementation of the National Energy and Climate Plan in the section of Energy Efficiency.

### **2. Result Indicators**

According to the forth NEEAP the cumulative final energy savings in 2021 starting from 2017 based on the Energy Strategy for Development until 2040 – Green Scenario are estimated at 265 ktoe, and the cumulative primary energy savings in 2021 for measures which generate only primary savings (not including measures that generate final savings) are estimated at 100.46 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 Forth 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%.

Currently at the level of the Energy Community there is an on-going project for setting the RES, EE and climate targets up to 2030 and it is expected that new targets for 2030 year will be set by mid 2021.

### **3. Expected impact on competitiveness**

The implementation of the measure will ensure: increased competition of the energy markets, increased resilience to energy price hikes, security and continuity in the energy supply of households and companies.

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

The estimated cost for implementation of the measure is EUR 5,163,044.

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	4,105,113	556,538	501,393
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	4,105,113	556,538	501,393

\*national public finance sources

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

Creation of temporary and permanent jobs in the services such as design, installation, operation and maintenance. In the construction sector, construction workers and highly qualified personnel will be engaged. 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

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)	Planned mitigating action
Delaying the establishment of the Energy Efficiency Fund	Medium	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.
Lack of capacity and technical staff within the public institution (Ministry of Economy and Energy Agency) for timely implementation of the measure	Medium	Adoption of new systematisation in the energy sector within the Ministry of economy and the Energy Agency and hiring technical staff which could contribute for continuous implementation of the measure

### Measure 4: 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, part of Corridor X, section Tabanovce - Gevgelija 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.<sup>43</sup> 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. The approximation of this legislation will be carried out in parallel with the following two activities: 1. Provision, Installation and Commissioning of Equipment for ITS Implementation; and 2. Preparation of National ITS strategy. The timeline for start of this activity is Q-1 2021.

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 of the Republic of Macedonia 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 project 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 15 Trade facilitation.

This measure is in line with the Key challenge 2 from the Commission assesment of ERP 2020-2022, SDG 9 Industry, Innovation and infrastructure and also related with the goals for decarbonisation of the energy system from the EU Green Deal and EU Digital Strategy. (For more infomation see Annex 7).

#### a. Activities planned in 2021

- Commencement of the preparation of the ITS Strategy
- Starting the process of selecting a contractor and supervisor engineer of the ITS strategy
- Signing contacts and starting construction and supervisor engineer. Estimated duration of the Contract is 12 months and for supervision is 18 months
- Start of installation and supervision activities at the end of 2021

<sup>43</sup> <http://documents.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

## b. Activities planned in 2022

- Continuation of construction activities and final activities: procedure for taking over certificate and defect liability period

## 2. Results Indicators

Indicator	Baseline 2018	Target 2021
Reduced number of traffic accidents along Corridor 10	67 <sup>44</sup>	56
Reduced number of traffic accidents expressed in% along Corridor 10	0%	16.6% <sup>45</sup>
Reduce travel time in% along Corridor 10 <sup>46</sup>	103	17% <sup>47</sup>

\*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%, increasing to 20% when the dynamic signal control strategies are integrated with information and guidance<sup>48</sup>. An US study indicates that one DMS (Dynamic Message Signs) is likely to reduce  $100 \times (1 - \exp(-0.181)) = 16.6\%$  of crashes per year, when other factors in the model are controlled.<sup>49</sup>

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.<sup>50</sup>

In North Macedonia, it is considered that ITS will reduce the travel times by 17% based on the above mentioned EU report and crashes by 16.6% based on the above mentioned US study.

## 3. Expected impact on competitiveness

The use of information and communication technologies 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 which is also in line with digitalisation agenda.

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

After the revision of the project the financial construction is finished and the funds are secured through the WBTF project loan. The estimated cost for implementation of the measure is EUR 19,746,016.

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	4,923,577	13,739,837	1,082,602
2.1 of which IPA funding, including WBIF funding	4,923,577	13,739,837	1,082,602
Total	4,923,577	13,739,837	1,082,602

\*national public finance sources

<sup>44</sup> According to the data for 2017 provided by PESR

<sup>45</sup> Using the assumptions in the above mentioned US study

<sup>46</sup> In a usual traffic excluding the waiting time on the border crossings

<sup>47</sup> Using the assumptions in the above mentioned EU report

<sup>48</sup> CODE, 2000, "Network and Traffic Management: Final Area Report" for the "Telematics Applications for transport within the Fourth Framework Programme". [http://collections.internetmemory.org/haeu/20161215121151/http://cordis.europa.eu/pub/telematics/docs/tap\\_transport/netrama.pdf](http://collections.internetmemory.org/haeu/20161215121151/http://cordis.europa.eu/pub/telematics/docs/tap_transport/netrama.pdf), accessed Feb 15, 2018.

<sup>49</sup> Oh J. et al. (2015), Michigan Department of Transportation, "Costs and Benefits of MDOT Intelligent Transportation System Deployments".

<sup>50</sup> Based on data from SEETO, EU and National Customs, counts from 2015, updated via linear regression for 2018.

## 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.<sup>51</sup> However, this is not the kind of measure that would have profound social impact.

## 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 Short-Lived Climate Pollutants (SLCP) emissions connected with air pollution). This data is scarce for all regional participants, which increases their value for further research related to air quality management and climate action. The information that will be collected through GHG (SLCP) emissions monitoring systems will help linking specific climate 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 with no harmful impact on environment.

## 7. Potential risks

Risk	Probability (low of high)	Planned mitigating action
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

According to the data from the SSO, the gross domestic product (current prices) in agriculture in 2018 amounted to 55.979 million denars (EUR 908,657) and compared to 2017 increased by 15% (48,664 million denars, or EUR 789,594). Gross value added in agriculture in 2018 amounted to 53,389 million denars (EUR 866,616) and compared to 2017 recorded a nominal increase of 18.9%. (44,907 million denars - EUR 728,935). The value of agricultural production in 2018 is 82,810 million denars (EUR 1,344,181) or 16.4% increase compared to 2017 (71,162 million denars - EUR 1,115,109). In the total investments in fixed assets, agriculture, forestry and fisheries participate with 2.9%. The share of the agricultural sector in the total employment has a decreasing trend of 16.2% in 2017; 15.7% in 2018 and 13.9% in 2019.

**Table 5.4. Participation of employees in the sector of agriculture, forestry and fisheries in the total employee**

Year	2017	2018	2019	2019/2018
Total employees in RNM	740,648	759,054	797,651	+5%
Employees in the sector of agriculture, forestry and fisheries	120,311	119,337	111,033	-7%
Participation of employees in the sector of agriculture, forestry and fisheries in the total employee (%)	16.2	15.7	13.9	-1,8%

Source: SSO

In 2019, the number of employees in the sector of agriculture, forestry and water economy has decreased by 7% compared to 2018.

<sup>51</sup> <http://documents.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

Job creation is the highest priority in the Republic of North Macedonia, and further modernisation and development of the agri-food sector can generate job creation and economic growth.

Rural areas face many structural and socio-economic challenges. Large rural areas remain depopulated and their resources are unused, with negative economic, social and environmental consequences. The population in rural areas has stagnated over the last decade, taken as a share of the total population, with about 42.3% in 2017. Employment opportunities in rural areas are limited and only agriculture dominates as an industry. All of these factors limit job creation in rural areas and economic growth.

The need to improve the road network in rural areas has been identified as a high priority, both in lowland and mountain villages. The quality of physical and social infrastructure in rural areas has improved in the past period, but is still unsatisfactory due to insufficient investment in infrastructure development and maintenance. In the period from 2014 to 2018, the local road network increased by a total of 365 km, but more significant is the increase of better quality asphalt roads, which increased by 438 km, because part of the local road network with lower quality is also paved. The share of asphalt and cube roads in the local road network is 51.9% in 2014, and in 2018 it is 54.4%.

Primary agricultural production is characterised by low productivity and low incomes. Most agricultural producers are engaged in production for their own needs and small sales, are registered as unemployed and are poorly engaged in the labor market. The average size of agricultural holdings in 2016 is 1.8 ha and 2.1 livestock units. Value added per agricultural worker, as a measure of agricultural productivity, in 2016 was 19,127 and is 2/3 of the EU average of 29,425.

## Measure 5: 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 new capital investments in construction of dams and irrigation systems have already started and will continue in the mid-term run. The main goal of the measure is increase of the irrigated areas in the country up to the level of installed irrigation capacity, which is currently 144.000 ha. At the same time, the investments aim towards increase of the irrigation capacity up to 250.000 ha or half of the total cultivated land in the country. These capital investments are expected to contribute to higher crop yields of irrigated land, as well rise of the volume of physical agricultural production in the country.

This measure has been outlined in accordance to the Investment Plan for Water Management Master Infrastructure 2015-2025, a national planning document for investment in irrigation and drainage infrastructure and hydro system. This measure give contribution to fulfilling of one of strategic goal of Ministry of agriculture, forestry and water economy: "Applying of ecological practice in production that reduce climate changes impact and adaptation" and specific objective: "Boost sustainable development and efficient management of natural recourses like water, land and air." (National strategy for agriculture and rural development 2014 – 2020).

**Table 5.5. Activities planned within the framework of the measure, referring to the period 2021-2023:**

Planned activities	2021	2022	2023
<b>Construction of dam Konsko</b>	Continuing construction works	Finishing of construction works	
<b>Construction of dam Rechani</b>	Continuing construction works	Continuing construction works	Continuing construction works
<b>Construction of irrigation system Raven – Rechica</b>	Continuing construction works	Continuing construction works	Finishing of construction works
<b>Construction of dam on Slupchanska river</b>	Starting procedure for providing construction license and tendering	Starting construction works	Continuing construction works
<b>Second and third phase on HS Zletovica</b>	Finishing negotiations with EIB for financing of project and starting with tender preparation	Starting construction works	Continuing construction works
<b>Second phase of South Vardar irrigation system</b>	Finishing of construction works		
<b>IPA small irrigation systems</b>	Current construction of 2 small systems: Chaushica and Slavishko pole and starting with construction of	Construction of 3 systems: Novaci, Sopot and Kolibari	

	3 systems: Tearce, Konopnica and Pishica		
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Source: MAWFE

Main contractor of this measure is Ministry of agriculture, forestry and water economy (MAWFE) – Water Management Department. The institutional setup of irrigation and drainage sector consists of central management through Stock Sharing Company “Water economy of North Macedonia”- state owned, with 14 branches all over the country. In addition, farmers can organise through agricultural cooperatives responsible for irrigation management on farm level.

Procedures for issuing water rights for using of irrigation water are under competency of Ministry of environment and physical planning according to Water Law. Ministry of environment and physical planning is acting separately for each individual application concerning procedures described in Water Law.

This measure is in line with the Key challenge 2 from the Commission assesment of ERP 2020-2022, SDG 2 Zero Hunger & SDG 7 Affordable and clean energy. It is also connected with the goals for desining envioromentally friendly food system from the EU Green Deal. (For more infomation see Annex 7).

## 2. Results indicators

Indicator	Baseline (2018)	Intermediate target (2023)	Target (2025)
Constructed dams	-	1	3
Constructed irrigation system	-	10	15
New agricultural land possible for irrigation	-	10,450 ha	16,925 ha

## 3. Expected impact on competitiveness

Contribution to the improvement of the living conditions/livelihood of the agricultural population in the projects area, and sustainable increase of the agricultural output (production and productivity) in new irrigation schemes by improved availability and efficient use of water resources. The income of agricultural households is expected to increas 3-5 years after the completion of the measure activities.

Additionally, the measure will enable production of electricity through construction of hydropower plants on new dams that will be constructed.

Access to regular irrigation for farmers is expected to contribute for sustainability of the agricultural economy, as well as increased yields, which will also contribute to increasing the competitiveness of agricultural farms - increased crop yields with irrigation versus no irrigation (corn 2,320/6,700 kg/ha, cereals 2,530/4,500 kg/ha, grapes 7,000/30,000 kg/ha, alfa-alfa 3,000/16,000 kg/ha etc).

Efficient irrigation allows farmers to grow crops with higher economic value (at the moment most of the locations have crops like wheat since they don't have water to raise other crops).

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

The total cost of the measure for the period 2021-2023 is estimated around EUR 142 million.

In EUR	2021	2022	2023
1. Budgetary expenditures*	16,487,173	33,569,087	22,190,770
2. Non-budgetary financing	21,436,063	11,979,723	36,326,438
2.1 of which IPA funding, including WBIF funding	5,400,000	4,500,000	0
Total	37,923,236	45,548,810	58,517,208

\*national public finance sources

Activities/ EUR milion	Spent until 2020	2021	2022	2023
Construction of dam Konsko Base year: 2017	21.9	5	13.6	0
Construction of dam Rechani Base year: 2018	1.3	2	8.2	9.7
Construction of irrigation system Raven – Rechica Base year: 2018	7.1	2	2.9	2.9

Construction of dam on Slupchanska river Base year: 2019	0.4	1.5	6.6	8.3
Second and third phase on HS Zletovica Base year: 2020	0.0	7.5	9.6	37.6
Second phase of South Vardar irrigation system Base year: 2018	11.7	14.5	0	0
IPA small irrigation systems – preparation of technical documentation Base year: 2018	3.4	5.4	4.5	0

Note 1: The purpose of column “Spent until 2020” in the Table under section 4 is to have clear picture about total value of each activity: money spent from the beginning of activity (base year) plus money 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 (2021-2023) comparing to previous planning period (2020-2022) because of the following objective 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: After finishing with construction of dam Konsko, HS Raven – Rechica and HS South Vardar, operation and maintenance activities will continue. “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)	Planned mitigating action
Long process of obtaining the necessary permits and construction approvals	High	Increased level of institutions cooperation
Long process of land expropriation	High	Increasing capacity of State Attorney's Office in prociding requests for expropriation to the MoF- Property Legal Office

## Measure 6: 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 land consolidation programme consists of number of land consolidation projects, organised on specific locations with clearly defined boundaries of the project's area. The programme started in 2017 with foreseen 19 projects, while 2 additional pilot projects have been developed in 2015 –2017. Therefore, this measure refers to 21 projects.

Each land consolidation project consists of 3 phases:

- Preparatory phase** - Consists of elaboration of Feasibility study through desk and field research instruments. The FS provides recommendations on most suitable land consolidation project model(s), risks and constraints, landowners' interests, estimated costs for implementation of the consolidation projects as well as needed investments in agricultural infrastructure (drainage and irrigation systems and access roads to the plots) in the project area.
- Re-allotment phase** - The outcome of this phase is the re-allotment plan of the project area that comprises all graphic and alfa-numeric data for the consolidated area. This phase is conducted in close cooperation with the landowners.

- iii. **Implementation phase** - In this phase, the registration of new ownership in the cadastre system takes place, followed by staking out of new land parcels. Construction of the planned interventions in the agricultural infrastructure is implemented as well.

Out of 21 foreseen land consolidation projects, 14 have been initiated or on-going in the planning period (2021 – 2023). In accordance with phases, the table below presents the status of 15 land consolidation projects.

**Table 5.6. Status of 15 land consolidation projects**

Region	Land consolidation project area	Area (ha)	Number of landowners	Preparatory phase	Re-allotment phase	Implementation phase
South East Reg	Konce	28	27	prepared		Finalised in 2019
	Stojakovo	473	1,337	prepared		
Total		501	1,364	2	1	
Pelagonija Reg	Egri	337	213		2020	2021
	Opticari	566	374	prepared	2020-2021	2022
	Logovardi	393	397	prepared	2020-2021	2022
	Trn	329	249	prepared	2021	2021 - 2022
	Zabeni	724	208	prepared	2022	2022
	Dabjani	743	84	prepared	2021	2021
	Carev Dvor	375	483	prepared		
Total		3467	2,008	6	5	
South West Reg	Leshani	332	844	prepared	not recommended	
Total		332	844	1		
East Reg	Sokolarci	218	491	prepared	2021	2022
	Spancevo	276	642	prepared	2021	2022
	Cheshinovo	445	655	prepared	2022	2023
	Chiflik	156	438	prepared	2021	2022
Total		156	2,226	4	2	2
Skopje Reg	Kozhle	89.6	70	prepared	2021	2021
Total		89.6	70	1	1	1
<b>TOTAL</b>		<b>4,545.6</b>	<b>6,512</b>	<b>14</b>	<b>9</b>	<b>9</b>

Source: MAWFE

The ongoing land consolidation activities are taking place within the IPA I project "Implementing the National Land Consolidation Programme". In August 2020, an agreement was reached between the beneficiary institution, the implementing organisation and the donor to extend the project for one year. The agreement also includes redistribution of available funds. Therefore, the previously reported activities in this report for 2020, 2021 and 2022 are adjusted accordingly. The activities planned for 2023 are also presented. Implementation plan for 2020 suffered from the COVID-19 crisis that resulted in delay of approximately 4 months in implementation of some activities, mostly due to restriction of movements that took place in the period March – June 2020. Thus, all planned activities are in the process of implementation and expected to be finalised in the following years, depending of further development of COVID-19.

This measure is in line with the Key challenge 2 from the Commission assesment of ERP 2020-2022 and related to SDG 2 Zero Hunger. (For more infomation see Annex 7).



#### a. Activities planned in 2021

Activity	Description
1. Implementation of land consolidation activities within the IPA II project "Implementation of the National Land consolidation programme" (8 consolidation projects)	- Finalised re-allotment plans for 7 land consolidation projects - Finalised implementation phase (registration of new ownership for 7 projects) - Finalised construction of infrastructure in 1 land consolidation project
2. Implementation of land consolidation activities under IPA II project (2 new land consolidation projects)	- Initiated re-allotment phase for 2 projects

#### b. Activities planned in 2022

Activity	Description
1. Implementation of land consolidation activities within the IPA II project "Implementation of the National Land consolidation programme" (5 consolidation projects).	-Implementation (registration and construction) of 5 land consolidation projects
2. Implementation of land consolidation activities under IPA II project (2 new land consolidation projects)	-Implementation (registration and construction) of 2 land consolidation projects

#### c. Activities planned in 2023

Activity	Description
1. Implementation of land consolidation project activities under the National Programme for Land Consolidation (3 new projects)	-Initiated re-allotment phase for 3 land consolidation projects

The base year for the measure is 2016.

## 2. Results Indicators

It is expected that by the end of 2023 a total of 11 land consolidation projects to be finalised (Konce, Egri, Trn, Logovardi, Opticari, Spancevo, Sokolarci, Kozhle, Dabjani and 2 new project areas Zabeni, Municipality of Bitola and Chiflik, Municipality of Cheshinovo Obleshevo). The following table presents the results indicators:

Indicator	Baseline 2021	Intermediate target 2022	Target 2023
Consolidated land	38 ha		4,292 ha
Number of land parcels	7,850		3,000
Average size of parcels	0,35 ha		0,7
Number of landowners	3,190		3,000
Increased production efficiency			15%
Decreased production costs			20%

## 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. Namely it is expected that the average production costs of the farm holds that operate in the land consolidation project areas will decrease for approximately 20%, while their gross income would increase for at least 15%, due to the fact that they will be able to produce crops with better quality (due to investments in modern production technologies and mechanisation) and increased quantities.

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

The estimated costs for implementation of the measure are EUR 3,439,000.

In EUR	2021	2022	2023
1. Budgetary expenditures*	569,000	350,000	840,000
2. Non-budgetary financing	1,180,000	500,000	0
2.1 of which IPA funding, including WBIF funding	830,000	500,000	0
Total	1,749,000	850,000	840,000

\*national public finance sources

## 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

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 as regulated in the national legal framework and implemented addressing relevant environmental procedures and considerations. Namely, the land consolidation process 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 a forestation.

Furthermore, land consolidation itself has significant impact as both a mitigation and adaptation climate measure. Through the application of land consolidation projects, 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 CO<sub>2</sub> 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.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
The land consolidation department is understaffed	Medium	Extensive communication, advocacy, policy dialogue
Issues related to land registration obstruct the LC 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 7: 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 constitute one of the pillars for modernisation of the market and preparation of the country for the development of the EU model of Producer Organisations and should receive strong attention.

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

The objective of horizontal integration of the entities involved in the sector of food production basically is oriented towards agricultural cooperatives as the most suitable way for improvement of supply chain of agricultural products. Investments in marketing and certification of the products 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 agricultural cooperatives in the Republic of North Macedonia".

Support from national budget is disbursed in two ways, 100% refund for costs for management 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 structure in the agriculture sector, improvement of the market position of farmers, increase of their negotiation 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 61 registered so far, of which 6 are large size cooperatives and the other 55 are small size cooperatives, with a total capacity of 1,570 ha agriculture land, 6.300 bee families, 920 cattle, 600 goats and 12.200 sheep. The total number of agriculture holdings joined in cooperatives around 660. The procedure for registration in the Ministry for Agriculture, Forestry and Water Economy (MAFWE) is very simple and takes no more than 5 working days.

This measure is in line with the Key challenge 2 from the Commission assesment of ERP 2020-2022, SDG 2 Zero Hunger. It is also connected with the goals for desining envioromentally friendly food system from the EU Green Deal. (For more infomation see Annex 7).

#### a. Activities planned in 2021

Due to COVID-19 crisis, some of the planned activities for 2020 have not started implementation, so they are shifted to 2021. The planned activities for 2021 are shifted to 2022, while the planned activities for 2022 are shifted to 2023.

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 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.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 in cooperatives	-Optimisation of production costs and joint procurement or production materials
5.Support for investments in processing, finalisation and marketing of agricultural products	-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.

#### b. 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; - 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 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.

### c. Activities planned in 2023

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 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 to modernisation and innovative management with agriculture cooperatives	- Introduction and utilisation of modern technological achievements and promoting innovative practices for modernisation of agricultural cooperatives
3. 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
4. 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	2017	2022	2027
Number of agriculture cooperatives at the end of each year	39	71	96
% of contribution of cooperatives to the formation of the value of agricultural production-gross agricultural output	3	10	30
% of young farmers (age below 40) members of agriculture cooperatives	18	25	40
% of women associated to agriculture cooperatives	11	20	30

### 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 estimated cost for the implementation of the measure is EUR 6,360,000.

In EUR	2021	2022	2023
1. Budgetary expenditures*	1,060,000	1,060,000	1,060,000
2. Non-budgetary financing	1,800,000	0	1,380,000
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	2,860,000	1,060,000	2,440,000

\*national public finance sources

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Development of agricultural cooperatives will additionally contribute to the community by increasing and retaining jobs in agriculture and processing industry. The gender equality will be respected in the process of implementation of the measure. Additional points are dedicated in the selection procedure for financial support for 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, cooperatives indirectly employ other people through the spill over effect of cooperatives' activities to non-members, who generate income through transactions and opportunities created by cooperatives.

At this moment, 61 persons are employed as managers of the existing cooperatives. It is expected that this number will be doubled with the employment of staff for machinery operation if we take into account new investments in modernisation of agriculture production. Also new cooperatives will emerge so the number of the employees will be even higher.

## 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 and of the rural areas. Therefore, the adoption of environmental approach in agricultural practice by agricultural cooperatives, with conservation and enhancement of natural resources in rural areas, will become 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 agro ecological approach in agricultural activity, the agricultural cooperatives will be supported by the state agricultural policies through the measures of the agricultural policies.

Protection and improvement of the physical, chemical and biological soil conditions, reduction of environmental problems relating to 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 for the practice of agricultural production.

The support in agricultural cooperatives to the production based on extensive cultivation methods that have no negative impact to nature and produce healthy food for the population will continue in the upcoming period with accent in organic production, with the purpose to increase the domestic consumption and provide an essentially long-term sustainability of this production and concept in agricultural cooperatives.

Efficient waste management, and energy production and use from renewable resources 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)	Planned mitigating action
The limited capacity of cooperatives prevents modernisation of production practices of members and transfer of new technologies into 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 as result they are demotivated to join.

## Measure 8: Farm road (re)construction

### 1. Description of the measure

The focus of this measure is to ensure wider access to arable land in areas of intensive agricultural activity through construction and reconstruction of agricultural (farm) roads. The aim is to upgrade the rural infrastructure by increasing the size of the agricultural road network in the Republic of North Macedonia.

This measure is going to be implemented within the framework of the Budget of the Republic of North Macedonia/Programme of Agriculture and Rural Development. The measure provides funds for projects of rural infrastructure aiming to promote sustainable and balanced regional development of the eight planning regions. The projects are selected on a public call launched by the Ministry of Agriculture, Forestry and Water Economy, with clearly stated criteria for construction and reconstruction of farm roads. Eligible applicants on the call are Centres for development of the planning regions. The Centres submit applications and implement approved projects on behalf of the municipalities.

The structural measure “Farm road (re)construction” is a new one in ERP 2021-2023, but certain actions in the field of rural infrastructure have already been implemented in the recent years. Therefore, the activities scheduled for 2021

include implementation of projects approved on the call for applications realised in 2020. The base year for the measure is 2018.

The implementation of this measure would contribute to the goals of Agriculture and Rural Development Strategy of the Republic of North Macedonia. This measure is in line with the Key challenge 2 from the Commission assesment of ERP 2020-2022 and it is related to SDG 2 Zero Hunger and SDG 12 Responsible consumption. (*For more information see Annex 7*).

#### a. Activities planned in 2021

Activity	Description
1. Funding projects of rural infrastructure	Public call for applications, evaluation, selection and approval of farm road projects submitted by the Centres of the planning regions for farm road construction;
2. Construction and reconstruction of rural farm roads infrastructure	Realisation of approved projects in rural infrastructure for year 2020 and 2021*

Note: Due to the specifics of the construction activities, part of the approved projects on the 2020 call would be realised in 2021.

#### b. Activities planned in 2022

Activity	Description
1. Funding projects of rural infrastructure	Public call for applications, evaluation, selection and approval of farm road projects submitted by the Centres of the planning regions for farm road construction;
2. Construction and reconstruction of rural farm roads infrastructure	Realisation of approved projects in rural infrastructure for year 2021 and 2022

Note: Due to the specifics of the construction activities, part of the approved projects on the 2021 call would be realised in 2022.

#### c. Activities planned in 2023

Activity	Description
1. Funding projects of rural infrastructure	Public call for applications, evaluation, selection and approval of farm road projects submitted by the Centres of the planning regions for farm road construction;
2. Construction and reconstruction of rural farm roads infrastructure	Realisation of approved projects in rural infrastructure for year 2022 and 2023

Note: Due to the specifics of the construction activities, part of the approved projects on the 2022 call would be realised in 2023.

## 2. Results indicators

	Baseline 2021	Intermediate target 2022	Target 2023
Constructed and reconstructed agricultural (field) roads in kilometers at the end of each year	0	50	75
Total value of approved projects (in EUR)	0	730,000	1,000,000
Total value of implemented projects (in EUR)	0	570,000	1,000.000

## 3. Expected impact on competitiveness

The implementation of rural infrastructure projects would enhance the economic growth of agricultural holdings. The broader and improved farm road rural infrastructure will enable easier access to agricultural (arable) land, leading to increase in yields, quality and quantity of the farm production. In addition, positive effects are expected with regards to products' sale by ensuring easier and faster distribution from farms to the tables. That would contribute to strengthening of the market role of the farmers, as well to rise of the competition and operational efficiency. An increase of the individual income of the farmer is also anticipated, along with better quality production, greater sales and higher profits.

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

Total estimated cost for implementation of the measure is EUR 2,250,000.

In EUR	2021	2022	2023
1. Budgetary expenditures*	500,000	750,000	1,000,000
2. Non-budgetary financing	0	0	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	500,000	750,000	1,000,000

\*national public finance sources

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

The rural areas face many socio-economic problems that require continuous investment in the growth of rural communities. One of the major challenges are low incomes of the population and continuous migration from rural areas, as a result of the development issues of these areas. Implicitly, the criteria for granting financial support within this measure include promotion of investments and local development of the less developed planning regions and municipalities.

The reconstruction of existing and construction of new agricultural roads will contribute to the development of rural areas by connecting arable land with communities, as well as by interconnection of the villages. Increased road communication provides long-term growth, resulting in sustaining the current and increasing the future employment in agriculture and food production. Such effects are expected to reduce poverty in most of the less developed areas in country.

## 6. Environmental impact

The increased efficiency of farms and their improved operation, should lead to more sustainable exploitation of the natural resources, which will provide a long-term sustainable growth in agriculture. Priority will be given to the adoption of agro ecological approach in agricultural practices among rural population which will result in preserving natural resources in rural areas.

Additionally, by constructing farm roads in areas with increased risks of flooding, a priority will be given to canalising rain water away from agricultural arable land. This will cancel the possible negative impacts of heavy rain on agricultural production and the environment.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
The limited capacity of the Centres for development of the planning regions and their municipalities in project preparation and utilise the measure	Low	Building capacities with the Centres for development of the planning regions and promotion of the measure in their municipalities working closely with the Ministry of Agriculture and other institutions on further projects with this measure

### 5.3.2.2. Industry sector development

The Commission assessment of the ERP 2020-2022 states that the potential for linkages between domestic and foreign companies established in the country is not sufficiently used as a vehicle for productivity growth. Multinationals operating in the country perceive insufficient technological development, weak adherence to quality requirements, lack of compliance with international standards and certificates as well as limited production capacity of domestic partners as the main weaknesses constraining their integration with domestic industry (Finance Think, 2019). The main obstacles to competitiveness in industry according to the assessment include (i) low productivity and the slow growth rate of productivity, (ii) limited modernisation of the production processes and obsolete technologies caused by insufficient public and private spending on research and innovation, (iii) insufficient development of clusters of businesses and (iv) a significant skills gap.

The industry sector contributed 23.6% of the economy's gross value added in 2018 and 30% of jobs in 2019. Manufacturing generates 19% of country's employment (EU average 20%) with the textile and apparel industry being the largest employer. Only small number of companies (5% in 2017) are exporters, with main export products being iron, steel and textiles.

A shift towards medium value added products (such as spare parts for motor vehicles) is visible. The level of cooperation between universities and the industrial sector remains very low. Human capital inadequacies also hinder productivity: the average manufacturing and services worker is on average four times less productive than their counterpart in Europe and



Central Asia (World Bank, 2018). Like elsewhere in the world, the transition towards a greener economy brings about significant potential in the local market for low-emission technologies and sustainable products, offering great potential for new activities and jobs in North Macedonia<sup>52</sup>.

The Government have created strategic documents in last few years focusing on improving the competitiveness of the manufacturing industry. Namely in 2018 was adopted the Industrial strategy where was integrated the Economic Growth Plan. For first time there was a significant governmental support for endogenous industry to stimulate investments in new technologies, investments in growth based on innovation, collaboration and internationalisation. The Implementation of the measures were realised through the Law on financial support of investments, Programme by the Fund for Innovation and technology development as well Programme for competitiveness, innovation and entrepreneurship by the Ministry of Economy.

Having in mind the weaknesses of the industry there was offered support for companies to stimulate investments for industrial development, bridge the technology gap and promote productive transformation and internationalisation. The companies were supported to develop new products, innovate, develop the company and develop the market. Ministry of Economy in its Programme offered measures for support of new organisational model, introducing standards, project for digital transformation, project for introducing circular economy concept, energy efficiency measures, development of marketing strategy and market research etc.)

In process of preparation is a new strategic document that will enable through Quadruple Helix to identify domains for smart specialisation and strategic partnerships as priority public and private investments.

The development of the strategy is done in close cooperation with JRC, following their methodology.

Strategy for Smart Specialisation (S3), should be a comprehensive model for sustainable economic growth based on capacities of the endogenous industry, science and society. S3 will be linked to and add value to the Industrial Policy, Competitiveness Strategy, Innovation Strategy, R&D Strategy, VET strategy , etc. The adoption of the Smart Specialisation Strategy for the whole country will further confirm the alignment and commitment of the North Macedonian strategic priorities with the IPA III Programming framework; both for increase the competitiveness and export potential of enterprises and also for strengthening the innovation capacity of the country.

The Republic of North Macedonia is continuing the process for development of Smart Specialisation Strategy following the methodology of EC JRC. The process of development the strategy is very important as a new way of participative and collaborative form for developing the vision for growth, definition of priority domains for support, designing transformation roadmap for the selected sectors, implementation of the Action plan and designed projects that will contribute in the growth of the selected domains, enhance inter sectoral collaboration, creation of new value chains, new business perspectives based on knowledge and innovation and growth of economy at all. Currently the mapping of economic, innovative and research capacities - Quantitative analysis and Qualitative analysis, and identification of the domains for smart specialisation is approaching its final stage.

In 2020, in accordance with the JRC methodology, and support of GIZ, North Macedonia conducted the Quantitative analysis of the economic, innovative and research capacities, after which 19 sectors with potential were defined.

Based on the grouping of the sectors according to their interlinkages, six potential S3 domains were proposed for further analysis (Qualitative analysis) as follows :

- Sustainable food and beverage production and value chain
- ICT sector
- Smart / sustainable buildings and materials
- Electrical equipment & machine parts
- Sustainable tourism and hospitality
- Energy for the future.

As a new proposed S3 domain is the energy, considering new strategy and the potentials of this sector on the domestic and global market. A qualitative analysis has been conducted by the Chamber of Commerce of North Macedonia, as a local partner engaged by the DG JRC.

Next phase will be Entrepreneurial Discovery Process where through quadruple helix and intensive communication with all stakeholders will be identified the domains for smart specialisation, utilising all potentials based on collaboration for

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<sup>52</sup><https://data.consilium.europa.eu/doc/document/ST-7470-2020-INIT/en/pdf>

growth. The Strategy will be finalised in 2021 and their implementation will initiate further development of the innovation eco system, link with skills, research and innovation, and attracting FDI as well initiate and support many new partnerships and investments (public and private) as projects in the domains that have biggest potential for growth based on knowledge and innovation. The strategy should be used to further develop policy strategies in different fields such as.

With support of JRC and Regional common market initiatives will be supported Regional collaboration in the areas of smart specialisation, as well involvement in EU S3 Thematic platforms.

### **5.3.2.3. Service sector development**

Further developing sectors for certain services can be an opportunity for domestic companies (Commission Assessment of ERP 2020-2022<sup>53</sup>). Services such as logistics, transportation and information and communication technologies are fairly unsophisticated at present, which forces foreign companies to use alternatives outside the country. According of multinationals operating in the country, 91% of services can be found in North Macedonia. However, 30% of the companies surveyed found these services not to be of required quality standards (Finance Think, 2019), which is also reflected in the relatively small export share of service industries. A shift to policies in support of upgrading services closely linked to creative industries could allow the country to increase the significance of services for productivity and value creation.

As noted in the Commission Assessment of ERP 2020-2022, the services sector accounted for 54% of total employment (2019) and 54.06% of GDP (2019). Yet, services represent only around 26% of the value of the country's export basket, indicating the low competitiveness of the firms in this sector. 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 potential for growth because their development is closely related to the inflow of export-oriented FDI. Telecommunications, computer and other information services, along with other business services, represent close to 25% of service exports and could also be expanded.

The Commission staff's overview of the economic impact of the COVID-19 crisis in relation to North Macedonia states that the main economic impact from the crisis is through the trade channels, whereas Germany's share of total goods exports is 49%. Over half of exports are derived from foreign companies established in the country. On the domestic side, the production and internal trade lockdown has already led to a massive drop in output and large layoffs and pay cuts in the workforce. The tourism is severely hit by the crisis, with strong repercussions on activity and employment in transport and trade.

In a situation of health and economic crisis, the Government took appropriate measures to deal with the negative effects of the pandemic. The measures consist of tax reliefs, interest-free loans, subsidising social contributions of employees, payment of salaries at the level of minimum wage, postponement or restructuring of loan payments. For the purpose of economic recovery, the Government provided access to favourable loans for investments, digitalisation of businesses, improving of productivity, innovation, creation of new jobs, export.

### **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. Most importantly, there is no systematic and transparent system to provide predictability of para-fiscal charges and there is no systematic approach for their introduction.
- 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 development<sup>54</sup>.

<sup>53</sup> <https://data.consilium.europa.eu/doc/document/ST-7470-2020-INIT/en/pdf>

<sup>54</sup> European Commission Progress Report of the Republic of Macedonia 2016

- 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 growth<sup>55</sup>.

**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 2015<sup>56</sup>, 2016 and 2017, the country lacks a modern public services portal, offering platform and space for e-services from any institution.

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. In 2019, the Ministry of Economy engaged external consultancy for initial mapping of services based on available data. The Exploratory analysis of the para-fiscal charges for the small and medium sized enterprises in the Republic of North Macedonia prepared by Finance Think<sup>57</sup>, states that despite the relative importance of the question of the parafiscal charges, it has not been raised yet in a consistent and systematic way. The analysis mapped and listed 377 services having characteristics of parafiscal charges, verified by the institutions or officially published, using data from the Catalogue of services developed by the Ministry of Information Society and Administration (MISA) in the framework of an EU funded project: Public administration reform assistance and strengthening the capacities of MISA. The list of public services which have characteristics of parafiscal charges is wide and includes various charges regarding permits, licenses, certificates, approvals, authorisations; issuing various documents such as certificate, resolution, confirmation, acknowledgement; special permits and authorisations regarding only production and sales; charges related to the registration of a legal entity and change in the register, business name display fee, patents, names and trademarks and other charges for permits and for acquiring certain rights. Frequently, charges with similar characteristics are named differently, depending on the competent body. Such broadness and variety of the PFC additionally increases the burden for the legal entities to keep track of them.

**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 IMF Report<sup>58</sup> 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. 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%.

<sup>55</sup>World bank Policy notes 2017

<sup>56</sup><http://www.sigmaweb.org/publications/public-governance-monitoring-reports.htm>

<sup>57</sup><https://www.financethink.mk/wp-content/uploads/2020/04/Parafiskalni-studija-EN.pdf>

<sup>58</sup><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>

## Measure 9: E-marketplace for low value procurement

### 1. Description of the measure

This measure is rolled over from last year, the implementation details are presented in Table 11. The former title was Harmonisation of the Public Procurement Legal framework with the Acquis, but as the new PPL was adopted in January 2019, the measure now focuses on PPL implementation that envisages, inter alia, introduction of an electronic market for small public procurements.

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 activity aims at establishing new efficient and effective way for purchasing low value procurements in direct correlation with the e-procurement system (ESPP).

The measure is closely linked to Priority 4 Budget execution from the Public Finance Management Reform Programme 2018-2021, and referring to strengthening the public procurement system.

This measure is in line with the Key challenge 2 from the Commission assesment of ERP 2020-2022 and it is related to SDG 8 Decent work and economic growth. It is also connected with the initiatives for open digital society from the EU Digital Strategy. (For more information see Annex 7).

#### a. Activities planned in 2021

- Upgrade of the public procurement software

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

### 2. Results Indicators

Indicator	Baseline (2019)	Intermediate target	Target (2021)
Development of low-value procurements e-market place	0	-	yes

### 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 2021.

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	-	-
2. Non-budgetary financing	400,000	-	-
2.1 of which IPA funding, including WBIF funding	400,000	-	-
Total	400,000	-	-

\*national public finance sources

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

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)	Planned mitigating action
Delays with development of low-value procurements e-market place by the constructor	Low	Proper contract management and progress meetings of the PPB team with the contractor.

## Measure 10: Streamline the use of para-fiscal charges

### 1. Description of the measure

The measure is directly linked to Policy Guidance 5: “Create a register of para-fiscal charges to streamline their use and further decrease the administrative and regulatory burden of companies.”.

This measure is new but proceeds from the measure Development of a National E-Services Portal from previous ERPs, whose aim was development of dynamic e-services web portal as a single point of services with state bodies. The public launch of the portal was end 2019. One of the cornerstones in the portal's toolbox is the Catalogue of services, an electronic database of public services (at central and local level) for citizens and businesses. The Catalogue provides an opportunity for quantitative and qualitative analysis of services, for prioritisation of services digitalisation and for analysis of the para-fiscal charges. The Ministry of Economy has published on its web site a list of 377 charges for businesses<sup>59</sup> that were mapped based on Catalogue of services containing nearly 1,000 services for citizens and businesses. The list was developed as part of the Exploratory analysis of the para-fiscal charges for the small and medium sized enterprises in the Republic of North Macedonia (see: Sectoral diagnostic on Business environment and reduction of informal economy, part on Public Services).

The current measure envisages activities for further identifying (mapping), optimising, and consolidating and streamline para-fiscal charges in North Macedonia.

Its aim is to simplify the system of non-tax duties and para-fiscal fees, improve their transparency and predictability, and thus contribute to a more favourable business environment.

The objective of the measure will be achieved through a comprehensive inventory and development of the Register of all non-tax and para-fiscal fees that exist in the Republic of North Macedonia, then through the preparation of appropriate recommendations for changes and improvements of the legal framework and through promoting and introducing mechanisms to ensure further sustainability of the improved system.

The measure is part of the Action Plan for implementation of the Strategy for formalisation of informal economy 2018-2022<sup>60</sup>, and is in line with the recommendation for improving the functioning of the market economy as prerequisite for achieving the economic criteria and linked with improving the business environment<sup>61</sup>.

This measure is in line with the Key challenges 2 and 3 from the Commission assesment of ERP 2020-2022. It is also connected to SDG 8 Decent work and economic growth and SDG 9 - Industry, Innovation and Infrastructure, and with the initiatives for open digital society from the EU Digital Strategy. (For more information see Annex 7).

#### a. Activities planned in 2021

- To establish inter-institutional dialogue and consultation process pertinent to para-fiscal charges;
- To analyse the services which are identified to have characteristics of para-fiscal charges through identification of those that need to be eliminated, remodelled or streamlined, using the current List of mapped para-fiscal charges and to propose their optimisation and digitalisation;
- To raise awareness about the para-fiscal charges among business representatives and citizens;

<sup>59</sup><http://www.economy.gov.mk/doc/2838>

<sup>60</sup><http://www.mtsp.gov.mk/dokumenti.nsp>

<sup>61</sup><https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-north-macedonia-report.pdf>

The activities will be implemented by the Ministry of Economy and Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Sectors and Investments in cooperation with all relevant Ministries and Agencies, as well as municipalities including Business Associations and NGO's.

#### **b. Activities planned in 2022**

- To develop methodology for further re-assessment of parafiscal charges for SME's by using the principle Think Small First;
- To map all parafiscal charges, at all government levels (national and municipal level), and with all relevant information (responsible body, type, price, potential sectors and size of the companies concerned etc.);
- To rationalise parafiscal charges, by assessing the price of parafiscal charges, with respect to their intrinsic value, as well granulated at geographic level (national-local), by company's size and by age (start-ups vs. established businesses) and the possibility for their digitalisation.

#### **c. Activities planned in 2023**

- To establish digital platform - Register of parafiscal charges to improve transparency for business sector;
- To establish legal framework for providing further transparency and predictability in terms of introducing new parafiscal charges;
- To establish Coordination body to monitor proper implementation of legal acts by institutions.

Having in mind the complexity of the activities planned for the period 2022-2023, a project proposal has been submitted to EUD for providing expert support through IPA funds. The direct beneficiary of the project will be Ministry of Economy and involving all relevant institutions and stakeholders.

## **2. Results Indicators**

Indicator	Baseline (2020)	Intermediate target (2022)	Target (2024)
Number of parafiscal charges amended	0	At least 50	Up to 100
% of parafiscal burden lowered for SME's	0	Up to 30%	Up to 75%
Increased transparency of para-fiscal charges at national and local level by creating a registry of para-fiscal charges	0	At least for SMEs	All para-fiscal included

## **3. Expected impact on competitiveness**

By reducing the financial burden companies are expected to be more competitive. They could be able to use the saved resources and time in further development and innovation. On the other hand, raised knowledge of the parafiscal charges, as well as introducing digital services will contribute to more efficient and effective companies, which will lead to more productive companies. Overall, the predictability of the parafiscal charges will contribute to more favourable business environment leading to increased investments and entrepreneurship.

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

The cost for implementation of the measure is estimated at EUR 515,000.

In EUR	2021	2022	2023
1. Budgetary expenditures*	15,000	0	0
2. Non-budgetary financing	0	250,000	250,000
2.1 of which IPA funding, including WBIF funding	0	250,000	250,000
Total	15,000	250,000	250,000

\*national public finance sources

## **5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care**

By reducing the administrative and financial burden on companies and increasing their competitiveness, they could expand their activities and increase employment. One of the objectives of this measure is to create more favourable environment for establishment of new businesses, which will further increase the entrepreneurship incentives among all citizens including youth and woman.



## 6. Expected impact on the environment

One of the objectives of the measure is to lead towards digitalisation of the services, thus reducing both costs and time for business operations, which will have overall positive effect on environment in terms of saving energy, reducing the pollution and saving the resources.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient coordination and communication between the institutions that need to be involved with providing information	Medium	Establishing working group with stakeholders, and continue maintaining the regular cooperation, through meetings, workshops and training
Insufficient understanding of para-fiscal charges	Medium	Info and awareness raising campaign for better understanding among business representatives and society overall
Sustainability of the measure - providing further consolidation of para-fiscal charges	Medium	Legal framework to ensure procedures for setting and pricing of the charges as well as regulating body to ensure proper implementation by all relevant institutions
Insufficient capacities and skills for Para-fiscal charges analysis in the line ministries and other institutions.	Medium	MOE submitted a project proposal to EUD, for IPA funded external consultancy in order to ensure relevant expertise will be provided for successful measure implementation

## Measure 11: Support start-ups and SMEs in selected less-developed regions of the country to grow, produce added value and create a local living economy

### 1. Description of the measure

The measure envisages activities for increasing local economic activity and competitiveness in the less developed regions in the country i.e. North-East, Polog, South-West and Prespa area (Resen municipality) by improving access of start-ups and SMEs to financing and high value-added services.

The main activities will support setting up and/or developing at least 1 accelerator in each of the target regions, preferably 6 in total. The measure will also include activities for providing business development support and/or technical assistance for selected companies owned by people below 40 years of age and/or women and/or people belonging to vulnerable groups and minorities. A quota system will be set up after the analysis of the business opportunities and of the economic potential in each region is carried out.

Further on, in order to boost economic activities in those regions, through this activity financial support to at least 55 start-ups and/or SMEs to start or expand their business activities will be secured. This should result in creation of new jobs, boosting new economic activities and increasing the economic growth.

This measure is in line with the Key challenge 2 from the Commission assesment of ERP 2020-2022. It is also connected to SDG 8 Decent work and economic growth and SDG 10 Reduced inequalities. The measure will target activities related to the European Green deal that will strive to provide support to start-ups and SMEs for business activities to move towards the green economy. (*For more information see Annex 7*).

#### a. Activities planned in 2021

The dynamic of implementation of the activities will depend upon the dynamic of tender procedure implementation. Detailed implementation plan will be developed once the expert assistance is engaged, however, in general, the following activities are foreseen:

- Carrying out analysis of the business opportunities and economic potential in each of the less developed regions;
- Preparation of catalogue of advanced services for SMEs;
- Setting up and/or developing at least 1 accelerator in each of the target areas;
- Designing and implementing a financial support grant scheme for start-ups and/or SMEs high-value added business initiatives.



The activities will be implemented by external partner contracted by the EUD in North Macedonia in cooperation with national institutions lead by Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Sectors and Investments.

## 2. Results Indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)
Number of business association supported	0	0	6
Number of services in the catalogue	0	0	30
Number of accelerators set up and/or supported	0	0	3
Number of start-ups and/or MSMEs supported	0	0	55
Number of new jobs created	0	0	300

## 3. Expected impact on competitiveness

The activities of this measure will provide access to high-quality business support services for start-ups, SMEs and micro-enterprises with a special focus in areas related to green and circular economy, innovation, IT, marketing, export, business financing, intellectual property rights, standardisation, environment and climate friendly technologies and processes, etc. Taking into account the potential of the economic areas as well as the national and international market trends and perspectives, the provided financial support will be linked to purchase of technologies or equipment (but not running costs) to selected start-up or SMEs initiative thus boosting their competitiveness on the market.

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

The cost is estimated at EUR 9,000,000. The funds are secured by the IPA assistance of the EC for the Competitiveness and Innovation Sector in 2019 programming year.

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	1,000,000	4,500,000	3,500,000
2.1 of which IPA funding, including WBIF funding	1,000,000	4,500,000	3,500,000
Total	1,000,000	4,500,000	3,500,000

\*national public finance sources

## 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

At least 300 new jobs expressed in Full Time Equivalent (FTE). The jobs created - either self-employed or employed - are mainly to target people below 40 years of age, women and people who belong to vulnerable groups and minorities.

## 6. Expected impact on the environment

This measure will target business activities in line with the EU Green Deal to move towards the green economy, i.e. companies strongly committed towards boosting the efficient use of resources by moving to a clean, circular economy and restoring biodiversity and cut pollution towards a zero pollution and zero waste model.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient coordination and communication between the institutions on central, regional and local level	Medium	Establishing working group with stakeholders, and maintaining regular cooperation through meetings, workshops and training
Commitment on the highest level in the institutions involved in accelerator development or establishment is Insufficient and not reflected in the commitment on operational level	Medium	Regular communication and reporting to the 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 among start-ups and/or SMEs for application preparation	Medium	Providing technical assistance for start-ups and/or SMEs, preparing guiding materials and establishing

		information systems
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## Measure 12: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities

### 1. Description of measure

The measure is rolled over from 2020, though the title has been changed (previous title of the measure in ERP 2020-2022 was Reducing the informal economy), and activities are reformulated closer to project activities. The implementation details for 2020 are presented in Table 11.

This measure is linked to the 5th Policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2020 referring to "provision of incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy".

The EU project "Improving Working Conditions" (November 2019 - January 2022) 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 consists 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 measure is directly related to the project activities for designing voucher-based system or equivalent mechanisms which promote better working conditions and formal employment in sectors with high incidents of undeclared activities. Also, the measure is directly linked with the Strategy for Formalisation of the Informal Economy 2018-2022 and the Action Plan for its implementation. It is in line with the Key challenge 3 from the Commission assessment of ERP 2020-2022, and it also relates to the SDG 1 No poverty and SDG 8 Decent work and economic growth (*For more information see Annex 7*).

#### a. Activities planned in 2021

Planned activity	Institution in charge
1. In-depth analysis of good practices and modes for formalising undeclared employment in different countries	MLSP, SSO, SLI, PRO, SMI, CRRNM, Inspection Council, social partners etc.
2. Designing model and mechanism which promote formal employment in selected sectors with high incidents of undeclared activities	MLSP, ME, MF, SLI, PRO, SMI, social partners, etc.
3. Performing cost-benefits analysis from implementation of the proposed model	MLSP, SSO, SLI, PRO, SMI, CRRNM, social partners
4. Developing legal framework, institutional and administrative mechanisms to implement	MLSP, ME, MF, SLI, PRO, SMI, social partners, etc.
5. Implementing preparatory activities for rolling-out the agreed model, including definition of procedures, forms, training of staff	MLSP, SLI, PRO, SMI, social partners, etc.

## b. Activities planned in 2022

Planned activity	Institution in charge
1. Pilot project for registration and regulation of seasonal work in sectors with high incidents of undeclared activities (e.g. agriculture or household service)	MLSP, SLI, social partners, etc
2. Evaluating the results of the piloting	MLSP, ME, MF, SLI, PRO, SMI, social partners, etc

## 2. Results Indicators

Indicator	Baseline (2018)	Intermediate target	Target (2022)
Share of informal employees in the total number of employed persons	18.6%	-	16.5%

## 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	2021	2022	2023
1. Budgetary expenditures*	0	TBD	TBD
2. Non-budgetary financing	145,000	75,000	0
2.1 of which IPA funding, including WBIF funding	145,000	75,000	0
Total	145,000	75,000	0

\*national public finance sources

## 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

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. Also, formalisation of jobs will lead to protection of workers in case of injury at work or illness.

## 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)	Planned mitigating action
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	Ensuring good coordination among ministries and other relevant institutions and 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 transformation

**Research, development and innovation.** The Global Innovation Index (GII 2020) ranks North Macedonia 35th among the 39 economies in Europe in 2020, and 57th among total of 131 economies included in the GI 2020. The country performs the best in market sophistication while its weakest performance is in Creative outputs. The “University/industry research collaboration” indicator is scored particularly low, as one of the weakest points in the ecosystem, placing the country 112th out of 131 countries.

The latest European Innovation Scoreboard (2020) 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 2020 Country Progress Report, chapter 25: Science and research, notes that “...Some progress was made in the research and innovation capacities in the public and private sector and in the development of the Smart Specialisation Strategy. In the coming year, the country should: ensure a higher level of investment in research and development and to increase participation in the Horizon 2020 and future EU programmes for research and innovation...”

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 and technology development 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 related to private sector support of innovation and technology development and as of September 2020 has supported 546 projects in various industries (ICT, engineering & technology, health, energy and energy resources, textile & leather, construction, agriculture & food production, creative industry, education, etc.) Total investment amount of the FITD supported projects is EUR 76 million out of which 56% is FITD financing or EUR 43 million and companies' co-financing is EUR 33 million or 44% of the total investment<sup>62</sup>.

In order to assess the current state of play in the national innovation ecosystem, 3 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.** At the end of 2019, the National e-services Portal<sup>63</sup> was launched, offering more than 50 completely electronic services delivered by different institutions. Additionally, the Portal links to more than 80 e-services available on different institutional websites. However, the Single Sign On (SSO) which is a component of the National Portal currently can identify natural persons only, and not businesses, thus e-services for business cannot be obtained on the Portal.

Numerous services are not completely delivered electronically, and besides the National Portal, there are dispersed institutional websites that deliver e-services. The citizens and businesses need multiple accounts to obtain e-government services, which make the usage impractical and unintuitive, preventing wider and more frequent usage.

The data for public services is predominantly kept in a structured manner, such as registers, records and books, described with legal acts, although some of these are still not in electronic format. Electronic registers are a necessary requirement for delivering efficient, fast and quality e-services. The institution responsible for keeping the original source data is sometimes hard to determine, as there is no central database for keeping updated metadata on all the registers in a structured manner.

Following the first Single Point of Services<sup>64</sup> opened in Skopje, few physical premises are being equipped and put into function as Single Point of Services nationwide. Although described in the Law on electronic management and electronic services, the functionality of proxy agent that will be able to apply for an e-service on behalf of a user is still not deployed, and each counter officer can deliver services only from their institution.

The Law on electronic documents, electronic identification and trust services is fully aligned with eIDAS Regulation, and the delivery of electronic e-government services is completely regulated in the Law on electronic management and

<sup>62</sup> See more in Annex 6 - Results of the FITD operation

<sup>63</sup> [uslugi.gov.mk](http://uslugi.gov.mk)

<sup>64</sup> Not to be equated with Point of single contacts in accordance with the requirements of the EU Services Directive

electronic services. However, the horizontal legislative acts are not yet aligned with these two laws, and this has proven to be impediment for digitalisation of the services offered by different institutions.

In addition, the COVID-19 pandemic highlighted the need for accelerating the digitalisation of regular services, and for the delivery of the relief measures for citizens and businesses.

### Measure 13: Enhancing cooperation between the academy and the industry

#### 1. Description of the measure

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

**Response to COVID-19 pandemic.** In order to easily overcome the consequences of COVID-19, the Fund for Innovation and Technological Development (FITD) launched an instrument - Co-financed grants for technological development to overcome the consequences of COVID-19, intended for MSMEs. With the financial support of FITD, companies are encouraged to introduce new methods and technologies in their operations, further digitalisation in their work and introduce measures to protect the health of employees and customers in order to be able to maintain a satisfactory level of productivity, to generate revenue through new sales channels, to introduce new products or services that will respond to changes in the market demand.

Out of a total of 166 companies that applied for this call, 87 applications were approved. The total investment cycle achieved with this instrument is EUR 2,861,599, of which 57% or EUR 1,632,226 are provided by FITD. Supported companies are from various fields: health, sales, trade, distribution, machine industry, IT, catering, textile and leather industry, education, creative industry, construction, economy, agriculture, electronics.

The Republic of North Macedonia strives to continue its economic growth, so it is very important to develop the competitiveness of its private sector. As the country will not be able to build its competitiveness on the basis of low wage costs in the long run, improving competitiveness through knowledge and innovation is crucial.

The innovative activity of companies is positively related to many indicators of business success. Companies that innovate are much more likely to export, and most of them have a significant increase in turnover and profits after the introduction of innovation.

Companies rely more on internal knowledge of innovation than on external knowledge, so collaboration between companies and other stakeholders is limited. Relationships between companies and universities or research institutions are particularly rare, although firms that have established formal links with academia tend to be more innovative.

As a result of external technical assistance, the FITD will start adapting the existing instruments to support the private sector, creating new support mechanisms, including the development of equity financing through the establishment of the Fund of Funds. In this regard, the FITD will work to establish a hybrid public-private MSME Equity Investment Fund, which would be a 100 percent owned by FITD, as a subsidiary, managed by a competitively selected private fund manager. Funds will be established within this fund, depending on the needs of the MSME. In the next period, the legal framework will be reviewed, analyzes will be made according to which the possibility of introducing a new measure in the next period will be determined.

#### **Science and Technology Park (STP)**

In order to facilitate and promote cooperation between academy and industry, a Science and Technology Park (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.

Due to the fact that 2020 was an election year for North Macedonia, and on the other hand the pandemic of COVID-19 occurred, activities planned for STP within the measure failed to develop at the desired speed. Therefore, all planned activities have been extended for the next mid-term period 2021-2023.

The measure is in line with the Key challenge 1 from the Commission assessment of ERP 2020-2022, and it also relates to the SDG 4 Quality education and SDG 8 Decent work and economic growth. (For more information see Annex 7).

**a. Activities planned in 2021**

- Development of bylaws for establishment of the STP

**b. Activities planned in 2022**

- Development of the premises / hard infrastructure

**c. Activities planned in 2023**

- Further development of the premises / hard infrastructure

**2. Results Indicators**

	Baseline (2021)	Intermediate target (2022)	Target (2023)
Number of active contracts for business & academia innovation cooperation	0	0	10

**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 higher education institutions - HEIs applicable in industry i.e. will enhance transfer of knowledge and technology transfer contributing to increase of competitiveness and export potential of the companies. The measure is complementary to the activities currently undertaken by the FITD, 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. A similar Science and technology park exists in Ljubljana, which has been operating for more than 20 years. Impact of Technology Park Ljubljana is following: more than 300 member SME and startup companies, more than 30 established annually, EUR 350+ million revenue, EUR 80+ million in added value (2015), 400+ new high added value jobs, EUR 15+ million in VAT annually (estimated). TPLJ is self-sustainable and profitable with EUR 20 million in assets. Science and technology parks exist and function successfully also in our surrounding, like Serbia, Bulgaria, Croatia, Greece.<sup>65</sup>

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

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	120,000	880,000
2. Non-budgetary financing	0	0	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	0	120,000	880,000

\*national public finance sources

**5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care**

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 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.

<sup>65</sup>[tp-lj.si/en/about-us/impact-of-technology-park-ljubljana](https://tp-lj.si/en/about-us/impact-of-technology-park-ljubljana)

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)	Planned mitigating action
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 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.

### Measure 14: Broadening the scope of digital services provided on National E-service Portal

#### 1. Description of the measure

This is a follow-up measure on the measure from the previous ERP - Development of a National E-Services Portal. The goal of the measure is to increase the usage of the National e-services Portal (the Portal) [uslugi.gov.mk](http://uslugi.gov.mk) as a central point for e-service delivery.

The measure is linked to the 4<sup>th</sup> Policy Guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2020 in the context of “taking necessary actions to ensure easy access to digital services for citizens and businesses”.

The specific objectives of the measure are:

1. to upgrade the Portal with profiles for legal entities;
2. to upgrade the Portal with the functionality for proxy agents, who could apply for e-services on behalf of a user;
3. to increase the number of available e-services on the Portal, including digitalisation of necessary registers;
4. proposals for necessary legislative changes to streamline digitalisation;
5. building human and technical capacities for e-service delivery within the administration.

The focus on the third objective is to develop at least 135 e-services for businesses and citizens and deploy them on the National e-services portal, including the digitalisation of base registers related to the 135 e-services and development of Register of registers. Reengineering of the business processes for delivering the above mentioned e-services, in order to achieve more efficient and effective e-service delivery, by optimising the processes of their provision and cutting the administrative burden for their issuance is also a part of this objective. Providing necessary equipment to support the delivered software solutions on the central location and in the beneficiaries is also a factor in the successful delivery of this measure.

The expected results from this measure are enhancing public service delivery and reduce time and cost of businesses and citizens in their daily interactions with public bodies.

This measure is linked with the Key challenge 2 from the Commission assesment of ERP 2020-2022, and it also relates to the SDG 8 Decent work and economic growth and SDG 9 Industry, Innovation and infrastructure. The measure is in line with the goals for mobilisation of research and innovation through digitalisation of the proceesses according to European Green Deal, and with the goals for digital transformation and online platforms and initiatives for open digital society from the European Digital Strategy. (*For more infomation see Annex 7*).

#### a. Activities planned in 2021

- upgrading the Portal for businesses and with proxy agent functionality;
- business analysis of the service delivery processes;
- mapping of the necessary registers for delivering a specific services;
- building capacities for process reengineering;
- technical specification of the required equipment for deployment of the solution;
- integration of existing e-services on the National Portal.



#### **b. Activities planned in 2022 and 2023**

- reengineering of processes;
- development and deployment of new e-services on the Portal;
- development and deployment of base registers, including data entry from the beneficiaries;
- register of registers;
- methodology for measuring e-service delivery including piloting;
- capacity building on delivered solutions.

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

#### **2. Results Indicators**

The target numbers for all indicators are expressed in total as absolute numbers, and they originate from the National Portal statistics. The measuring started from the beginning of 2020.

Indicator	Baseline 2020	Intermediate target 2022	Intermediate target 2023	Target 2025
Number of registered users of the National Portal	25,000	50,000	80,000	100,000
Number of e-services offered	137	220	280	300
Number of applications submitted through the National Portal	12,200	80,000	120,000	250,000

#### **3. Expected impact on competitiveness**

The National e-services Portal is expected to reduce administrative and financial burden not only on citizens but on businesses as well, thus increasing 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. This will affect competitiveness not only of the small and big companies on national level, but also regionally as well internationally. Among the services that will be developed are e-services addressed in the Service directive, i.e. issuing licences for businesses needed on a National and cross-border level, which is expected to have an impact on regional competitiveness.

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

For three years, the cost is estimated at EUR 5,900,000 million, financed both from IPA funds and national budget.

In EUR	2021	2022	2023
1. Budgetary expenditures*	447,000	360,000	335,000
2. Non-budgetary financing	2,300,000	1,300,000	1,300,000
2.1 of which IPA funding, including WBIF funding	2,300,000	1,300,000	1,300,000
Total	2,747,000	1,660,000	1,635,000

\*national public finance sources

#### **5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care**

By reducing the administrative burden on companies and increasing their competitiveness, companies could expand their activities and increase employment. Electronic services are equally accessible to all users, both businesses and citizens, regardless of location (urban and rural), gender and social background, degree and type of disability, etc. Additionally, even the persons severely impacted by COVID-19 pandemic (e.g. in isolation) will be able to use digital services.

#### **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)	Planned mitigating action
Commitment on the highest level within the beneficiaries is not reflected in the commitment on operational level.	Low	Establishing working group with representatives from top management from each beneficiary, and continue maintaining the regular cooperation through regular meetings.
Insufficient coordination, involvement and commitment between all relevant stakeholders to ensure that all institutions and their staff are aware of their responsibilities.	Low	The Government will oblige all relevant state bodies to cooperate and provide all necessary information as well as human and financial resources for successful implementation and ensuring sustainability of the project.
Inability to travel and have face-to-face meetings and analysis between the selected implementers and beneficiaries.	High	Using video conferencing tools and offer technical support to the working group.

### 5.3.5. Economic integration reforms

Travel restrictions and border closures have been an important part of the initial policy response to the COVID-19 pandemic, and these measures have directly affected trade in goods and services. They have disrupted freight transport, business travel and the supply of services that rely on the presence of individuals abroad. Transport and travel costs constitute an important part of trade costs, and, depending on the sector, are estimated to account for 15 to 31 per cent. Travel restrictions are therefore likely to account for a substantial increase in trade costs for as long as they remain in place<sup>66</sup>. International land transport has been affected by border controls, sanitary measures (such as measurement of the temperature of drivers) and special arrangements, such as the closure of certain border posts and detours.

The risks associated with travel to affected economies may also have resulted in a lack of drivers. These factors have caused delays in road cargo transport. To alleviate these issues, some exporters have tried to shift the load from road to rail, as the latter needs far fewer drivers and controls per amount of cargo. Beyond specific measures to facilitate trade in medical products and personal protective equipment, there have been general moves to facilitate the border clearance of goods, with automated procedures that reduce the need for personal contact. For instance, some members notified the WTO that during the pandemic, they were accepting electronic veterinary and phytosanitary certificates, rather than the standard physical certificates. If kept in place, such measures could lower the cost of crossing borders. The digitalisation of customs and regulatory procedures may potentially have positive long-term effects on border costs.

The COVID-19 pandemic has brought to the forefront the high level of market integration and the interdependence between the EU and the Western Balkan economies, as well as amongst the latter themselves. Ensuring an unobstructed flow of goods has been a key focus throughout the crisis. To do so, the WB have swiftly and efficiently established green lanes at critical border crossing points<sup>67</sup>. EU is the leading trade partner accounting for almost 70% of the region's total trade and has grown by almost 130% over the past years, with the total trade between the EU and the Western Balkans reaching EUR 55 billion in 2019<sup>68</sup>. The SAAs have established a free-trade area over a transitional period which has now ended for all but Kosovo\* (2026). The Agreements foresee the elimination of duties and non-tariff restrictions on bilateral trade and cover goods in all Chapters of the Harmonised System. Only few exceptions, concerning some agricultural and fishery products, are not fully liberalised, and are subject to reduced duties and/or preferential quantitative concessions. In 2000, the EU granted autonomous trade preferences to all the Western Balkans. These preference, allow nearly all exports to enter the EU without customs duties or limits on quantities. Only sugar, wine, baby beef and certain fisheries products enter the EU under preferential tariff quotas. A Commission proposal to extend the autonomous trade preferences until the end of 2025 is currently being considered by the European Parliament and Council. As mentioned in the Economic and Investment Plan for the Western Balkans, the countries in the region should build a Common regional market based on EU rules. Securing integration both with the region and with the EU, is an important milestone for the EU accession.

<sup>66</sup>[https://www.wto.org/english/tratop\\_e/covid19\\_e/trade\\_costs\\_report\\_e.pdf](https://www.wto.org/english/tratop_e/covid19_e/trade_costs_report_e.pdf)

<sup>67</sup>[https://ec.europa.eu/neighbourhoodenlargement/sites/near/files/communication\\_on\\_wb\\_economic\\_and\\_investment\\_plan\\_october\\_2020\\_en.pdf](https://ec.europa.eu/neighbourhoodenlargement/sites/near/files/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf)

<sup>68</sup><https://ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/>

The Commission's Country Progress Report 2020<sup>69</sup> states that North Macedonia continued its active participation in CEFTA. The country is yet to implement Additional Protocol 5, particularly based on the decisions taken by the CEFTA Joint Committee on Authorised Economic Operators (AEOs), fruit and vegetables (*note by authorities: The Decision 1/2020 for Facilitating Trade on Fruit and Vegetables was adopted in Republic of North Macedonia as well as on the CEFTA Joint Committee and its implementation here already started*), and the risk management strategy for customs. Swift ratification and implementation of the newly adopted Additional Protocol 6 on liberalisation of trade in services still needs to be completed. Regarding Additional Protocol 7 on trade dispute settlement, North Macedonia's constructive role is important for ensuring the completion of negotiations in 2020. Within the framework of REA, standards on investment at regional level still need to be adopted to reflect the latest EU policy developments, which will be used when negotiating investment treaties with third countries and reflected in the Bilateral Investment Treaty (BIT) template under preparation.

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 trade<sup>70</sup>.

## Measure 15: 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. One party - Kosovo has still 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 AEOs' 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 SEE 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 16 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 implemented on cross-border crossings with Republic of Albania and Republic of Kosovo, too, but there is a delay due to the pandemic crisis. Though, notable activities are done as a result of the initiative for facilitating trade under mentioned circumstances by establishing of Green lanes on key border/countries crossing points (BCP/CCP's). They provided faster transit of certain transfer of necessary goods in the pick of the pandemic and in the future will be extended on the crossing points of WB countries with EU.

This measure is linked with the Key challenge 2 from the Commission assesment of ERP 2020-2022, and it relates to the SDG 9 Industry, Innovation and infrastructure. The measure is also in line with the goals for digitalisation of the industry from the European Digital Strategy. (*For more infomation see Annex 7*).

#### a. Planned activities in 2021

Activities planned for 2020 have been postponed for 2021. The delay is due to the fact that the signed grant with EC in December 2018 is operational as of the end of 2019. Staff is allocated in CEFTA Secretariat that will be responsible for

<sup>69</sup>[https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north\\_macedonia\\_report\\_2020.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north_macedonia_report_2020.pdf)

<sup>70</sup><http://documents.worldbank.org/curated/en/919401555624976466/Western-Balkans-Trade-and-Transport-Facilitation-Project>

maintaining SEED+. The ratifying procedure in Kosovo is still pending, and also settling the status in Moldova for including in 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

Indicator	Baseline (2019)	Intermediate target (2022)	Target (2023)
Reduced time for customs clearance	9 hours	-	6 hours
Reduction of trade costs	USD 103 (around EUR 85)	-	USD 70 (around EUR 58)

## 3. Expected impacts on competitiveness

The reduction of time and costs will contribute to an annual increase of exports to other CEFTA countries by 3.5% and to GDP growth of 0.9%. In scope of these data, the impact of trade flow slowing due to current situation with COVID-19 and reflected in decreased transit of goods and services, should be taken into account.

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

The estimated cost of planned activities is in the amount of EUR 55,100. The estimated costs for maintaining of the equipment are EUR 3,600 per year.

In EUR	2021	2022	2023
1. Budgetary expenditures*	51,500	0	3,600
2. Non-budgetary financing	0	0	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	51,500	0	3,600

\*national public finance sources

## 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 within synchronised, transparent electronic procedure.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Coordination problems between CEFTA parties might arise in the implementation phase	Medium	Regular consultation meetings between countries involved

## Measure 16: 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.

In February 2015, the Government of the Republic of Macedonia and the Government of the Republic of Serbia signed an Agreement on the establishment of border procedures, in accordance with the Directive 2012/34 for creation of a single European railway area. Protocols between the relevant services from North Macedonia and Serbia (police, customs,

inspection services etc.) were signed in June 2016, by which the official staff of the two countries defined the method, methodology and procedures for the work of the joint station.

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

The measure foresees construction of new Joint Railway Border Station (JRBS) between North Macedonia and Serbia. Currently, all international and transit trains have to make two stops, one in Tabanovce (Macedonia) and one in Preshevo (Serbia). In each of these two stations the authorities 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 standards of the European Union, 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 with a water treatment plant and improve the connection between the road and railway crossing with construction of a new access road. The project documentation for the new access road to the station is in phase of preparation. The total area of the facilities is 2,500 m<sup>2</sup>.

This measure is closely related to the measure 15: Trade facilitation. It is linked with the Key challenge 2 from the Commission assesment of ERP 2020-2022, and it also relates to the SDG 9 Industry, Innovation and infrastructure. The measure is in line with the initiatives to increase and better manage the capacity of railways and inland waterways of the European Green Deal, and with the goals for digitalisation of the industry from the European Digital Strategy. *(For more information see Annex 7).*

**a. Activities planned in 2021**

- Tender procedure for selection of the Constructor and Supervisor engineer.

**b. Activities planned in 2022**

- Implementation of construction activities such as construction works on the access road and on the joint border station building.

**c. Activities planned in 2023**

- Finalisation of the construction works of the joint border station and putting into the operations.

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

**2. Results Indicators**

Indicator	Baseline 2018	Target 2023	
		Minutes	Percentage decreased
Type of transport	Minutes	Minutes	
Passenger train time savings	60	30	50%
Freight train time savings	180	90	50%

**3. Expected impact on competitiveness**

The construction of JRBS 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, as a result of the construction of the JRBS is due to the fact that most controls will be done on the moving train. Companies performing transport activities will experience lower costs and lower transport times, which will create conditions for increased amount of transport by railway.

Regarding the railway market opening, the 4th Railway package of the EU regulations is foreseen to be adopted in 2021. The Business segmentation study with the focus of privatisation of the National Transport Company was completed in April 2020. As it is recommended in the Study, before privatisation of the Company the preparatory works has to be done by the owner of the Company and the Government of the Republic of North Macedonia, in terms of solving the debt issues, segmentation of the accounts for the passengers and the freight income and expenses, separation of the staff, liabilities, and fleet management.

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

The estimated investment value is EUR 5,136 million. Once the JRBS is operational, for 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). At the WBIF Steering Committee held in mid-December 2019, 52% of the required planned funds were allocated, as an investment grant.

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	0	2,430,773
2. Non-budgetary financing	0	1,300,000	1,405,227
2.1 of which IPA funding, including WBIF funding	0	1,300,000	1,405,227
Total	0	1,300,000	3,836,000

\*national public finance sources

#### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality, access to health care

The construction of the JRBS 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 for construction of the building of the JBC Tabanovce respects the highest environmental protection requirements, such are the energy efficiency buildings requirements and a sewage system with a water treatment plant.

#### 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
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 reduce the risk of untimely implementation of activities.

### Measure 17: Strengthening the internal market in the Republic of North Macedonia

#### 1. Description of the measure

The measure will enhance the harmonisation with the EU acquis in the area free movement of goods and services and strengthen the market surveillance for protection of consumers' rights. Furthermore, through this measure the national institution will be supported in establishing a better regulation for functioning of companies. More specifically, the measure will include activities for:

- Investment in preparing the Ministry of Economy to draft and monitor the implementation of the new legislation in the area of free movement of goods and services and to apply corrective measures where necessary;
- Provide support for the putting in operation of a real functioning Point of single contacts in accordance with the requirements of the EU Services Directive. Business operators and business organisations will be acquainted with the new legislation and supported in ensuring compliance with it;
- Support the market surveillance through functional reorganisation of the State market inspection service, upgrade of the surveillance methodology and introduction of new tools, facilitating the work of the market inspectors, as well as by enhancing the coordination and the methodological synchronisation among the various market surveillance entities.
- Support the national metrology body to improve its measurement standards and services, the coordination with business and secure transparency in the metrology work.

This measure is linked with the Key challenge 2 from the Commission assesment of ERP 2020-2022, and it also relates to the SDG 8 Decent work and economic growth and SDG 16 Peace, justice and strong institutions. (For more information see Annex 7).

## Activities planned in 2021, 2022 and 2023

The dynamics of realisation of the activities will depend on the dynamics of the realisation of the tender procedure for engagement of expert assistance. A detailed implementation plan will be prepared after the engagement of the expert assistance, however, in general, the following activities are planned to be implemented:

- Screening of domestic legislation and administrative practices in the area of free movement of goods and services;
- Drafting new legislation in the area of free movement of goods and services;
- Capacity building of the relevant institutions in the area of free movement of goods and services;
- Designing of a system for functional Point of single contacts;
- Functional analyses of the State market inspection services;
- Design of an e-Inspection as a single inspection interoperable database;
- Upgrading of an existing Register of measuring instruments and improvement of the risk analysis methods based on the data from the register;
- Upgrading of calibration and verification working procedures and laboratory manuals;
- Development of new measurement standards and services.

The activities will be implemented by external partner contracted by the EUD in North Macedonia in cooperation with national institutions lead by Ministry of Economy.

## 2. Results Indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)
New legislation drafted	0	0	20
Capacity building events conducted (trainings, workshops etc.)	0	0	5
Functional Point of single contracts	0	0	1
Digital tools introduced in the inspection institutions	1	1	4
Measurement standards and services developed	0	0	5

## 3. Expected impact on competitiveness

The measure will contribute to boosting the economic development and trade relations with the EU while improving conformity with health, safety and environmental requirements. It will enhance the harmonisation with the EU acquis in the area of internal market with a primary focus on free movement of goods and services, protection of consumers' rights and better regulation of the business functioning. The capacity building activities will contribute the enforcement of laws and will enhance the new established processes and structures. Particular focus is put on improving market surveillance and consumer protection.

More widely this measure will increase the possibility for trade by allowing consumers to buy more, better-quality products at lower costs. It drives economic growth, enhanced efficiency, increased innovation, and the greater fairness that accompanies a rules-based system.

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

The cost is estimated at EUR 3,600,000. The funds are secured by the IPA assistance of the EC for the Competitiveness and Innovation Sector in 2019 programming year.

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	1,200,000	1,200,000	1,200,000
2.1 of which IPA funding, including WBIF funding	1,200,000	1,200,000	1,200,000
Total	1,200,000	1,200,000	1,200,000

\*national public finance sources

## 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Indirectly by increasing the possibility for export by introducing better production standards and business environment, companies will be able to increase their market share and ideally to expand their sales to foreign (EU) markets. This



should increase company's revenues/profit and will create possibilities for increasing the production and opening new jobs.

## 6. Expected impact on the environment

This measure will vigorously promote respect to the principles of environmental suitability. The transposition of the new legislation on free movement of goods is very much linked to addressing modern environmental challenges and ensuring compliance of the national markets with the environmental requirements along with the requirements for safety and health. Thus this measure will contribute to "greening" of the policy-making in the country.

## 7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
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.
Commitment on the highest level in the institutions involved in accelerator development is not reflected in the commitment on operational level.	Medium	Regular communication and reporting to the ministerial level for the progress and early warning notifications.

### 5.3.6. Education and skills

Before the outbreak of the global COVID-19 pandemic, the education system in North Macedonia, though struggling, showed substantial improvement. In fact, North Macedonia was one of the top improvers in PISA 2018, improving reading scores by 40 PISA points from 2015. Despite improvements, student reading performance in the country was 94 PISA points (roughly equivalent to two and a half years of schooling) below the OECD average. Over half the students tested by PISA performed below functional literacy. Despite the need to sustain improvements, COVID-19 has forced North Macedonia to close schools and transition to emergency remote teaching using online platforms and TV-based broadcasts.

The Ministry of Education and Science adopted Concept for developing the education system on distance in primary and secondary schools. The Assembly of the Republic of North Macedonia approved the amendments to the Laws on Primary and Secondary Education, which ensure the smooth organisation of teaching in times of emergency, such as the case of the pandemic with COVID-19.

However, due to the emergency nature of remote teaching initiatives, effectiveness is likely to be lower than traditional instruction. As most students in the country currently perform around the threshold for functional literacy, and assuming some will lose more than others, the estimates suggest that the percentage of students performing below functional literacy may increase by up to 10 p.p. (from 55 to 65 percent). Students with special needs may similarly face unique challenges accessing remote learning content.<sup>71</sup>

According to the Human Capital Index, a child born today in North Macedonia when he grows up will be productive 56 percent of what it could be if he had full education and full health. It is lower than the average for the Europe and Central Asia region and for high-income middle-income countries. Between 2010 and 2020, the value of the HCI for North Macedonia increased from 0.54 to 0.56.

Western Balkans will lose 11.6% of hours worked due to the COVID-19 pandemic, according to ILO estimates.<sup>72</sup> The lockdown has produced an unavoidable spike in unemployment across the region. The data from Public Employment Services in WB6 economies collected in May 2020 show a considerable increase in unemployment numbers:

**Table 5.7. Unemployment in WB6**

Country	Newly registrated unemployed	Total unemployed
Albania	12,744	80,689
Bosnia and Herzegovina	18,000	403,000
Kosovo	32,377	129,529
Montenegro	4,864	40,361

<sup>71</sup> North Macedonia Estimate of COVID-19 Impact on Learning Loss

<sup>72</sup> <https://www.rcc.int/docs/512/report-on-the-preparation-of-post-2020-strategy-in-the-western-balkans>

<b>North Macedonia</b>	8,852	114,762
<b>Serbia</b>	9,748	513,052

Source: ILO

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 4 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)<sup>73</sup>.

According to OECD Competitiveness Outlook 2018, the assessment of the dimension on education shows that North Macedonia achieves a score of 2.8<sup>74</sup>, 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 VET, as well as good trainings for teachers and pre-school education<sup>75</sup>.

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.

In the academic year 2019/20, there were 42,641 students enrolled in upper-secondary VET programmes. From this number 19,177 or 45% are female. 93% of the VET students follow 4-year vocational education and around 52 qualifications were offered. 7% or 3,131 of the VET students follow 3-year vocational education, and about 42

<sup>73</sup>[https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north\\_macedonia\\_2019-2021\\_erp.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/north_macedonia_2019-2021_erp.pdf)

<sup>74</sup>(Competitiveness in South east Europe, A policy Outlook 2018).

<sup>75</sup><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>

<sup>75</sup> 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.

qualifications are currently offered. 25% or 778 of the students are women. VET programmes are currently offered in 75 schools.

The reformed 4-year vocational education is based on 45% general education and 55% vocational theory and practical training. All curricula are based on learning outcomes and work-based learning is included in the syllabi.

In December 2019, the MOES has established a national "Financing Expert Group" (FEG). FEG with the support of the project "Employment for Education in North Macedonia" (E4E@mk) and the European Training Foundation (ETF).

At the beginning of 2018, the Law on Higher Education was enacted, and establishment of a Quality Assurance Agency was done. 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 18: Further development of the qualification system**

### **1. Description of measure**

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

Due to the pandemic with COVID-19, various measures were undertaken. Protocols for safe reopening of kindergartens were adopted, having in mind the social wellbeing of the children and the needs of the parents/legal guardians, which served as a base for reopening on 9<sup>th</sup> of September. The Assembly of the Republic of North Macedonia approved the amendments to the Laws on Primary and Secondary Education, which ensure the smooth organisation of teaching in times of emergency. For the school year 2020/2021 duration of the school year will last 160 days unlike the usual 180 days. With these legal changes, the teaching in the primary and secondary school will be able to be organised with physical presence of the students, or at distance by using means of electronic communication. Plan and several protocols were adopted for reopening of the schools on October 1<sup>st</sup>. Shortened curricula for primary and secondary education were developed and approved (for school year that will last 160 days). Pupils from first to third grade are attending classes with physical presence in the school premises, however is given an option to attend classes remotely, with a written statement of the parents/ legal guardians.

A National Platform for Online Learning that allows two-way communication between students and teachers was developed and it's available to users through the address [www.schools.mk](http://www.schools.mk). Before the start of the school year students and parents were invited to use it in order to identify any obstacles. Video material, tutorials and manuals are posted on the platform, as well as other contents. During September, trainings for all teachers were organised by implementing cascade model. An educational TV show with the teaching materials is broadcasted on the National TV Station in order to reach all children.

A new Law on Primary Education and a new Law on Teachers and Associates in Primary and Secondary Schools were adopted. In line with these laws, the Concept for inclusive education is adopted.

Establishing Regional Vocational Education and Training (VET) Centers can be seen as a part of the plan for reforming VET, restarting the economy, protecting and creating jobs and making the regional labour market more sustainable for future generations. These Regional VET Centers are planned to respond to the needs of the labour market but also are in line with the need for regional specialisation (through improving and adapting skills, knowledge and competences of the youth and adults). Regional VET centres will match the challenges in the field of work and education by strengthening the cooperation within a high-quality, comprehensive and inclusive network, and thereby meet the emerging needs from the introduction of new technologies, climate changes, migration, new skills and new development possibilities. In this process the focus remains on working with the learner while developing new knowledge, values and competences.

Amendments to the Law on Secondary Vocational Education were adopted, with focus on introducing Regional VET centres in three pilot regions in the country: South-West, Polog and North-East region, through transformation of chosen secondary VET schools into centres. Eight qualifications are developed which will be covered under the RVET Centers: mechanical technician for motor vehicles and electrical engineering for computer technology and automation in Tetovo, catering technician, waiter and cook in Ohrid, food technician, phytomedicine technician and agro-technician in Kumanovo.

In line with the Law on VET, the VET Center developed standards for space and equipment for schools. The concept for developing Regional centres for VET, which covers the formal, non-formal, adult education and validation of the non-formal and informal learning (VNIL) was prepared upon initiative from the MOES, and in the past two years it was supported by the ETF. The objective is to provide guidance for innovative, progressive and sustainable VET, which is integrated into the national educational system, but also in the regional and European area, with evidence based mechanisms for provision of educational and vocational learning outcomes.

Detailed analysis of the three regions is prepared and following functions of the centres came as priorities: 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 build a flexible education system, a new approach of financing the VET is needed. This process will be open for discussion and will be finalised in 2021/2022. 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. The Concept for Work base learning was developed, and consequently the Protocol for preventive measures in the realisation of work-based learning, the ferial practice, practical training and exercises of students at an employer.

According to the procedures for programmes for adults, on a regular base those programmes are approved. Until September 2020, 303 providers successfully fulfill procedures of accreditation.

The Adult Education Centre continued the piloting phase for establishing the VNIL system, with two qualifications: facade worker and waiter. The pilot schools are VET school Zdravko Cvetkovski for facade worker in construction and VET school Lazar Tanev for waiter in catering.

Regarding higher education, activities will continue for harmonising bylaws and accreditation and evaluation rules with the European standards and criteria. The Quality Assurance Agency in accordance with the new Law on Higher Education was established in December 2019. Additionally an Action Plan for membership of the Quality Assurance Agency in ENQA and EQAR was adopted, including the Agency's self-evaluation process.

Establishing a solid foundation for creating evidence-based politicians is a key factor in promoting a continuous system of improving. In that direction, a new organisational unit has been established in the MOES for research and development of educational politicians. Regarding the Education Strategy 2018-2025, two Reports are prepared: for 2018 and 2019/2020.

This measure is linked with the Key challenge 1 from the Commission assesment of ERP 2020-2022, and it also relates to the SDG 4 Quality education. *(For more infomation see Annex 7).*

#### **a. Activities planned in 2021**

<b>Planned activity</b>	<b>Institution in charge</b>
1. Development of 5 qualifications required by employers and flexible access to their acquisition.	National Board for the Macedonian Qualifications Framework; Sectoral committees; MOES; 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. Piloting phase for establishing the VNIL system, with two qualifications: facade worker and waiter.	Universities and HEIs; Secondary vocational schools; Companies.
4. Adopting a new law for VET.	MOES, VET Centre and other relevant stakeholders

#### **b. Activities planned in 2022**

<b>Planned activity</b>	<b>Institution in charge</b>
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 VNIL.
3. Refurbishment and adapting premises of 3 VET schools for Regional VET Centres.	MOES; VET Centre; Municipalities.

#### **c. Activities planned in 2023**

<b>Planned activity</b>	<b>Institution in charge</b>
1. Establishment of a system for Validation of non-formal	VET Centre; Special accredited institutions for validation of

education for acquiring specific qualifications - acknowledgment of previous learning.	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; MOES; VET Centre; National Chamber of Crafts; 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.	MOES, 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%	60% - 40%
System for VNIL	-	-	Piloting	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
Participation in Life Long Learning (from 25 - 64 participating in education or training)	2.8	2.8	3.0	3.1
Early leavers from education and training at age 18 - 24	7.1	7.1	7.0	6.9

## 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	2021	2022	2023
1. Budgetary expenditures*	1,444,761	1,494,761	1,494,761
2. Non-budgetary financing	1,360,000	1,436,000	1,586,000
2.1 of which IPA funding, including WBIF funding	1,360,000	1,436,000	1,586,000
Total	2,804,761	2,930,761	3,080,761

\*national public finance sources

This measure is planned to be financially supported by IPA 2019 – 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)	Planned mitigating action
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, HEIs, 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.

### 5.3.7. Employment and labour market

In the medium-term period between 2015 and 2019, the number of employed persons increased by 91,600 i.e. by 11.5%. The average annual growth rate of the number of employed persons was 3.1%. The largest number of new jobs is noted in the manufacturing industry and trade, whereas a decrease was reported in agriculture. In 2019, the employment rate of the population aged 15-64 was 54.7%. It remained at a low level which indicates a lack of utilisation of the workforce as a development potential. The gender gap in employment was high. In 2019, the employment rate of men (64.4%) was higher than that of women (44.7%) by 19.7 pp.

The employment rate of young people was low: only 20.7% of young people aged 15-24 were employed. One of the reasons for this was the low activity rate of young people (32.2%), which was mainly due to their participation in the educational system. The share of youth (aged 15-29 years) not in employment, education or training (NEET youth) showed a significant decrease from 29.8% in 2018 to 24.5% in 2019, with women being more likely to not be in employment, education or training compared to young men. The main reason behind this are family obligations of women.

Even though the unemployment rate was declining continually, the country was still facing a high unemployment rate. The unemployment rate (of people aged 15-64 years) was 17.3% in 2019 (reduced from 26.1% in 2015), and there were no major gender differences. Out of all unemployed persons in 2019, 48.4% were also looking for a job through the Employment Service Agency of the Republic of North Macedonia.

The activity rate (of people aged 15-64 years) was 66.3% in 2019, which is by 1.4 pp higher than in 2015. Analysed by gender, the activity rate in 2019 was higher among men with 77.3% (it was 54.8% among women). The percentage of inactive women was disproportionately distributed among young women, women in rural areas, and the unskilled, with one of the most important reasons for the inactivity of women being household obligations. The activity rate was higher among those with higher educational level attainment.

In the Q-2 2020, there were no significant negative changes in the labor market compared to the Q-2 2019, given the COVID-19 pandemic. The activity rate decreased by 0.5 pp, and it stood at 65.6% in the Q-2 2020 (of persons aged 15-64 years); the employment rate grew by 0.1 pp, and stood at 54.5%; whereas the unemployment rate reduced by 0.7 pp compared to the Q-2 2019, and it stood at 16.9%.

According to the Employment and Social Reform Programme 2020, the Employment Strategy 2016-2020, and the National Economic Reform Programme 2015, the medium-term goal is to increase the employment rate to 46.9% by 2020 and to reduce the unemployment rate to 21.5%.

### 5.3.8. Social protection and inclusion, including health care

**Social protection and inclusion.** According to the latest data published by the SSO, the at-risk-of-poverty rate in 2019 amounted to 21.9%, whereas the Gini coefficient (Gini – a measure of inequality in the distribution of income) decreased compared to the previous years and amounted to 30.8%. In comparison, the at-risk-of-poverty rate in EU28 amounted to 16.8%, whereas the Gini coefficient amounted to 30.2%.

**Table 5.8. Laeken indicators on poverty and social exclusion, 2013-2018**

	2013	2014	2015	2016	2017	2018	2019
At-risk-of-overty rate,by % of population	24.2	22.1	21.5	21.9	22.2	21.9	21.9
Men	24.6	22.3	21.5	22.1	22.4	21.8	21.4



Women	23.9	21.9	21.5	21.6	22.0	22.0	22.5
By age							
0-17	30.9	29.0	28.6	28.6	29.9	29.3	27.8
18-64	23.6	21.4	20.7	21.3	21.1	21.2	21.6
65 and over	16.5	14.5	14.5	14.5	16.1	14.6	15.4
According to most frequent status of the economic activity							
Employed	11.1	9.8	8.9	9.0	9.0	8.8	8.8
Unemployed	43.7	40.5	39.7	41.1	38.7	41.9	42.1
Retirees	10.9	8.4	7.3	7.1	7.7	7.9	7.8
Other inactive persons	29.2	26.1	26.7	29.4	32.1	31.1	33.7
According to the number of dependent children in the household							
Household with no dependent children	19.5	16.5	14.1	14.2	12.8	12.7	14.2
Household with dependent children	26.5	25.0	25.3	26.0	27.5	27.2	26.4
Number of people who live below the poverty threshold, in thousands	500.4	457.2	445.2	453.2	460.3	455.1	455.6
Poverty threshold for single household, annual equivalent income in denar	70,275	71,925	78,362	82,560	90,120	97,000	100,080
Poverty threshold for a four member household (two adults and two children under 14), annual equivalent income in denar	147,578	151,043	164,560	173,376	189,525	203,700	210,168
Poverty rate before social cash transfers and pensions, by % of population	41.0	41.7	40.5	41.6	40.7	40.8	41.6
Poverty rate before social cash transfers with included pensions, by % of population	26.8	24.8	24.8	25.7	25.9	25.7	25.7
Inequality in distribution of income, S80/S20 income quintile ratio, %	8.4	7.2	6.6	6.6	6.4	6.2	5.6
Inequality in distribution of income, Gini coefficient, %	37.0	35.2	33.7	33.6	32.5	31.9	30.8

Source: State Statistical Office

The 2019 reform of the social protection system contributed to the improvement of the living conditions of children and the elderly. The child poverty rate (0-17) in 2019 compared to 2018 decreased from 29.3% to 27.8%, and poverty rates in all households with dependent children decreased, with the exception of single parents. However, total poverty did not decrease (21.9%) and over 455 thousand people live below the relative poverty line. Namely, the other government policies such as the increase in the minimum wage, wage subsidies and the growth of the economy probably increased the poverty threshold, and thus the relative poverty rate remained at the same level.

However, poverty among the unemployed, which amounts to 42.1%, has even increased compared to previous years. That is why the activities for activation of the beneficiaries of the social protection system and their inclusion in the labor market are of exceptional importance. In this regard, it is necessary to encourage the development of programmes that enable activation and work rehabilitation of vulnerable groups of citizens, which would increase their participation in the labor market, and thus provide a way out of the vicious circle of poverty and social exclusion.

Also, in order to reduce the social exclusion of certain categories of persons, the development of social services according to the needs of beneficiaries and to local circumstances is envisaged, which means providing quality and innovative social services available in the place of residence of the beneficiary, with a view to prevent institutionalisation and social exclusion.

Currently, in compliance with the Law on Social Protection, 20 social service providers are licensed, but this number is expected to increase, with the coverage of licensed service providers of all categories, thus increasing the coverage of beneficiaries who will have access to the necessary services in their own community.

**Health care.** In 2020 the healthcare systems worldwide faced with the challenge of controlling the coronavirus. The health crisis led to a the largest global economic crisis within the past hundred years due to the population movement constraints measures, including borders' closure, in order to reduce the transmission of the virus. Covid-19 has exposed the weaknesses of healthcare systems and the fact that when creating politics, health expenditures are considered as cost, not an investment. This global crisis didn't bypass the Republic of North Macedonia, and it additionally emphasized the challenges which the healthcare system is facing with.



In order to cope with the Covid-19 outbreak, the healthcare system and its infrastructure is in need of building upon its capacity for monitoring the situation with the virus. The existing difficulties include: a lack of trained healthcare providers, healthcare workers, lack of personal protective equipment, test kits and laboratories with the needed capacities, not respecting the public safety measures, as well as the limited numbers of capacities with equipped isolation units intended for quarantine and treatment of patients.

In addition, the low level of expenditures for public healthcare - 6.58% GDP in 2018 - compared to the European average of 9.9% GDP, as well as expenditures of 399.10 USD (EUR 328.98) per capita in comparison to the European average of 3,524.71 USD (EUR 2,905.26) inevitably result in a relatively low number of healthcare workers, i.e. 421 nurses per 100,000 persons in North Macedonia which is far below the average of WB6, EU and STEE7, and even though the ratio of 2.9 out of 1,000 people is bigger than the WB6 of 2.3, it is below the average of STEE7 and EU.

In making comparison of hospital beds number, with 438 beds per 100,000 persons in 2018 North Macedonia is ranked lower than EU и STEE7, but the evidence of recent analysis's<sup>76</sup> show an incredibly low use of hospital beds, facilities, departments and technology, as well as large variations in the performance compared to ALOS (average length of stay, per days) and ABO (Average Bed Occupancy, in %) of similar classified specialist consultative institutions and general hospitals. The decreased number of medical staff raise a question about the capability of health institutions to fulfil the accepted standards for quality and safety of medical services, especially the level of services provided by nurses.

In the World Bank Report<sup>77</sup>, where healthcare expenses are associated with healthcare needs, it's stated that in the past 15 years, the constant decrease of public health expenditures as a share of GDP resulted in an increased financial burden falling on health care recipients, which additionally increases the difference in availability of health services to different categories of citizens.

Having in mind that the population in the country is ageing, which impacts the health organisation and expenditures thereof, and because the medical care is oriented to hospitalisation due to underdeveloped primary care, in order to overcome these challenges of the health system it is necessary that adequate reforms are introduced in order to optimize the use of the resources and increase the effectiveness of the public health expenditures.

The ambulatory care sensitive conditions are health conditions that can be effectively prevented, diagnosed and treated in primary health care. They include acute, chronic and vaccine-preventable conditions that do not require inpatient treatment if timely and appropriate primary care is received. Ambulatory care sensitive conditions are a proxy for the quality of care. Unnecessary hospital admissions suggest a lack of uniformity in health providers' patterns of referral and admission procedures.<sup>78</sup>

The role of a medic from the Primary Health Care (PHC) as a gatekeeper to specialists is not effective. High referrals rate from Primary to Secondary health care generates unnecessary workload to the specialists. Reasons for that are many, and according the interviews conducted with specialists, around 50% are inadequate referrals for health conditions that can be successfully treated at Primary level. Medical nurses don't have clear definition of the competencies and the scope of services they provide. Roughly 80% of the activities they conduct at primary level can be finished by an administrative clerk, which makes them more "secretary" of the office than health workers that take care for patients. The role of an administrative personal doesn't exist in the Primary care providers. There is no autonomy in the work of the medical nurses and they only support the work of the doctor. In light of the previous, the midwives are not controlling nor following the pre and post-birth care.

Clinical guidelines are published, but only small part of them are adapted to the local context and they should be up dated and adjusted to the Primary Health Care. There are no established clinical paths and criteria for referrals between the different health care levels (primary, secondary and tertiary).

The health information system has a huge amount of information related to the health care that patients receive in North Macedonia. Although all these data are in the system, the activities are not monitored and quality indicators are not defined. The e-health system still does not offer the ability to monitor quality. There is no mechanism available that can give feedback to selected medics about their work in relation to the results of their care. No quality improvement mechanisms have been identified, other than reporting activities to the Health Insurance Fund (HIF) and the Institute of Public Health. The payment system of health care providers and the information system do not encourage/support high quality care and effective coordination of service provision, both within the PHC and with other levels of care.

<sup>76</sup> Analysis of Secondary and Tertiary Health Care System Effectiveness E C r e f n° : 2 018 / 3 99 66 2 (S317-L4) project funded by The European Union

<sup>77</sup> *Sowing the Seeds of a Sustainable Future: Republic of Macedonia Public Finance Review*; World Bank Group March 2019.

<sup>78</sup> [https://www.euro.who.int/\\_\\_data/assets/pdf\\_file/0009/403020/MKD-PHC-report-160519.pdf](https://www.euro.who.int/__data/assets/pdf_file/0009/403020/MKD-PHC-report-160519.pdf)

The HIF, together with the Ministry of Health, and with an expert support is implementing a process called "Reforms in Primary Health Care". The purpose of these activities are to improve the health of the population by improving the quality of PHC and providing comprehensive primary care. The strategic commitment of the HIF is for this process to grow into a regular activity of monitoring, evaluating and improving the PHC, with strategically determined activities, which are in correlation with the overall health policy of the country, focusing on the health of the population. This process is directly related to the priorities in the draft Strategic Plan for the health system in the Republic of North Macedonia for the period 2021-2030, which is being developed within the EU project for the secondary and tertiary level of health care, in order to set up a health system in accordance with EU standards.

## Measure 19: Strengthening the system for social inclusion of the vulnerable categories of people

### 1. Description of measure

This measure is rolled over from last year, details on the implementation are presented in Table 11. For the reason of providing more thorough description of the social protection reform, the measure is defined as set of two components, and activities have been amended.

This measure is linked to the 5<sup>th</sup> Policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2020 referring to the extension of social protection coverage and the 6<sup>th</sup> Policy Guidance referring to the increase the capacity of and cooperation between the EA and CSW to provide integrated services and measures for inclusion in the labour market including training upskilling and reskilling.

**Response to COVID-19 pandemic.** The Government on a session held on the April 24, 2020, adopted a Decree with legal force amending the Decree with legal force for application of the Law on social protection during a state of emergency ("Official Gazette of the Republic of North Macedonia") No. 198/20), which enabled guaranteed minimum assistance (GMA) for persons whose employment was terminated during the pandemic, to be claimed under facilitated conditions, calculated from April to December 2020.

Namely, the material insecurity of the household is determined by calculating the amount of all incomes of all members of the household on all grounds in the month before submitting the request for exercising the GMA right and in the month before the current month of exercising the right, in the period from April to December 2020. In addition, the GMA right may be exercised by a household in which a household member has been deleted from the records of unemployed persons due to irregular registration or whose employment was terminated by agreement, at his request or by the employer due to breach of contract or other employment obligations. The GMA right does not terminate if the beneficiary does not register with the competent employment center and does not regularly fulfill the obligations for registration in accordance with the regulations for employment and insurance in case of unemployment.

The effect of the facilitated access to the GMA right, according to the dynamics of submitted requests and the duration of the pandemic in the coming period, by the end of 2020 it is expected about 3,500 new households to be covered (which will continue to use the right in 2021), while in 2021 with this right 6,500 new households to be acquired (10,000 households in total).

The introduced amendments to the Law on Social Protection and the Law on Child Protection, as well as adoption of the Law on Social Security of Elderly in 2019, marked the start of reforms in the area of social protection. The necessary bylaws have been adopted, too.

The final goal of this reform is decreasing the poverty rate, especially for vulnerable categories and their successful re-integration in the society. Hence, of utmost importance is linking social benefits with the activation of GMA beneficiaries. Therefore, 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.

This measure is linked with the SDG 1 No poverty and SDG 8 Decent work and economic growth. (*For more information see Annex 7*).

The activities of the measure are grouped into two components:

#### i. Activation of vulnerable individuals in the labour market

##### a. Activities planned in 2021

1. Monitoring and evaluation of the activities for activation of GMA users on the labor market;

2. Creation of a legal framework conducive to delivery of social services for supported employment (e.g. mentoring, counseling, etc.) by various providers;
3. Provision of financial and technical support for setting up or running of social enterprises leading to job creation and integration of the most disadvantaged categories into the labour market, including persons with disabilities.

The third activity includes:

- Management and operation of support structure (center) for social enterprises;
- Capacity building of relevant institutions at national and local level and social enterprises;
- Awareness raising, communication and visibility events and activities for and about social enterprises/entrepreneurs.

#### **b. Activities planned in 2022**

1. Monitoring and evaluation of the activities for activation of GMA users on the labor market;
2. Creation of a legal framework conducive to delivery of social services for supported employment (e.g. mentoring, counseling, etc.) by various providers;
3. Provision of financial and technical support for setting up or running of social enterprises leading to job creation and integration of the most disadvantaged categories into the labour market.

The third activity includes:

- Management and operation of support structure (center) for social enterprises;
  - Capacity building of relevant institutions at national and local level and social enterprises;
  - Awareness raising, communication and visibility events and activities for and about social enterprises/entrepreneurs.
4. Modernising the legal framework for employment, including professional rehabilitation of persons with disabilities

### **ii.Improved availability of quality social services**

#### **a. Activities planned in 2021**

- Provision of financial and technical support for development and thus expanding the social services network in local communities;
- Strengthening the capacity of existing and potential social service providers, including institutional stakeholders for high quality and effective service provision;
- Enhancement of local government involvement for the improvement of the availability of community based social services;
- Implementation of awareness-raising activities aimed at national and local level towards the general public (brochures, videos, brief documentaries, social media information activities, etc.) on the benefits of community based social services;
- Development and testing of new software integrating both social protection benefits and services.

#### **b. Activities planned in 2022**

- Provision of financial and technical support for further development and diversification of social services in local communities across the country;
- Deployment of the new software integrating both social protection benefits and services, including data migration;
- Development of a Monitoring, Supervision and Quality Assurance System for Social Services in accordance with the national standards for quality of social services.

#### **c. Activities planned in 2023**

- Provision of financial support for development of social services in all local communities across the country;
- Deployment of the comprehensive Monitoring, Supervision and Quality Assurance System for Social Services, which will include a mechanism for quality control, complaints, licensing and tools for monitoring and quality assurance at the level of social service providers, at the level of social work centers, at local and national level for all types of social services foreseen in the Law on Social Protection.

## 2. Results Indicators

Indicators	Baseline (2018)	Intermediate target (2022)	Target (2023)
At-risk-of-poverty rate	21.9%	16.9%	16.5%
% of persons (0-59) living in households with very low work intensity	16.4% <sup>79</sup>	15.3%	15.1%
% of the social welfare/GMA recipients in employment upon leaving support of services and measures for labour market activation	0	25%	25%
% of severely materially deprived persons	30.5%	-	28%
Number of licensed service provided (by type of service; home based, community based, extra-familial care)	0	40	50

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

The funds for implementation of the activities are estimated to EUR 11,855,000 for 3 years.

In EUR	2021	2022	2023
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	5,720,000	4,770,000	1,365,000
2.1 of which IPA funding, including WBIF funding	4,720,000	3,720,000	500,000
Total	5,720,000	4,770,000	1,365,000

\*national public finance sources

## 4. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Better targeting and increasing the effectiveness of cash transfers and their connection with the measures for activation of the labor market and social services 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.

Furthermore, social services sector is labour intensive, so that its growth has a potential to create a great number of jobs that attract dominantly women. Moreover, social enterprises as an emerging field may play a significant contribution in local economy through job creation, improving quality of life and provision of valuable social services.

Improving the availability and access to social care services on its own is essential if women are to have equal opportunities in the labour market. 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. This is the most directly related to SDG goal 1 (no poverty), but also with goal 2,5 and 8 (zero hunger, gender equality and decent work and economic growth).

## 5. Expected impact on the environment

Reducing poverty and social exclusion has an impact on the life style of the population and creates conditions for improving the environment.

## 6. Potential risks

Risk	Probability (low or high)	Planned mitigating action
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
Resistance in maintaining cooperation between Employment Centers and Social Work Centers regarding activation of the recipients of GMA	Medium	Ensuring close monitoring, coordination and dialogue between the institutions and by creation of clear inter-institutional rules of operation
The crisis caused by COVID-19 negatively affects activation of recipients of GMA in the labour market	High	Embed incentives in the design of Active Labour Market Measures and Programmes encouraging employment of workers coming from the cohort of vulnerable groups

<sup>79</sup>[https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=sdg\\_01\\_40&plugin=1](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=sdg_01_40&plugin=1)

## Measure 20: Strengthening the quality of the Primary Health Care

### 1. Description of measure

This measure is linked to the 6<sup>th</sup> Policy Guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2020: “Ensure adequate and sustainable funding to strengthen the health care sector with an aim to improve access to quality public health care for all citizens”.

**Response to COVID-19 pandemic.** During 2020, the Ministry of Health undertakes numerous activities regarding the prevention of the spread of COVID-19 through the development of a national plan for response to the COVID-19 crisis based on the basic principles for preventing the spread of epidemics: identify, diagnose and isolate. In this regard, efficient mechanisms for monitoring and identification of contacts have been established, laboratory capacities for diagnostics have been strengthened and increased, as well as increased and improved conditions for isolation treatment of patients within the existing capacities of PHI, through installation modular triage COVID-19 centers across the country.

Health indicators show that the mortality rate from chronic diseases (cardiovascular disease, diabetes, cancer, kidney disease) in our country is 70% higher than the EU average. The fact that the Covid-19 has the strongest consequences for people with existing chronic conditions and diseases, once again confirms that all stakeholders in the health system must constantly strive to improve the health of the population in the long run. Therefore, general physicians are the focus of these efforts, which will be a process, and not a moment in time.

The main goal of starting the PHC reform process is to improve the quality of PHC by reforming the PHC payment model, which should encourage and ensure the improvement of prevention, defining and applying standards for providing services according to medicine based on evidence, preparation of instructions and protocols, encouraging the management of certain conditions at the primary level and reducing the number of referrals to a higher level of health care, a larger number of general practitioners who will have specialisation in family medicine, encouraging the realisation of certain health services by nurses and facilitation of administrative work.

In order to improve the referral system, an upgrade is planned of the software application "My appointment" (Moj Termin) - which is established as a web platform that aims to create a system for appointments and electronic health records. With the upgrade, new modules will be introduced: module for smart referrals through E-clinical guidelines that shall assist decision-making on services and improve coordination with secondary health care; module for patronage nurses in the system "My Appointment" for easier monitoring and connection of the patronage service with the selected doctor and selected gynecologist, and at a later stage introduction of a tool for generating reports on public health necessary for the operation of the Institute of Public Health (IPH) and the Centers for Public Health (CPH), as well as introduction of a tool for generating reports on the quality of services necessary for the health institutions' performance analyses. .

Holders of the process of PHC reforms implementation are:

- The Ministry of Health and the Directorate of Electronic Health
- The Health Insurance Fund and
- Professional associations.

The basis of the reform is the payment model towards the PHC, and in order to achieve the above objectives, it is necessary to emphasize the variable part of the fee, by evaluating certain services and preventive activities, as well as to provide an increase in the capitation point, which will depend on certain personnel decisions (number of employed nurses, administrative staff).

This means that out of the total capitation point value that the doctor could receive, approximately one half would be calculated according to the number and age of the insured persons, while the other half would depend on the volume and type of services, preventive goals and monitoring of chronically ill patients.

The measure envisages stimulation of the selected doctors for further education i.e. specialisation in family medicine by covering the costs of specialisation.

In order to implement the reform that envisages performance of certain specialist services at the level of PHC, the measure envisages equipping the surgeries of all selected doctors with a set for monitoring vital functions, ECG and inhaler as well as procurement of sophisticated ECHO diagnostics for selected doctors and selected gynecologists, which equipment would be distributed regionally and used by all doctors.

Additionally, the measure envisages strengthening of the patronage service, i.e. procurement of vehicles that would be distributed regionally, LHO and field bags for all 300 patronage nurses, as well as procurement of hardware equipment for digitalisation of the work of patronage services and effective connection in the e-health system.

The process of developing ciphers and protocols, which are the basis for implementing reforms, is underway. Ciphers and protocols are developed by working groups set up by the Minister of Health, which include representatives from all stakeholders.

The variable part is intended to have the following structure:

**Basic health services (general medicine).** The basic health services that the selected doctor provides to the insured person (visit to the ambulance, consultation with the doctor, issuing prescriptions, etc.), recorded according to the code of health services of the HIF. The first version of the Code of Health Services has already been prepared and implemented in "My appointment", and starting from 01.07.2020 the selected doctor in the electronic diary records each service according to the code, as well as all data in accordance with the Law on Records in the Health field. Each health service is associated with a specific code from the codebook and has an appropriate weight factor. In the trial period, proposed coefficients are set, which will be revised before the new payment method is implemented.

**Achieved preventive goals (general medicine).** Existing preventive goals for early detection of diseases in seemingly healthy individuals (asymptomatic) will be defined according to protocols and followed by electronic forms. To begin, in the field of general medicine goals for prevention and early detection of diabetes, hypertension, asthma and HOBB, rational prescription of drugs and issuance of referrals for a higher level of health care are envisaged. The pediatrics activity has set goals for prevention and early detection of children's obesity and spinal deformities. In case the selected doctor can not make a plan for achieving the goals (example - no insured persons over 35 years, or no insured persons up to 18 years old), the percentage determined for the respective purpose can be added by performing health services from other categories. In future, the development of preventive goals is planned to be constantly improved process, i.e. the already developed protocols will be subject to regular revision.

**Follow-up of patients with chronic diseases (general medicine).** Patients already diagnosed with chronic diseases (diabetes, asthma, HOBB, hypertension, hypothyroidism) will be monitored according to protocols for monitoring chronic diseases in PHC for the respective disease. For the payment of this part, it is necessary for the doctor to follow the patients with chronic diseases throughout the year according to the adopted protocol and appropriate forms. Each disease is evaluated with a certain coefficient (point) depending on the number of health services that according to the protocols / instructions should be provided by the doctor when monitoring the patient.

**Performing certain interventions.** Health interventions are services that can be provided by the selected doctor (ear rinsing, suturing of small wounds, ECG, Ultrasound, etc.), which will be part of a special code of the Fund, with a description of the service and appropriate points (weight coefficients). Depending on the severity of the intervention, they will be evaluated and grouped into 2 or 3 groups. The type of services that can be performed by a general practitioner, family medicine specialist and/or the nurse will be determined according to the educational profile and the decisions for activity of the health institution.

**Capitation point supplement.** Supplement to the capitation point for an employed nurse or administrative worker with at least 20 hours of work per week. This would enable one nurse to be more dedicated to the realisation of health services, which would reduce the burden on the doctor. In order to successfully implement the reform and mitigate the risks, it is necessary to continuously implement campaigns to raise the awareness of the population and familiarise it with the changes in the work of PHC.

The measure is linked with the SDG 3 Good health and well being. *(For more information see Annex 7).*

#### **a. Activities planned in 2021**

1. Preparation of protocols for selected primary care doctors for the five most common non-communicable diseases (diabetes, asthma, HOBB , hypertension, hypothyroidism);
2. Preparation of protocols for selected gynecologists for prenatal care, cervical cancer, family planning;
3. Preparation of protocols for the selected pediatricians for: prevention of obesity in children, deformities of the spine etc;
4. Preparation of a code for interventions that can be provided by the selected doctors;
5. Providing specialisation in family medicine for at least 20 doctors who already work as selected doctors;
6. Amendments to laws and bylaws;

7. Upgrading of software modules in the system of "My appointment" for code of interventions, protocols and forms that should be filled in by the selected doctors when providing health services;
8. Conducting a public campaign in order to acquaint the population with the innovations in PHC;
9. Equipping the departments of at least 300 of the selected family medicine specialists with a set of vital signs (otoscope, rhinoscope, ophthalmoscope, blood pressure monitor, stethoscope), ECG and inhaler.

**b. Activities planned in 2022**

1. Establishment of a national body for implementation of PHC reforms;
2. Preparation of protocols for the selected doctors from the PHC for three additional diseases;
3. Preparation of additional protocols for the selected gynecologists (one);
4. Preparation of additional protocols for the selected pediatricians (two);
5. Providing specialisation in family medicine for at least 100 doctors who already work as selected doctors;
6. Development/adaptation, application and revision of ten clinical guidelines based on evidence-based medicine, through the National Steering Committee for Clinical Guidance;
7. Equipping the selected family medicine doctors grouped in three by regions with: spirometer and ECHO;
8. Equipping the selected gynecologists with ECHO 4D (60 devices regionally distributed), second nurse/administrator and stimulation of selected doctors who are specialists or specialising in family medicine;
9. Equipping the ordinations of the other 1,200 selected specialist doctors with a set of vital signs (otoscope, rhinoscope, ophthalmoscope, blood pressure monitor, stethoscope), ECG and inhaler;
10. Conducting a public campaign in order to acquaint the population with the innovations in PHC;
11. Upgrade modules to "My appointment":
  - Introduction of a new module for smart referrals, through E-clinical guidelines will help in making decisions about the services and will improve the coordination with the secondary health care;
  - Introduction of a new module for patronage nurses in the system "My appointment";
  - Creating a new profile - nurse in PHC;
  - Development of an electronic scheduling system for PHC;
12. Conducting training for the use of the new modules on "My appointment".

**c. Activities planned in 2023**

1. Preparation of protocols for the selected doctors from the PHC for five additional diseases;
2. Preparation of additional protocols for the selected gynecologists;
3. Preparation of additional protocols for the selected pediatricians;
4. Providing specialisation in family medicine at the expense of the state funds for at least 100 doctors who already work as selected doctors;
5. Development/adaptation, application and revision of six clinical guidelines based on evidence-based medicine, through the National Steering Committee for Clinical Guidance;
6. Continuous education of the population for prevention of non-communicable chronic diseases through electronic and written media;
7. Continuous education of the population to highlight the benefits of PHC reform through electronic and print media;
8. Providing for employment of a second nurse/administrator and incentives for selected doctors who are specialists or for a specialisation in family medicine;
9. Upgrade to "My appointment" through:
  - Introduction of a population health reporting tool;
  - Introduction of a tool for reporting on the quality of services.

**2. Results Indicators**

	Baseline 2020	Intermediate target 2022	Target 2023
Reduced referral to a higher level of health care for services that can be performed by the selected doctor	-	Reduction by 25% compared to 2020	Reduction by 50% compared to 2020
% of patients with chronic non-communicable diseases (diabetes, hypertension and hypothyroidism) who are monitored at the primary level	0	30%	50%



% of patients who underwent preventive examination for timely detection of diseases	0	30%	60%
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### 3. Estimated cost of the activities and the source of financing

Funds for the implementation of the measure are estimated at EUR 16,701,800.

In EUR	2021	2022	2023
1. Budgetary expenditures*	886,000	8,962,500	6,853,300
2. Non-budgetary financing	0	0	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	886,000	8,962,500	6,853,300

\* national sources of public finance

### 4. Expected impact on social outcomes such as employment, poverty reduction, gender equality and access to health services

The measure is expected to have a positive impact on increasing the number of employments of nurses and administrative and technical staff in PHC, to encourage equalisation of coverage with health services in all regions of the country and to strengthen the patronage service which will lead to more accessible health care especially for the vulnerable categories of citizens.

### 5. Expected impact on the environment

The measure will increase the awareness of the population for a healthy lifestyle through preventive activities, screenings and regular monitoring of chronic conditions in PHC and will indirectly affect the change of lifestyle, which means the use of alternative means of transport to prevent cardiovascular disease and diabetes and thus will improve the environment.

### 6. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient coordination, involvement and commitment among all relevant stakeholders to ensure that all institutions and their staff are aware of their responsibilities	Low	The Government will oblige all relevant state bodies to cooperate and provide all necessary information, as well as human and financial resources for successful implementation and ensuring the sustainability of the project.
Citizens' distrust in using specialist services with family doctors	High	Conducting media campaigns to increase trust in family doctors
Long-lasting process of transition from the concept of selected doctor to family doctor and lack of motivation for specialisation of doctors	High	Conducting additional education of family doctors in alternative ways through trainings and specialisations and their stimulation by the state

## 6. The cost and financing of structural reforms

The total cost for financing the structural reform measures under ERP 2021-2023 is EUR 248,736,297 for the whole period under which the Programme is submitted, i.e. for 2021 - 2023. Of that amount, EUR 99,435,013 are provided from the Central Budget, EUR 8,830,000 are funds provided from other national public finance sources, EUR 46,352,000 from IPA funds, EUR 11,669,097 are provided through other grants and EUR 82,495,187 are provided through project loans. Central budget funds account for 40.0% of total financing costs, 3.5% of total funds are provided from other national public finance sources, IPA funds account for 18.6%, other grants for 4.7%, while 33.2% 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 141,989,254), followed by the measure for implementation of an Intelligent Transport System (ITS) along Corridor 10, for which in the period 2021 - 2023 a total of EUR 19,746,016 are planned to be allocated. The measures from the area of health care (Improving the quality of the Primary health care) and social protection and inclusion (Strengthening the system for social inclusion of vulnerable categories of people) are next in the amount of allocated funds, for which a total of EUR 16,701,800 and EUR 11,855,000, respectively, are planned. For the energy sector measures, especially for promotion of renewable energy sources and improvement of energy efficiency, in the 2021 - 2023 period a total of EUR 10,470,844 are envisaged (EUR 5,307,800

and EUR 5,163,044, respectively). In the period 2021 – 2023, a total of EUR 9,000,000 are planned for support for start-ups and SMEs in selected less-developed regions of the country to grow, produce added value and create a local living economy. For the education area, more specifically for further development of the qualifications system, EUR 8,816,283 are planned.

## **7. Institutional issues and stakeholder involvement**

The Economic Reform Programme 2021-2023, was prepared by the inter-ministerial working group for the preparation of the ERP, 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, coordination of economic sectors and investments, National Bank, Ministry of finance, 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 Health, Public Procurement Bureau, Fund for Innovation and Technology Development, Employment Agency. In the preparation process, according to current practice, in addition to the member of the working group, representatives of the sectors in the institutions responsible for policy making, as well as the budget departments were actively involved.

The situation with the global COVID-19 pandemic posed a new challenge in the process of preparation of the Programme, where the tools for organising virtual events were mostly used in holding working meetings with institutions, training, consultations, and implementation of the EC advisory mission. Also, the electronic communication was used to the maximum extent, in order for the ERP preparation process to move within the established time frame and dynamics for its submission to the EC.

In the period 19 – 29 May 2020, as part of the EU funded multi-beneficiary project<sup>80</sup>, a workshop with CEF<sup>81</sup> – e-learning - was held, for strengthening the capacities of the institutions involved in the process of preparation of ERP for creating reform measures and their integration in the budgets.

On August 26, 2020, the National coordinator for ERP, together with the MoF team responsible for the preparation of the Programme, held an initial meeting with the relevant institutions, for preparation of the new ERP 2021-2023. The following topics were discussed: 1/ the novelties in the new version of the Guidance Note for ERP 2021-2023; 2 /the three key challenges for North Macedonia listed in the European Commission Assessment for ERP 2020-2022, which should be taken into account when preparing ERP 2021-2023 (improving the quality and relevance of education system; improving the competitiveness of domestic companies and integration in global value chains and formalisation of the economy); and 3 / Work Plan for ERP 2021 - 2023.

In September 2021, the Government adopted the Work Plan for preparation of ERP 2021 – 2023, as well as Action plan for implementation of the policy recommendations adopted at the Economic-Financial Dialogue of 19 May 2020.

On September 15 – 16, 2020, a Regional EU meeting for starting the process of preparation of the ERP 2021 – 2023 was held. On the 15<sup>th</sup>, the Regional meeting of the ERP Coordinators and their teams from Western Balkan countries and Turkey with representatives from European Commission was held, where inter alia, the strategic use of ERP within enlargement process, structural reforms in face of COVID-19 and link between IPA Programming and ERP were discussed. Also, the new ERP Guidance Note for 2021 – 2023 was presented, along with the novelties for this cycle of ERP: focus on post - COVID-19 economic recovery, horizontal inclusion of green and digital transformation of the economy (as vectors of competitiveness) in all areas of structural reforms, and increased attention to social protection, especially health care. The 16<sup>th</sup> was reserved for a bilateral meeting between the National ERP Coordinator and the ERP Secretariat (from the Ministry of Finance) with representatives of the European Commission.

In September, the relevant institutions submitted to MoF proposals of activities for the Action Plan for implementation of the policy recommendations from the Economic and Financial Dialogue with the EU from 19 May 2020, together with the first draft of the sector diagnostics with proposals of reform measures for ERP 2021 – 2023.

In the period September – October CEF held 2 workshops: 1/ Knowledge Sharing on Costing of Structural Reforms, which was targeted towards the ERP Coordinators in line ministries and 2/ Coordination Schemes for Costing of Structural

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<sup>80</sup> EU funded multi-beneficiary project "Strengthening Line Ministries' Capacities to Assess Fiscal Implications of Structural Reforms", a regional project for Western Balkans countries and Turkey

<sup>81</sup> Centre of Excellence in Finance, Ljubljana

Reforms which was intended for ERP Coordinators, creators of the measures and also people from the budget departments in the relevant institutions.

The second draft version of the structural reform measures was prepared in late October 2020, prior to the EC's advisory mission for the proposed measures (9 - 10 November 2020).

From 7 to 21 December the third draft ERP 2021-2023, Chapter 5 – Structural reform measures, was published on the MF's website (<https://finance.gov.mk/en/node/9182>) (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 regarding the measures. In addition, on 15 January 2021, the draft ERP 2021-2023 was discussed on 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 26<sup>th</sup> January 2021.

## Annex 1: Summary data

**Table 1a. Macroeconomic prospects**

	ESA Code	2019	2019	2020	2021	2022	2023
		bn EUR	Rate of change				
1. Real GDP at market prices	B1*g	11.09	3.2	-4.4	4.1	4.6	5.2
2. GDP at market prices	B1*g	11.21	4.3	-3.4	6.2	6.7	7.3
<b>Components of real GDP</b>							
3. Private consumption expenditure	P3	7.32	3.5	-4.0	3.5	3.6	3.9
4. Government consumption expenditure	P3	1.52	-0.8	2.4	4.3	1.8	1.6
5. Gross fixed capital formation <sup>82</sup>	P51	3.80	9.5	-10.2	7.7	7.9	8.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	:	:	:	:	:	:
7. Exports of goods and services	P6	6.96	7.2	-17.0	14.0	8.4	9.0
8. Imports of goods and services	P7	8.52	8.9	-15.5	13.2	7.6	7.8
<b>Contribution to real GDP growth</b>							
9. Final domestic demand		12.65	5.3	-5.8	5.4	5.2	5.6
10. Change in inventories and net acquisition of valuables	P52+P53	:	:	:	:	:	:
11. External balance of goods/services	B11	-1.56	-2.1	1.3	-1.3	-0.6	-0.4

Source: SSO and calculations of the Ministry of finance

**Table 1b. Price developments**

		2019	2020	2021	2022	2023
1. GDP deflator	%	1.1	1.0	2.0	2.0	2.0
2. Private consumption deflator	%	0.5	1.0	1.5	1.8	2.0
3. HICP	%	:	:	:	:	:
4. National CPI	%	0.8	1.1	1.5	2.0	2.0
5. Public consumption deflator	%	3.3	3.5	3.2	1.7	1.6
6. Investment deflator	%	1.8	-1.3	1.9	2.2	2.1
7. Export price deflator (goods & services)	%	0.4	-1.8	1.0	1.3	1.5
8. Import price deflator (goods & services)	%	0.7	-1.8	1.0	1.3	1.5

Source: Calculations of the Ministry of Finance and NBRNM

**Table 1c. Labour market developments**

	ESA code	2019	2019	2020	2021	2022	2023
		Level	Rate of change				
1. Population (thousands)			2.077	2.076	2.074	2.072	2.070
2. Population (growth rate in %)			0.02	-0.05	-0.07	-0.10	-0.12
3. Working-age population (persons, thousands <sup>83</sup> )			1.685	1.686	1.691	1.696	1.703
4. Participation rate			57.2	57.0	57.3	57.8	58.3
5. Employment <sup>84</sup> (persons, thousands)			798	801	816	833	852
6. Employment <sup>85</sup> , hours worked			:	:	:	:	:
7. Employment (growth rate in %)			5.1	0.4	1.9	2.1	2.3
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate <sup>86</sup>			17.3	16.6	15.8	15.0	14.1
11. Labour productivity <sup>87</sup> , persons		854.8	-1.8	-4.8	2.1	2.5	2.8
12. Labour productivity <sup>88</sup> , hours worked			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

<sup>82</sup> Data refers to gross capital formation

<sup>83</sup> Age group of 15-64 years

<sup>84</sup> Occupied population, domestic concept national accounts definition

<sup>85</sup> National accounts definition

<sup>86</sup> Harmonised definition, Eurostat

<sup>87</sup> Real GDP per person employed

<sup>88</sup> Real GDP per hour worked

Table 1d. Sectoral balance

% of GDP	ESA	2019	2020	2021	2022	2023
1. Net lending/borrowing vis-à-vis the rest of the world	B9	3.3	-0.4	0.5	1.6	2.4
of which:						
- Balance of goods and services		-14.3	-12.9	-13.3	-13.0	-12.9
- Balance of primary incomes and transfers		11.6	9.3	10.7	11.3	11.4
- Capital account		6.0	3.2	3.1	3.3	3.9
2. Net lending/borrowing of the private sector	B9/EDP B9	-0.5	4.8	2.3	2.1	1.7
3. Net lending/borrowing of general government		-2.2	-8.4	-4.9	-3.8	-3.2
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Source: NBRNM and MoF

Table 1e. GDP, investment and gross value added

	ESA	2019	2020	2021	2022	2023
<b>GDP and investment</b>						
GDP level at current market prices (in bn Denars)	B1g	689.4	665.7	706.8	754.1	809.2
Investment ratio (% of GDP)		34.5	31.7	32.8	33.9	34.9
<b>Growth of Gross Value Added, percentage changes at constant prices</b>						
1. Agriculture		-0.3	:	:	:	:
2. Industry (excluding construction)		5.2	:	:	:	:
3. Construction		3.0	:	:	:	:
4. Services		2.8	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

Table 1f. External sector developments

Euro billion	2019	2020	2021	2022	2023
1. Current account balance (% of GDP)	-3.3	-3.7	-2.6	-1.7	-1.5
2. Export of goods	5.3	4.6	4.9	5.2	5.6
3. Import of goods	7.3	6.4	6.8	7.2	7.7
4. Trade balance	-2.0	-1.8	-1.9	-2.0	-2.1
5. Export of services	1.6	1.4	1.5	1.7	1.8
6. Import of services	1.3	1.1	1.1	1.3	1.4
7. Service balance	0.3	0.3	0.4	0.4	0.4
8. Net interest payments from abroad	:	:	:	:	:
9. Other net factor income from abroad	-0.5	-0.3	-0.4	-0.4	-0.5
10. Current transfers	1.8	1.4	1.6	1.8	2.0
11. Of which from EU	:	:	:	:	:
12. Current account balance	-0.4	-0.4	-0.3	-0.2	-0.2
13. Foreign direct investment	0.7	0.3	0.4	0.4	0.5
14. Foreign reserves	0.4	0.2	0.3	0.4	0.5
15. Foreign debt	3.3	:	:	:	:
16. Of which: public	8.2	:	:	:	:
17. O/w: foreign currency denominated	:	:	:	:	:
18. O/w: repayments due	:	:	:	:	:
19. Exchange rate vis-à-vis EUR (end-year)	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (annual average)	61.5	61.5	61.5	61.5	61.5
21. Net foreign saving (% of GDP)	61.5	61.5	61.5	61.5	61.5
22. Domestic private saving (% of GDP)	:	:	:	:	:
23. Domestic private investment (% of GDP)	:	:	:	:	:
24. Domestic public saving (% of GDP)	:	:	:	:	:
25. Domestic public investment (% of GDP)	:	:	:	:	:

Source: National Bank of the Republic of North Macedonia

Table 1g. Sustainability indicators

		2016	2017	2018	2019	2020
1. Current Account Balance	% of GDP	-2.9	-1.0	-0.1	-3.3	-3.7

2. Net International Investment Position	% of GDP	-57.7	-58.0	-56.2	-57.6	:
3. Export market share	% growth	13.0	3.8	11.1	6.7	0.0
4. Real Effective Exchange Rate	% growth	1.1	-0.5	1.4	-1.7	:
5. Nominal Unit Labour Costs	% growth	3.6	3.9	6.5	8.3	:
6. Private sector credit flow *	% of GDP	3.0	2.3	3.1	2.6	:
7. Private sector debt	% of GDP	86.9	87.5	86.7	88.3	:
8. General Government Debt	% of GDP	39.8	39.4	40.4	40.6	51.2

\*Data for 2016 is adjusted for write-offs of non-performing loans

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

**Table 2a. General government budgetary prospects**

	ESA	2019	2019	2020	2021	2022	2023
		bn denars	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-14.856	-2.2	-8.4	-4.9	-3.8	-3.2
2. Central government	S1311	-16.263	-2.4	-8.2	-4.9	-3.8	-3.2
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-1.234	-0.2	0.1	0.0	0.0	0.0
5. Social security funds	S1314	2.641	0.4	-0.2	0.0	0.0	0.0
General government (S13)							
6. Total revenue	TR	217.288	31.5	32.1	32.6	32.0	31.8
7. Total expenditure <sup>89</sup>	TE	232.144	33.7	40.5	37.6	35.8	35.0
8. Net borrowing/lending	EDP.B9	-14.856	-2.2	-8.4	-4.9	-3.8	-3.2
9. Interest expenditure	EDP.D41	8.145	1.2	1.3	1.3	1.4	1.3
10. Primary balance <sup>90</sup>		-6.711	-1.0	-7.2	-3.6	-2.5	-1.9
11. One-off and other temporary measures <sup>91</sup>		:	:	:	:	:	:
Components of revenues							
12. Total taxes (11 = 12a+12b+12c)		124.049	18.0	17.9	18.4	18.3	18.4
12a. Taxes on production and imports	D2	90.039	13.1	12.9	13.3	13.2	13.3
12b. Current taxes on income and wealth	D5	30.745	4.5	4.5	4.6	4.6	4.7
12c. Capital taxes	D91	3.265	0.5	0.5	0.5	0.5	0.5
13. Social contributions	D61	62.166	9.0	9.8	9.7	9.5	9.3
14. Property income	D4	4.696	0.7	0.7	0.9	0.8	0.8
15. Other (15 = 16-(12+13+14)) <sup>92</sup>		26.377	3.8	3.7	3.6	3.3	3.2
16 = 6. Total revenue	TR	217.288	31.5	32.1	32.6	32.0	31.8
p.m.: Tax burden (D2+D5+D61+D91-D995) <sup>93</sup>		186.215	27.0	27.7	28.1	27.8	27.7
Selected components of expenditures							
17. Collective consumption	P32	69.247	10.0	11.7	11.6	11.0	10.4
18. Total social transfers	D62 + D63	123.198	17.9	17.8	17.1	16.5	15.7
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	123.198	17.9	17.8	17.1	16.5	15.7
19 = 9. Interest expenditure	EDP.D41	8.145	1.2	1.3	1.3	1.4	1.3
20. Subsidies	D3	6.862	1.0	6.2	3.3	2.8	2.7
21. Gross fixed capital formation	P51	23.410	3.4	3.6	4.3	4.3	4.8
22. Other (22 = 23-(17+18+19+20+21)) <sup>94</sup>		1.283	0.2	:	:	:	:
23.=7. Total expenditures	TE <sup>95</sup>	232.144	33.7	40.5	37.6	35.8	35.0
p.m. compensation of public sector employees	D1	43.886	6.4	7.4	7.1	6.7	6.3

Source: Ministry of Finance

<sup>89</sup> Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9

<sup>90</sup> The primary balance is calculated as (EDP.B9, item 8) plus (EDP.D41 + FISIM recorded as intermediate consumption, item 9)

<sup>91</sup> A plus sign means deficit-reducing one-off measures

<sup>92</sup> P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (other than D.91)

<sup>93</sup> Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate

<sup>94</sup> D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

<sup>95</sup> Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9

Table 2b. General government budgetary prospects

	ESA	2019	2020	2021	2022	2023
		bn denars				
Net lending (B9) by sub-sectors						
1. General government	S13	-14.86	-55.96	-34.94	-28.95	-25.96
2. Central government	S1311	-16.26	-54.84	-34.93	-28.94	-25.95
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-1.23	0.54	0.00	0.00	0.00
5. Social security funds	S1314	2.64	-1.66	-0.01	-0.01	-0.01
General government (S13)						
6. Total revenue	TR	217.29	213.62	230.50	241.40	257.09
7. Total expenditure <sup>96</sup>	TE	232.14	269.58	265.44	270.36	283.04
8. Net borrowing/lending	EDP.B9	-14.86	-55.96	-34.94	-28.95	-25.96
9. Interest expenditure	EDP.D41	8.15	8.34	9.54	10.23	10.62
10. Primary balance <sup>97</sup>		-6.71	-47.62	-25.40	-18.72	-15.34
11. One-off and other temporary measures <sup>98</sup>		:	:	:	:	:
Components of revenues						
12. Total taxes (11 = 11a+11b+11c)		124.05	119.09	130.22	138.24	149.27
12a. Taxes on production and imports	D2	90.04	85.99	94.13	99.92	107.89
12b. Current taxes on income and wealth	D5	30.75	29.76	32.39	34.62	37.68
12c. Capital taxes	D91	3.27	3.34	3.70	3.70	3.70
13. Social contributions	D61	62.17	65.05	68.30	71.71	75.28
14. Property income	D4	4.70	4.93	6.20	6.21	6.35
15. Other (15 = 16-(12+13+14)) <sup>99</sup>		26.38	24.55	25.78	25.26	26.19
16 = 6. Total revenue	TR	217.29	213.62	230.50	241.40	257.09
p.m.: Tax burden (D2+D5+D61+D91-D995) <sup>100</sup>		186.22	184.14	198.52	209.94	224.55
Selected components of expenditures						
17. Collective consumption	P32	69.25	77.58	81.85	82.76	84.51
18. Total social transfers	D62+D63	123.20	118.65	120.71	124.17	126.92
18a. Social transfers in kind	P31=D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	123.20	118.65	120.71	124.17	126.92
19 = 9. Interest expenditure	EDP.D41	8.15	8.34	9.54	10.23	10.62
20. Subsidies	D3	6.86	40.95	23.03	20.92	21.92
21. Gross fixed capital formation	P51	23.41	24.07	30.31	32.28	39.08
22. Other (22 = 23-(17+18+19+20+21)) <sup>101</sup>		1.28	:	0.00	:	:
23.=7. Total expenditures	TE <sup>102</sup>	232.14	269.58	265.44	270.36	283.04
p.m. compensation of public sector employees	D1	43.89	49.04	50.48	50.65	50.75

Source: Ministry of Finance

Table 3. General government expenditure by function

Percentage of GDP	COFOG	2019	2020	2021	2022	2023
1. General public services	1	3.4	3.7	4.2	:	:
2. Defence	2	1.0	1.1	1.4	:	:
3. Public order and safety	3	2.3	2.4	2.4	:	:
4. Economic affairs	4	3.5	4.1	3.5	:	:
5. Environmental protection	5	0.3	0.2	0.2	:	:
6. Housing and community amenities	6	2.3	2.5	2.6	:	:
7. Health	7	5.0	8.5	5.8	:	:
8. Recreation, culture and religion	8	0.5	0.6	0.6	:	:
9. Education	9	3.6	4.1	4.0	:	:

<sup>96</sup> Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9<sup>97</sup> The primary balance is calculated as (EDP.B9, item 8) plus (EDP.D41 + FISIM recorded as intermediate consumption, item 9)<sup>98</sup> A plus sign means deficit-reducing one-off measures<sup>99</sup> P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (other than D.91)<sup>100</sup> Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate<sup>101</sup> D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8<sup>102</sup> Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9



10. Social protection	10	11.9	13.3	12.8	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	33.7	40.5	37.6	35.8	35.0

Source: Ministry of Finance

**Table 4. General government debt developments**

Percentage of GDP	ESA	2019	2020	2021	2022	2023
1. Gross debt <sup>103</sup>		40.6	51.2	53.2	53.3	53.7
2. Change in gross debt ratio		0.2	10.6	2.0	0.1	0.5
<b>Contributions to change in gross debt</b>						
3. Primary balance <sup>104</sup>		1.0	7.2	3.6	2.5	1.9
4. Interest expenditure <sup>105</sup>	EDPD.41	1.2	1.3	1.3	1.4	1.3
5. Real growth effect		-1.2	1.9	-2.0	-2.3	-2.6
6. Inflation effect		-0.4	-0.4	-1.0	-1.0	-1.0
7. Stock-flow adjustment		-0.3	0.7	0.0	-0.5	0.8
of which:						
- Differences between cash and accruals <sup>106</sup>		:	:	:	:	:
- Net accumulation of financial assets <sup>107</sup>		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other <sup>108</sup>		:	:	:	:	:
p.m. implicit interest rate on debt <sup>109</sup>		3.0	3.0	2.8	2.7	2.6
<b>Other relevant variables</b>						
8. Liquid financial assets <sup>110</sup>		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

Source: Ministry of Finance

**Table 5. Cyclical developments**

Percentage of GDP	ESA	2019	2020	2021	2022	2023
1. Real GDP growth (%)	B1g	3.2	-4.4	4.1	4.6	5.2
2. Net lending of general government *	EDP.B.9	-2.2	-8.4	-4.9	-3.8	-3.2
3. Interest expenditure	EDP.D.41	1.2	1.3	1.3	1.4	1.3
4. One-off and other temporary measures <sup>111</sup>		:	:	:	:	:
5. Potential GDP growth (%) <sup>112</sup>		2.3	2.0	2.0	2.3	2.9
Contributions (percentage points):						
- labour		1.6	1.5	1.2	1.0	1.0
- capital		1.3	0.9	1.1	1.1	1.3
- total factor productivity		-0.6	-0.4	-0.2	0.2	0.6
6. Output gap		1.3	-5.1	-3.1	-0.9	1.3
7. Cyclical budgetary component		0.4	-1.9	-1.1	-0.3	0.4
8. Cyclically-adjusted balance (2-7)		-2.6	-6.5	-3.9	-3.5	-3.6
9. Cyclically-adjusted primary balance (8-3)		-1.4	-5.2	-2.5	-2.2	-2.3
10. Structural balance (8-4)		:	:	:	:	:

\* Data pertains to central government budget

Source: Ministry of Finance

<sup>103</sup> As defined in Regulation 3605/93 (not an ESA concept)

<sup>104</sup> Cf item 10 in Table 2a

<sup>105</sup> Cf item 9 in Table 2a

<sup>106</sup> The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant

<sup>107</sup> Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant

<sup>108</sup> Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

<sup>109</sup> Proxied by interest expenditure divided by the debt level of the previous year

<sup>110</sup> AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).

<sup>111</sup> A plus sign means deficit-reducing one-off measures

<sup>112</sup> Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

**Table 6. Divergence from previous programme**

	2019	2020	2021	2022	2023
<b>1. GDP growth</b>					
Previous programme	3.5	3.8	4.1	4.3	:
Latest programme	3.2	-4.4	4.1	4.6	5.2
Difference (p.p.)	-0.3	-8.2	0.0	0.3	:
<b>2. General government net lending (% of GDP)</b>					
Previous programme	-3.0	-2.3	-2.0	-2.0	:
Latest programme	-2.2	-8.4	-4.9	-3.8	-3.2
Difference (p.p.)	0.9	-6.1	-2.9	-1.8	:
<b>3. General government gross debt (% of GDP)</b>					
Previous programme	40.4	40.9	40.3	40.0	:
Latest programme	40.6	51.2	53.2	53.3	53.7
Difference (p.p.)	0.2	10.3	12.9	13.3	:

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	40.5	34.0	33.3	32.1	30.8
of which:							
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	8.6	10.4	9.5	8.9	7.7	6.2
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	4.5	8.5	6.2	6.6	7.2	8.0
- Long-term care ( <i>this was earlier included in the health care</i> )	:	:	:	:	:	:	:
Education expenditure	:	4.0	4.1	4.5	4.8	5.0	5.2
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	0.7	1.3	1.1	1.0	0.8	0.6
Total revenues	:	32.4	32.1	32.2	32.0	31.3	30.4
of which: property income	:	:	:	:	:	:	:
of which: trade-related revenue	:	:	:	:	:	:	:
of which: royalties, concessions etc.	:	:	:	:	:	:	:
of which: from pensions contributions (or social contributions, if appropriate)	:	6.0	6.6	6.6	6.5	6.5	6.5
Pension reserve fund assets	:	:	:	:	:	:	:
of which: consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
<b>Assumptions*</b>							
Labour productivity growth	2.9	2.2	-4.8	3.4	2.7	2.5	2.4
Real GDP growth	6.5	3.4	-4.4	5.4	4.0	3.7	3.5
Participation rate males (aged 20-64) <sup>113</sup>	74.8	77.7	76.7	79.5	81.8	83.9	85.6
Participation rate females (aged 20-64)	50.4	50.4	55.0	60.2	65.3	70.6	75.9
Total participation rate (20-64)	62.8	64.2	66.0	70.0	73.6	77.3	80.8
Unemployment rate	35.2	32.2	16.8	9.4	6.2	4.5	3.5
Population aged 65+ over total population	11.3	11.7	14.3	17.9	22.6	28.0	34.0

\* Labour market data refer to the age group 15-64

Source: Calculations of the Ministry of Finance

<sup>113</sup>Labour market calculation refer to the age group of 15-64 years old.

**Table 7a. Potential liabilities**

% of GDP	2020	2021
Public guarantees	9,1	:
Of which: related to the financial sector	1,4	:
Other contingent liabilities	:	:
Increase in contingent liabilities due to COVID-19	:	:

Source: Ministry of Finance

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

		2019	2020	2021	2022	2023
Short-term interest rate	Annual average	-0.4	-0.4	-0.5	-0.5	-0.5
Long-term interest rate	Annual average	0.4	0	-0.1	0	0.1
USD/EUR exchange	Annual average	1.12	1.14	1.18	1.18	1.18
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	2.9	-3.8	4.7	3.7	3.7
EU GDP growth	Annual average	1.5	-7.4	4.1	3.0	3.0
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU (y-o-y)	Annual average	-0.5	-10.3	6.3	4.1	4.1
Oil prices (Brent, USD/barrel)	Annual average	64.0	41.6	44.0	45.7	46.9

Source: European Commission, Economic Forecast Autumn 2020 and European Central Bank

**Table 9. Selected employment and social indicators**

	Data source	2016	2017	2018	2019	2020
1. Labour market participation rate (%) total (20-64)	Eurostat	69.6	70.3	70.4	71.5	:
- male	Eurostat	83.8	84.4	84.2	83.4	:
- female	Eurostat	54.9	55.7	56.3	59.3	:
2. Employment rate (%) total (20-64)	Eurostat	53.3	54.8	56.1	59.2	:
- male	Eurostat	63.7	65.6	66.6	69.7	:
- female	Eurostat	42.5	43.7	45.2	48.4	:
3. Unemployment rate (%) total	Eurostat	23.7	22.4	20.8	17.3	:
- male	Eurostat	24.4	22.8	21.3	16.5	:
- female	Eurostat	22.8	21.8	19.9	18.4	:
4. Long-term unemployment rate (%) total	Eurostat	19.1	17.4	15.5	13.1	:
- male	Eurostat	19.9	17.6	15.7	12.9	:
- female	Eurostat	17.8	17.1	15.1	13.5	:
5. Youth unemployment (15-24) rate (%) total	Eurostat	48.2	46.7	45.4	35.6	:
- male	Eurostat	47.9	45.7	46.6	33.4	:
- female	Eurostat	48.8	48.6	43.2	38.9	:
6. Young people (15-24) not in employment, education or training (NEET), in %	Eurostat	24.3	24.9	24.1	18.1	:
7. Early school leavers, in % (Eurostat definition) education in training	Eurostat	9.9	8.5	7.1	7.1	:
8. PISA rating	OECD	:	:	PISA 2015/ 2018 Reading 352/393 Math 384/413 Science 371/394	:	:
9. PIAAC rating	OECD	:	:	:	:	:
10. Participation rate in early childhood education and care	Eurostat	38.3	39.5	43.3	:	:
11. GINI coefficient	Eurostat	33.6	32.4	31.9	30.7	:
12. Inequality of income distribution S80/S20 (Income quantile ratio)	Eurostat	6.6	6.4	6.2	5.6	:

13. Social protection expenditure in % of GDP	MoF	11.3	11.6	11.5	11.9	13.3
14. Health expenditure in % of GDP	MoF	4.9	4.9	4.9	5.0	8.5
15. At-risk-of-poverty before social transfers, % of the population	Eurostat	41.6	40.7	40.8	41.1	
16. Poverty rate	Eurostat	21.9	22.2	21.9	21.6	:
17. Poverty gap	Eurostat	32.9	37.3	37.7	32.0	:
<b>Other indicators used in the EU Social Scoreboard</b>						
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	15.0	:
20. Self-reported unmet need for medical care	Eurostat	2.9	2.5	2.3	2.5	:
21. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)	Eurostat	34	32	/	32	:

Source: Eurostat, OECD, MoF

**Table 10a: Costing of structural measures (in EUR)**

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
<b>Measure 1: Increasing the competitiveness of the electricity market</b>					
Year 2021	120,000	150,000	360,000	30,000	660,000
Year 2022	120,000	130,000	200,000	30,000	480,000 <sup>114</sup>
Year 2023	0	0	0	0	0
<b>Measure 2: Promotion of renewable energy sources</b>					
Year 2021	0	867,000	1,220,000	0	2,087,000
Year 2022	0	0	1,464,000	0	1,464,000
Year 2023	0	0	1,756,800	0	1,756,800
<b>Measure 3: Improvement of energy efficiency</b>					
Year 2021	0	300,000	0	3,805,113	4,105,113
Year 2022	0	0	0	556,538	556,538
Year 2023	0	0	0	501,393	501,393
<b>Measure 4: Implementation of an Intelligent Transport System (ITS) along Corridor 10</b>					
Year 2021	0	4,923,577	0	0	4,923,577
Year 2022	0	13,739,837	0	0	13,739,837
Year 2023	0	1,082,602	0	0	1,082,602
<b>Measure 5: Improving of irrigation systems</b>					
Year 2021	0	4,301,870	0	33,621,366	37,923,236
Year 2022	0	0	0	45,548,810	45,548,810
Year 2023	0	0	0	58,517,208	58,517,208
<b>Measure 6: Consolidation and defragmentation of agricultural land</b>					
Year 2021	0	600,000	0	1,149,000	1,749,000
Year 2022	0	350,000	0	500,000	850,000
Year 2023	0	340,000	0	500,000	840,000
<b>Measure 7: Agricultural cooperatives</b>					
Year 2021	0	1,800,000	0	1,060,000	2,860,000
Year 2022	0	0	0	1,060,000	1,060,000
Year 2023	0	1,380,000	0	1,060,000	2,440,000
<b>Measure 8: Farm road (re)construction</b>					
Year 2021	0	0	500,000	0	500,000
Year 2022	0	0	750,000	0	750,000

<sup>114</sup> The funds are intended for activities of the market operator

Year 2023	0	0	1,000,000	0	1,000,000
<b>Measure 9: E-marketplace for low value procurement</b>					
Year 2021	0	400,000	0	0	400,000
<b>Measure 10: Streamline the use of para-fiscal charges</b>					
Year 2021	0	15,000	0	0	15,000
Year 2022	0	250,000 <sup>115</sup>	0	0	250,000
Year 2023	0	250,000 <sup>116</sup>	0	0	250,000
<b>Measure 11: Support start-ups and SMEs in selected less-developed regions of the country to grow, produce added value and create a local living economy</b>					
Year 2021	1,000,000	0	0	0	1,000,000
Year 2022	1,000,000	2,000,000	1,500,000	0	4,500,000
Year 2023	1,000,000	1,000,000	1,500,000	0	3,500,000
<b>Measure 12: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities</b>					
Year 2021	0	145,000	0	0	145,000
Year 2022	0	75,000	0	0	75,000
Year 2023	0	0	0	0	0
<b>Measure 13: Enhancing cooperation between the academy and the industry</b>					
Year 2021	0	0	0	0	0
Year 2022	0	120,000	0	0	120,000
Year 2023	0	0	0	880,000	880,000
<b>Measure 14: Broadening the scope of digital services provided on National E-service Portal</b>					
Year 2021	0	1,570,000	0	1,177,000	2,747,000
Year 2022	25,000	1,635,000	0	0	1,660,000
Year 2023	0	1,635,000	0	0	1,635,000
<b>Measure 15: Trade facilitation</b>					
Year 2021	0	51,500	0	0	51,500
Year 2022	0	0	0	0	0
Year 2023	0	3,600	0	0	3,600
<b>Measure 16: Facilitating North Macedonia – Serbia cross-border crossing</b>					
Year 2021	0	0	0	0	0
Year 2022	0	0	0	1,300,000	1,300,000
Year 2023	0	0	0	3,836,000	3,836,000
<b>Measure 17: Strengthening the internal market in the Republic of North Macedonia</b>					
Year 2021	0	1,200,000	0	0	1,200,000
Year 2022	0	1,200,000	0	0	1,200,000

<sup>115</sup>Pending upon IPA project proposal approval by EUD (total estimated EUR 500.000, split in two years implementation)

<sup>116</sup>Pending upon IPA project proposal approval by EUD (total estimated EUR 500.000, split in two years implementation)

Year 2023	0	1,200,000	0	0	1,200,000
<b>Measure 18: Further development of the qualification system</b>					
Year 2021	2,804,761	0	0	0	2,804,761
Year 2022	2,930,761	0	0	0	2,930,761
Year 2023	3,080,761	0	0	0	3,080,761
<b>Measure 19: Strengthening the system for social inclusion of the vulnerable categories of people</b>					
Year 2021	0	980,000	4,220,000	520,000	5,720,000
Year 2022	0	700,000	3,290,000	780,000	4,770,000
Year 2023	0	65,000	1,300,000	0	1,365,000
<b>Measure 20: Strengthening the quality of the Primary Health Care</b>					
Year 2021	0	200,000	26,000	660,000	886,000
Year 2022	3,740,000	402,000	156,000	4,664,500	8,962,500
Year 2023	3,740,000	359,800	286,000	2,467,500	6,853,300

**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
<b>Measure 1: Increasing the competitiveness of the electricity market</b>								
Year 2021	0	0	560,000	0	100,000	0	0	660,000
Year 2022	0	0	480,000	0	0	0	0	480,000 <sup>117</sup>
Year 2023	0	0	0	0	0	0	0	0
<b>Measure 2: Promotion of renewable energy sources</b>								
Year 2021	1,220,000	0	0	0	867,000		0	2,087,000
Year 2022	1,464,000	0	0	0	0		0	1,464,000
Year 2023	1,756,800	0	0	0	0		0	1,756,800
<b>Measure 3: Improvement of energy efficiency</b>								
Year 2021	0	0	0	0	3,300,000	805,113	0	4,105,113
Year 2022	0	0	0	0	0	556,538	0	556,538
Year 2023	0	0	0	0	0	501,393	0	501,393
<b>Measure 4: Implementation of an Intelligent Transport System (ITS) along Corridor 10</b>								
Year 2021	0	0	0	0	0	4,923,577	0	4,923,577
Year 2022	0	0	0	0	0	13,739,837	0	13,739,837

<sup>117</sup> These funds are planned for activities related with market operator



Year 2023	0	0	0	0	0	1,082,602	0	1,082,602
<b>Measure 5: Improving of irrigation systems</b>								
Year 2021	16,487,173	0	0	5,400,000	4,301,870	11,734,193	0	37,923,236
Year 2022	33,569,087	0	0	4,500,000	0	7,479,723	0	45,548,810
Year 2023	22,190,770	0	0	0	0	36,326,438	0	58,517,208
<b>Measure 6: Consolidation and defragmentation of agricultural land</b>								
Year 2021	569,000	0	0	830,000	350,000	0	0	1,749,000
Year 2022	350,000 <sup>118</sup>	0	0	500,000	0	0	0	850,000
Year 2023	840,000 <sup>119</sup>	0	0	0	0	0	0	840,000
<b>Measure 7: Agricultural cooperatives</b>								
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
Year 2023	1,060,000	0	0	1,380,000	0	0	0	2,440,000
<b>Measure 8: Farm road (re)construction</b>								
Year 2021	500,000	0	0	0	0	0	0	500,000
Year 2022	750,000	0	0	0	0	0	0	750,000
Year 2023	1,000,000	0	0	0	0	0	0	1,000,000
<b>Measure 9: E-marketplace for low value procurement</b>								
Year 2021	0	0	0	400,000	0	0	0	400,000
<b>Measure 10: Streamline the use of para-fiscal charges</b>								
Year 2021	15,000	0	0	0	0	0	0	15,000
Year 2022	0	0	0	250,000 <sup>120</sup>	0	0	0	250,000
Year 2023	0	0	0	250,000 <sup>121</sup>	0	0	0	250,000
<b>Measure 11: Support start-ups and SMEs in selected less-developed regions of the country to grow, produce added value and create a local living economy</b>								
Year 2021	0	0	0	1,000,000	0	0	0	1,000,000
Year 2022	0	0	0	4,500,000	0	0	0	4,500,000
Year 2023	0	0	0	3,500,000	0	0	0	3,500,000
<b>Measure 12 Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities</b>								
Year 2021	0	0	0	145,000	0	0	0	145,000
Year 2022	0	0	0	75,000	0	0	0	75,000
Year 2023	0	0	0	0	0	0	0	0
<b>Measure 13: Enhancing cooperation between the academy and the industry</b>								
Year 2021	0	0	0	0	0	0	0	0

<sup>118</sup> estimated

<sup>119</sup> estimated

<sup>120</sup>Pending upon IPA project proposal approval by EUD (total estimated EUR 500.000, split in two years implementation)

<sup>121</sup>Pending upon IPA project proposal approval by EUD (total estimated EUR 500.000, split in two years implementation)

Year 2022	120,000	0	0	0	0	0	0	120,000
Year 2023	880,000	0	0	0	0	0	0	880,000
<b>Measure 14: Broadening the scope of digital services provided on National E-service Portal</b>								
Year 2021	447,000	0	0	2,300,000	0	0	0	2,747,000
Year 2022	360,000	0	0	1,300,000	0	0	0	1,660,000
Year 2023	335,000	0	0	1,300,000	0	0	0	1,635,000
<b>Measure 15: Trade facilitation</b>								
Year 2020	51,500	0	0	0	0	0	0	51,500
Year 2021	0	0	0	0	0	0	0	0
Year 2022	3,600	0	0	0	0	0	0	3,600
<b>Measure 16: Facilitating North Macedonia – Serbia cross-border crossing</b>								
Year 2021	0	0	0	0	0	0	0	0
Year 2022	0	0	0	0	1,300,000	0	0	1,300,000
Year 2023	0	0	0	0	1,405,227	2,430,773	0	3,836,000
<b>Measure 17: Strengthening the internal market in the Republic of North Macedonia</b>								
Year 2021	0	0	0	1,200,000	0	0	0	1,200,000
Year 2022	0	0	0	1,200,000	0	0	0	1,200,000
Year 2023	0	0	0	1,200,000	0	0	0	1,200,000
<b>Measure 18: Further development of the qualification system</b>								
Year 2021	1,444,761	0	0	1,360,000	0	0	0	2,804,761
Year 2022	1,494,761	0	0	1,436,000	0	0	0	2,930,761
Year 2023	1,494,761	0	0	1,586,000	0	0	0	3,080,761
<b>Measure 19: Strengthening the system for social inclusion of vulnerable categories of people</b>								
Year 2021		0	0	4,720,000	0	1,000,000	0	5,720,000
Year 2022	0	0	0	3,720,000	0	1,050,000	0	4,770,000
Year 2023	0	0	0	500,000 <sup>122</sup>	0	865,000	0	1,365,000
<b>Measure 20: Strengthening the quality of the Primary Health Care</b>								
Year 2021	786,000	0	100,000	0	0	0	0	886,000
Year 2022	5,112,500	0	3,850,000	0	0	0	0	8,962,500
Year 2023	3,013,300	0	3,840,000	0	0	0	0	6,853,300

<sup>122</sup> Proposed under IPA III, still in negotiation and pending approval by the European Commission

**Table 11: Reporting on the implementation of the structural reform measures of the ERP 2020-2022**

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

	Name and number of reform measure	Stage of reform implementation (1-5) <sup>123</sup>
	<b>Measure 1: Increasing the competitiveness of the electricity market</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Activities connected with day ahead market coupling between IBEX (Bulgaria) and MEMO (North Macedonia)	
	- Communication to stakeholders	2
	- Coordination with MRC OPSCOM	2
	- Testing with MRC Simulation facility	1
	- Coupling Go-live preparation	2
	- Decision on the PX administration model (Serviced, own LTF, etc.)	1
	- Observer status in MRC of the newly established company (PX)	2
	- Full or partial CACM adoption in MK - NEMO designation process (NRA)	3
	- MK to become a signatory of the global DAOA	2
	- Removal of the "export tariffs" from the Bulgarian side	1
	- Go-live date determination and dry run testing with real participant	1
	- LTF (local trading solution) testing	1
	- Market maker agreement with key player (s)	1
	- Products definition and system(s) establishment	1
	- Public presentation	1
	- Training materials preparation and members' training organisation	1
	2. Adoption of programme for protection of Vulnerable Energy Consumers	5
<b>Description of implementation and explanation if partial or no implementation</b>	1. All of the activities regarding the MKD-BG coupling project depends from the establishment of the day ahead market in North Macedonia. For now MEMO was designated to establish and to operate the day ahead market and was designated as NEMO and MCO for the bidding zone of North Macedonia. After the necessary changes in the license, this project can go live and continue its activities.	
	2. The programme for protection of Vulnerable Energy Consumers for 2020 was adopted, but due to the COVID-19, only the measure for subsidising the vulnerable consumers for instalment of pellet stoves was implemented. Total of 20 vulnerable consumers were subsidised with total of 600,000 MKD (approximately EUR 9,732)	
	<b>Measure 2: Promotion of renewable energy sources and improvement of energy efficiency</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Adoption of Programme for implementation of the Energy Development Strategy.	1

<sup>123</sup> 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

	2. Adoption of the Integrated National Energy and Climate Plans.	4
	3. 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.	5
	4. 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).	2
	5. 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.	3
	6. Conducting procedure for authorisation of large traders energy auditors and issuing licence for companies performing energy audits.	0
	7. Comprehensive assessment of the potential for applying highly efficient combined energy generation and efficient central heating and air conditioning systems.	0
	8. Preparation of typology of buildings needed for adoption of the Strategy for reconstruction of buildings by 2030.	2
	9. Adoption of Law on Establishing Energy Efficiency Fund.	2
<b>Description of implementation and explanation if partial or no implementation</b>	1. The development of the Programme for implementation of the Energy Development Strategy has not yet been started due to COVID-19 crisis, as there were difficulties to engage technical assistance for this activity.	
	2. The first draft of the NECP is prepared with technical assistance along with consultation with the relevant stakeholders. This document in the next phase shall include post COVID-19 measures and it will be available for public debate. Also, by the end of 2020 the Ministry of economy will start the procedure for preparation of the SEIA and this process will be finalised in 2021. The NECP is planned to be adopted by the Government by June 2021. In the meantime amendments of the Energy Law shall be adopted by the Parliament giving the NECP legal basis.	
	3. In 2020 a Study on the opportunities for increased use of guarantees of origin was prepared with technical assistance. This study will be shared with the relevant stakeholders for consultation in order to define the key findings and recommendations which may cause the need for amendment of the existing Energy Law and bylaws, in order to set stable platform for this support measure.	
	4. The process of development of the Rulebook on MVP is ongoing with technical assistance which has been provided by GIZ. The first draft of the MVP Rulebook has been realised. The Ministry of Economy has submitted request to UNOPS for technical assistance for preparation of the Rulebook for energy audits of the large enterprises which was officially approved. The Energy Performance of Buildings Directive has been partially transposed into the existing Energy Law, the Rulebook on Energy Performance of Buildings and the Rulebook on Energy Audits. Under the "Policy Window" of the Regional Energy Efficiency Programme (REEP Plus) the Ministry of Economy has requested from EBRD a consultancy for preparation of the package by-laws for buildings arising from the Energy Efficiency Law and the Decree determining the obligation scheme for energy efficiency, which were officially approved as well. In addition, there are ongoing activities for preparation of the secondary legislation in the part of energy consumption labeling and eco design with technical assistance provided from USAID.	
	5. The list of buildings that do not meet the minimum energy performance requirements owned and used by public sector entities at the state level has been published.	
	6. This procedure has not yet been conducted.	
	7. The Comprehensive assessment of the potential for applying highly efficient combined energy generation and efficient central heating and air conditioning systems has not yet been developed.	

	8. A technical assistance by HABITAT was provided for development of the Typology for buildings in accordance with the TABULA methodology.	
	9. Components two and three of the World Bank Energy Efficiency Project in the Public Sector, which is planned to start with implementation in Q4 2020, provide technical support for the establishment of the Energy Efficiency Fund as well as start-up capital for the Energy Efficiency Fund, in the amount of EUR 5 million.	
	<b>Measure 3: Implementation of an Intelligent Transport System (ITS) along Corridor 10</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Provision of funds for implementation and project approval.	<b>3</b>
	2. 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>0</b>
<b>Description of implementation and explanation if partial or no implementation</b>	1. Funds are secured by the World Bank and activity will be implemented through the WB Trade and Transport Facilitation Project. Design for deployment of ITS along Corridor 10 is prepared and revised according to WB and CONECTA comments. Bidding Documents for selection of the contractor for ITS and for supervision are in preparation stage. Expected launching the two BDs is 2021-Q2. BD for selection of consultant for preparation of National ITS Strategy shall be launched in December 2020.	
	2. Selection of the contractor for construction and selection of supervision of construction is expected in the Q3 of 2021. Expected start of construction and activities is Q4 of 2021.	
	<b>Measure 4: Improving of irrigation systems</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Continuing construction works of dam Konsko.	<b>4</b>
	2. Continuing construction works of dam Rechani.	<b>4</b>
	3. Continuing construction works of irrigation system Raven – Rechica.	<b>4</b>
	4. Starting procedure for providing construction license for construction of dam on Slupchanska river.	<b>1</b>
	5. Second and third phase on HS Zletovica - Finishing negotiations with EIB for financing of project and starting with tender preparation.	<b>1</b>
	6. Second phase of South Vardar irrigation system - Continuing construction works.	<b>4</b>
	7. IPA small irrigation systems - Finishing construction of 3 irrigation systems started in 2019. Finishing with technical documentation preparation for other 5 irrigation systems.	<b>4</b>
<b>Description of implementation and explanation if partial or no implementation</b>	1. Dam Konsko started with construction in 2016 and until October 2020 60% of work has been realised.	
	2. Dam Rechani started with construction in 2019 and until October 2020 3% of work has been realised.	
	3. Irrigation system Raven – Rechica started with construction in 2018 and until October 2020 30% of work has been realised.	
	4. Starting procedure for providing construction license for construction of dam on Slupchanska river is planned for 2021.	
	5. Finishing negotiations with EIB for financing of project and starting with tender preparation is planned for 2021.	
	6. Continuation of construction works.	
	7. Finishing construction of 2 irrigation systems started in 2019. Technical documentation preparation finished for all 8 irrigation systems. During next period 2021-2023 other 6 irrigation systems should be constructed.	
	<b>Measure 5: Consolidation and defragmentation of agricultural land</b>	<b>Stage of reform</b>

		implementation (1-5)
<b>Activities planned for 2020</b>	1. 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.	3
	2. Continuing the training of service providers for preparation of re-allotment and infrastructure plans.	3
	3. Finalisation of new 4 re-allotment plans.	4
	4. Finalisation of 4 infrastructure plans and construction.	4
	5. Finalisation of 4 environmental impacts analyses in the areas where agricultural land consolidation is carried out.	4
	6. Utilisation of the land consolidation measure (sub-measure 124) from the National Programme for Agriculture and Rural Development.	5
<b>Description of implementation and explanation if partial or no implementation</b>	1. On-the-job training and strengthening of the capacities of MAFWE is undergoing. Training of employees in regional units for their role as appointed legal representatives for deceased landowners in the land consolidation project area Logovardi has been implemented in June 2020. Regular meetings and consultations with employees in the MAFWE's Department for land consolidation is undergoing	
	2. Service Providers' teams of experts are continuously trained on all phases of land consolidation project, with special emphasis on the projects second phase / re-allotment planning and preparation of infrastructure designs.	
	3. By the end of 2020 in total 6 re-allotment plans will be finalised/in the final stage of planning (Egri, Logovardi, Opticari and Trn in Municipality of Bitola, Spancevo and Sokolarci in Municipality of Cheshinovo – Obleshevo). And 2 re-allotment plans, one in Kozle - Municipality of Petrovec and one in Dabjani - Municipality of Dolneni will be finalised in 2021.	
	4. One infrastructure plan (Egri) will be finalised by the end of 2020. Additional 4 are expected to be finalised in the first half of 2021. Delay occurred due to COVID-19 crisis and lockdown that took place in the period March/June 2020. Field visits and communication with relevant institutions was stopped in that period.	
	5. One environmental impact analyses (Egri) will be finalised by the end of 2020. Additional 4 are expected to be finalised in the first half of 2021. Delay occurred due to COVID-19 crisis and lockdown that took place in the period March/June 2020. Field visits and communication with relevant institutions was stopped in that period.	
	6. Land consolidation measure (sub-measure 124) from the National Programme for Agriculture and Rural Development is fully operational. It's utilisation will start in 2021, following the implementation plan of the on-going land consolidation projects (Logovardi, Opticari and Dabjani).	
	<b>Measure 6: Agricultural cooperatives</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Providing continued financial support for cooperatives (continues from the previous period).	0
	2. Revising the legal framework for agricultural cooperatives in the way that cooperative principles are better fulfilled.	3
	3. Developed monitoring system for agricultural cooperatives functioning and effectiveness of national support measures.	3
	4. Encouraging the process of market-oriented association of farmers into cooperatives.	0
	5. Support for investments in processing, finalisation and placement of agricultural products.	0
<b>Description of implementation and explanation if partial or no implementation</b>	1. No implementation. Due to COVID-19 crisis no public call was announced.	
	2. The activities are carried out with the support of the project "Support to agricultural cooperatives in the Republic of North Macedonia" funded from Delegation of the European Union.	

	Draft amendments to the Law on Cooperatives and the Law on Agriculture and Rural Development have been made.	
	3. The activities are carried out with the support of the project "Support to agricultural cooperatives in the Republic of North Macedonia" funded from Delegation of the European Union. A version of the system for monitoring the functioning of agricultural cooperatives has been created.	
	4. No implementation due to delay in the procedure of amending the Law on agricultural cooperative due to COVID-19 crisis	
	5. No implementation due to delay in the procedure of amending the Law on agricultural cooperative due to COVID-19 crisis	
	<b>Measure 7: Increasing competitiveness in the tourism and hospitality sector</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. 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.	<b>3</b>
	2. Implementation of large infrastructure and small investment sub-grants under the grant scheme	<b>4</b>
	3. 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	<b>3</b>
	4. Improved access to international markets, improved destination management and improved tourism services.	<b>4</b>
<b>Description of implementation and explanation if partial or no implementation</b>	1. Three pilot destinations have been selected and core stakeholder groups (CSGs) have been formed based on public-private partnership. Each of the 3 CSGs continued developing a destination management process more extensively, two of them went on a study tour in Slovenia to acquire knowledge and best practices regarding DMO in Slovenia, all CSGs worked on defining and recommending the applicable DMO model in their destinations respectively and are now awaiting decision on formalising the structures and institutionalising the DMOs. Legal expert has been engaged to assess, review and provide recommendations for development and improvement of the national legislative and regulatory framework in the RNM to embed the DMOs.	
	2. Implementation regarding the grant scheme is well advanced. Most of the implementation of the large infrastructure sub-projects is on-going with some initial results, whereas several sub-projects are implemented at the very advanced stage or almost completed. There are expected delays in realisation of some infrastructure sub-projects partial due to COVID-19 and for some due to late signing of sub-grant agreements. Regarding small investment sub-grants where association sub-projects are included, 60% of the total number of the sub-projects are fully completed and for the rest the implementation is at the advanced stage. For micro and small enterprises the implementation is fully completed for 50% and the implementation of the others is advanced whereas for a few the implementation is ongoing with some initial results.	
	3. The activities under the Component related to Central level capacity, coordination & policy have been postponed due to effects of COVID-19 pandemic. The status of the planned activities is for: a) Specific Training for MoE and APST - initial steps have been taken which means that the procurement process for training consultant has been completed and the consultant firm has been selected; b) Strengthening the tourism sector statistics system - the initial steps have been taken which included the development and approval of ToR for consultancy; c) The Republic of North Macedonia's 2021-2026 National Tourism Strategy and Action Plan- the initial steps have been taken which included the development and approval of ToR for consultancy. As it relates to strengthening the capacity of the private sector and civil society organisations, the following results have been achieved as per M&E Reporting and IO.4 Intermediate Indicator - Private stakeholders that participate in project-supported capacity-building activities (e.g. training, supplier development, others) the end target of 300 has already been achieved and even exceeded as it has been reported that 797	



	private stakeholders participated in project-supported capacity-building activities, which focused primarily on destination management, sales and promotion skills, on-line marketing and communication, skills for leadership and creation of local brands.	
	4. The capacity building activities implemented under the sub-project beneficiaries shall give benefit to the tourism related participants to build their capacities and improve tourism services. In three pilot destinations (out of 10), the destination management process has been developed at an advanced level. All activities under sub-project activities were mostly focused on improved tourism services and contributed to their achievements.	
	<b>Measure 8: Harmonisation of the Public Procurement Legal framework with the Acquis</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Development of low-value procurements e-market place	<b>3</b>
	2. Professionalisation of civil servants working with public procurement.	<b>5</b>
<b>Description of implementation and explanation if partial or no implementation</b>	1. The tender procedure for the development of the e-market place, which is conducted by the EU Delegation in Skopje, was launched with delays. Currently, the award was made and the implementation of the software development is ongoing.	
	2. This is an ongoing activity, which PPB conducts according to the annual training plan.	
	<b>Measure 9: Development of a National E-Services Portal</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Qualitative and quantitative analysis of data in the Catalogue for administrative guillotine;	<b>0</b>
	2. Analysis of the usage of the National e-services Portal;	<b>5</b>
	3. Training for public sector employees –portal operators;	<b>2</b>
	4. Development of new electronic services;	<b>5</b>
	5. Upgrade the portal with functionality for creation of legal persons' profiles and enabling them to be users.	<b>2</b>
<b>Description of implementation and explanation if partial or no implementation</b>	1. Human resources have been reallocated and the donor support has been redirected to COVID-19 relief.	
	2. The usage of the National e-services Portal is monitored on regular basis, especially regarding the number of users and number of applications for e-services.	
	3. The resources for the training are included in the adaptive hours within the maintenance support contract for the National Portal.	
	4. New electronic services have been developed mainly supporting COVID-19 relief measures.	
	5. The resources for upgrade of the National portal with functionality for creation of legal persons' profiles are included in the adaptive hours within the maintenance support contract for the National Portal.	
	<b>Measure 10: Reducing the informal economy</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Analysis of the availability and quality of data on the informal economy and development of the methodology for measuring the informal economy.	<b>2</b>
	2. Defining the size and characteristics of the informal economy.	<b>2</b>
	3. Training in data crossing/combining, processing and analysing.	<b>1</b>
	4. Pilot project for registration and regulation of seasonal work in the agriculture sector.	<b>2</b>
	5. Defining a voucher system model and preparing a cost-benefit analysis of the impact thereof.	<b>2</b>
	6. Establishing a system for data collection and exchange between institutions.	<b>1</b>
	7. Conducting an awareness raising campaign.	<b>1</b>
<b>Description of implementation and</b>	1. Initial steps have been taken. This activity is part of project activities of IPA Project "Improving working condition" for 2020/2021.	

explanation if partial or no implementation	2. Initial steps have been taken. This activity is part of project activities of IPA Project "Improving working condition" for 2020/2021..	
	3. Implementation of this activity is being prepared, since is part of project activities of the IPA Project "Improving working condition" for 2020/2021.	
	4. Implementation is ongoing, with some initial results made in relation to introducing mechanisms for formalising informal work in agriculture sector. Current situation analysis has been done.	
	5. Initial steps have been taken in Implementation of IPA Project "Improving working condition". This activity is part of the project activities for 2020/2021	
	6. Implementation of this activity is being prepared, since is part of project activities of the IPA Project "Improving working condition" for 2020/2021.	
	7. Implementation of this activity is being prepared, since is part of project activities of the IPA Project "Improving working condition" for 2020/2021.	
	<b>Measure 11: Enhancing cooperation between the academy and the industry</b>	<b>Stage of reform implementation (1-5)</b>
Activities planned for 2020	<b>I. Science and Technology Park (STP)</b>	
	1. Development of bylaws for establishment of the STP	0
	2. Staffing and strengthening the human capacities of the STP	0
	3. Further development of the premises / hard infrastructure	1
	<b>II. Co-financed grants for academia-industry cooperation</b>	
	1. Development of the relevant bylaws	5
	2. Announcement of the public call	5
Description of implementation and explanation if partial or no implementation	3. Implementing calls under the support instruments	5
	<b>(1) Science and Technology Park (STP)</b>	
	Due to the fact that 2020 was an election year for North Macedonia, and on the other hand the pandemic of COVID-19 occurred, the activities have been extended for the following mid-term period (2021-2023).	
	<b>(2) Co-financed grants for academia-industry cooperation</b>	
	1. All necessary bylaws for this instrument are fully developed.	
	2. A public call has been announced on 01.10.2020.	
	3. Under this instrument of support, 71 applications have been received, out of which 34 were approved for funding in total amount of EUR 228,262.	
	<b>Measure 12: Trade facilitation</b>	<b>Stage of reform implementation (1-5)</b>
Activities planned for 2020	1. 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).	0
	2. 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).	0

	3. 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).	0
<b>Description of implementation and explanation if partial or no implementation</b>	1. Customs Administration: No progress achieved in purchasing new server and Firewall/Router. 2. Food and Veterinary Agency: No progress achieved in developing tools for hosting new software module and purchase of Firewall equipment. 3. Phytosanitary Directorate: No progress achieved in purchase of new central server and a Firewall/Router.	
	<b>Measure 13: Facilitating North Macedonia-Serbia cross-border crossing</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Conclusion of a grant Agreement with EBRD and final closure of the financial construction.	1
	2. Tendering procedure for Works and Supervision Engineering.	1
<b>Description of implementation and explanation if partial or no implementation</b>	1. In 2019, WBIF approved 50% of the total investment needed for construction of the JBS as well as for the access road. The remain portion of the funds will be secured with loan from EBRD. 2. Once the funds are secured, the procedure for selection of the contractor and supervision engineer will start.	
	<b>Measure 14: Further development of the qualification system</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Development of 5 qualifications required by employers and flexible access to their acquisition.	4
	2. Development of training programmes and trainings for specific workplaces for further qualification.	4
	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.	4
	4. Adopting legislation for establishment of three Regional VET Centres.	5
<b>Description of implementation and explanation if partial or no implementation</b>	1. On 28 May 2020, the Board for National Qualifications Framework held an online session for adoption of 2 qualifications by the Sectoral Commission for Mechanical Engineering, qualification from the Sector Commission for Personal Services and Qualification from the Sector Commission for Health and Social Protection. On 12 June 2020, the Board for National Qualifications Framework held an online session for reviewing the record for the course of the procedure for amending the Guidelines for Validation of Informal and Experiential Learning, prepared by the Advisory Group for the European Qualification Framework, i.e. for the record for validation in the national skills strategies, prepared by the European Qualifications Framework Advisory Group. In total there are 52 qualifications. 2. According to the procedures for programmes for adults, on a regular base those programmes are approved. Until September 2020, 303 providers successfully fulfill procedures of accreditation. The Adult Education Centre continued the piloting phase for establishing the Validation of the noformal and Informal Learning - VNFIL system, with two qualifications: facade worker and waiter. The pilot schools are VET school Zdravko Cvetkovski for facade worker in construction and VET school Lazar Tanev for waiter in catering. 3. The Concept for Work base learning is developed, and consequently the Protocol for preventive measures in the realisation of work-based learning, the ferial practice, practical training and exercises of students at employers' company 4. Eight qualifications are developed which will be covered under the RVET Centres: mechanical technician for motor vehicles and electrical engineering for computer technology and automation in Tetovo, catering technician, waiter and cook in Ohrid, food technician, phytomedicine technician and agro-technician in Kumanovo. In line with the Law on Vocational Education and Training, the Vocational Education and Training Center developed standards for space and	

	equipment for schools.	
	<b>Measure 15: Youth guarantee</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Implementation of YG in 30 employment centres.	<b>5</b>
	2. Establishment of a separate Youth Employment Unit within the Department for Active Employment Measures and Services	<b>5</b>
	3. Trainings for 90 employees of the ESA working on YG.	<b>4</b>
	4. Modernisation of 3 employment centres.	<b>2</b>
<b>Description of implementation and explanation if partial or no implementation</b>	1. In 2020, the YG measure is being implemented throughout the country, with special emphasis on 3 regions (Polog, Northeast, Southwest and ), where the number of young people belonging to the category NEETs is the biggest. As of 30.09.2020, the total number of unemployed people included in the YG is 19506, out of which 31% have successfully exited YG in a period of 4 months after registration as unemployed. 8779 young people are still within a period of 4 months	
	2. The new Rulebooks for internal organisation and for systematisation of the work positions in ESA were brought, where new Unit for support and employment of young people was introduced.	
	3. Due to COVID-19 situation, trainings were postponed and are planned to be organised by the end of November 2020.	
	4. The procurement procedure for work contract for reconstruction/modernisation of employment center Kumanovo is ongoing. Depending on the available financial resources, new procurement procedures will be launched for additional 2 employment centers to be modernised.	
	<b>Measure 16: Enhancement of financial benefits in the field of social protection</b>	<b>Stage of reform implementation (1-5)</b>
<b>Activities planned for 2020</b>	1. Public campaign for the new laws in order to familiarise end users.	<b>2</b>
	2. 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.	<b>2</b>
	3. Strengthening the capacities of professionals in the Centres for Social Work and Employment Centres in the field of GMA beneficiaries' activation.	<b>5</b>
	4. Establishment of new social protection services in the direction of strengthening and activation of users.	<b>2</b>
	5. Expanding the social services network in local communities.	<b>3</b>
	6. Development of a software solution for social protection rights and services and its testing.	<b>1</b>
	7. Conducting trainings for the employees in the social protection system for delivery of services in the local community.	<b>0</b>
	8. Establishment of control mechanisms for functioning of the system.	<b>1</b>
<b>Description of implementation and explanation if partial or no implementation</b>	1. Company for development and implementation of public awareness campaign and citizen engagement has been contracted. The company developed a communication and citizen engagement strategy, and the implementation has started.	
	2. Set of Services (PS support and Mentoring) for the GMA recipients prior and during their inclusion into active labour market measures are foreseen under the Direct grant of ESA for Activation of vulnerable groups. These set of services are in tender procedure and should start in Q1 2021. 802 individual activation plan for GMA beneficiaries were prepared by experts in the Centers for social work and Employment centers. 49 beneficiaries were involved in active employment measures.	

	3. This activity was finished in 2019. The second set of trainings for persons employed in the social protection system is completed.
	4. A Register for issued permits (licences) for providing social services has been established and published on MLSP website. Total of 14 licenses for providing social services have been issued by other providers.
	5. Public call for grants for establishing of new social services has been published, and 43 potential service providers applied for receiving grants. Evaluation of the projects are finished, and 24 contracts are to be signed by the end of 2020 (by the end of November 17 municipalities were awarded grants for establishment of social services) .
	6. The tender documentation for new software solution for social protection rights and services is in phase of preparation.
	7. The activities for trainings for the employees in the social protection system for delivery of services in the local communities are planned to start in November /December 2020.
	8. Activities for designing the monitoring and evaluation system within the EU-funded Project for technical assistance to the deinstitutionalisation process have started.

## Annex 2: External contributions to the ERP 2021 – 2023

*Draft ERP 2021-2023 published on the MF's website for public consultation*

### Economic Reform Programme 2021-2023

#### Public consultation for draft Economic Reform Programme 2021 – 2023

INVITATION FOR PUBLIC CONSULTATION FOR DRAFT ECONOMIC REFORM PROGRAMME 2021 – 2023

We are glad to present you the Chapter 5 Structural Reforms in 2021 - 2023 from the draft Economic Reform Program 2021 – 2023 (ERP 2021), which the Government of the Republic of North Macedonia would submit to the European Commission at 31 Jan. 2021, 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 governance 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 2021 is prepared through established national consultation process, centrally coordinated by the Ministry of Finance and supported by CEF expert assistance, financially supported by EU. The document closely follows the instructions of the Guidance for Economic Reform Programs issued by EC in June 2020.

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 21 Dec. 2020 the latest, at the following e-mail addresses:

[andrija.aleksoski@finance.gov.mk](mailto:andrija.aleksoski@finance.gov.mk) National ERP Coordinator

[vesna.cvetanova@finance.gov.mk](mailto:vesna.cvetanova@finance.gov.mk)

[Aleksandra.Velkova@finance.gov.mk](mailto:Aleksandra.Velkova@finance.gov.mk)

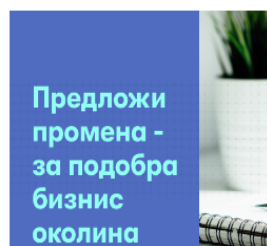
**PDF** [Draft Economic Reform Programme 2021-2023](#)

**PDF** [Guidance for the Economic Reform Programmes](#)

Official information  
about the Coronavirus  
in North Macedonia



КУПИ КУЌА, КУПИ СТАН



### *External contributions*

From: Mario Jankulovski <mjankulovski@worldbank.org>

Date: Tue, 22 Dec 2020, 12:43

To: fatmir.besimi@finance.gov.mk

Cc: magdalena.simonovska@finance.gov.mk, suzana.stoimceva@finance.gov.mk, dejan.nikolovski@finance.gov.mk

Subject: Comments on the draft Economic Reform Programme 2021-2023 Chapter 5, Dec 22 2020

Dear Excellency,

For your kind attention please find attached the letter with Comments on the draft Economic Reform Programme 2021-2023 Chapter 5 as signed by Ms. Bojana Naceva, Acting Country Manager, World Bank Office in North Macedonia.

Respectfully,

Mario Jankulovski

ETT Assistant

World Bank Office in Skopje

Sat: 5250 + 239

tel. +389 2 5515 230

fax. +389 2 5515 240

[mjankulovski@worldbank.org](mailto:mjankulovski@worldbank.org)





December 22, 2020

H.E. Fatmir Besimi  
Minister of Finance  
Skopje  
Republic of North Macedonia

Your Excellency:


*Comments on the draft Economic Reform Programme 2021-2023 Chapter 5*

Thank you for sharing the draft ERP Chapter 5 on structural reforms with us for comments. We found the identification of key challenges for competitiveness and inclusive growth much improved compared to previous version, in particular when it comes to defining linkages among different parts of the program.

There are some areas where we still offer ways to strengthen the analysis and the recommendations. We are offering selective comments for your consideration before finalizing in the Annex to this letter.

Looking forward to supporting your government in the ERP implementation. We remain at your disposal in case you want to further discuss our comments.

Sincerely,

  
Bojana Naceva  
Acting Country Manager  
World Bank Office Skopje  
Europe and Central Asia Region

*Annex: Comments on the draft Economic Reform Programme 2021-2023*

cc: Ms. Magdalena Simonovska, Advisor, Ministry of Finance  
Mr. Dejan Nikolovski, Head, International Financial Relations and Public Debt  
Management Department, Ministry of Finance  
Ms. Suzana Peneva, State Advisor, Ministry of Finance  
Mr. Koen Davidse, Executive Director, World Bank

Tel: +389 (2) 5515230 Fax: +389 (2) 5515240

**Annex. Comments on the draft Economic Reform Programme 2021-2023**

**Part 5.1.**

The reference to the developments in the labor market can be further strengthened with the information that in the last three quarters apart from the increase in unemployment there has been a sizable move to inactivity. This is an important development which may have additional negative consequences for the labor market, as well as social sectors.

The measures included in part 5.1. on page 7 are mixed. There are some that are aimed at mitigating the COVID-19 impact and others (larger in number) that are more structural and medium/long-term. Maybe they can be arranged to differentiate their influence on the economy and development, given they are different in duration as well as impact.

One of the challenges of the economy is high inactivity and low employment. While part of the discussion is captured under skills and social inclusion, there are other impediments directly related to the labor regulation that remains comparably strict in particular for new economy that requires flexible type of contracts and more flexible hiring and firing as firms face increasing challenges in their operations.

While we commend raising the issue of informality, the report could mention the issue of tackling it through the taxation (reducing tax exemptions) and tax enforcement side (reducing compliance cost, strengthening collection, detecting fraud and evasion), as well as ensuring inclusive access to and quality of public services that strengthen the perception of value for taxpayers money.

**Part 5.3.1.**

The document is providing a good diagnostic of the transport sector. It is restating poor ranking of North Macedonia in transport infrastructure (84<sup>th</sup> in 141 countries) and the broad goals of prioritizing corridors, importance of proper maintenance, road safety, and emissions. This is in line with priorities identified in the World Bank (WB) program relating to transport as well.

Our main comment is that reform measures related to transport should be broader and target improved connectivity and accessibility through proper asset management, safety and climate considerations, as well as ITS. Introduction of ITS, supported through WB TTFP,<sup>1</sup> is an important milestone and one of the tools to reach a much broader aim to improve connectivity and accessibility to jobs/markets/services across the country in a sustainable and safe manner. To be sustainable, all these investments and future planning should be based on the proper asset management (maintenance, and rehabilitation) and public investment management (new capital investments mainly) framework. To be safe and secure, traffic management and designs should be improved to incorporate road safety considerations and climate resilience.

**Part 5.3.2.**

With regard to the agriculture section, while measures included are useful, they reflect a partial representation of donor funded activities that will be implemented rather than a vision of the sector. One area that would require the focus of North Macedonia is to improve efficiency of the agriculture sector and support its structural transformation. The results of the World Bank 2018 Public Finance Review indicated that in order to achieve this, the size of direct farm subsidies should be reduced to the EU28 average of 0.33 percent of GDP, while farm support should move from largely coupled and unconditional subsidies to decoupled and conditional ones. In fact, public support for agriculture in North Macedonia, as a share of GDP, is much higher than in other countries in the region and far above the EU-28 average, hence the reduction in direct farm subsidies is an important short-term priority and it bodes well for the fiscal consolidation objectives after the crisis. The analysis shows that subsidies have a negative impact on technical efficiency of farms in North Macedonia, as they lead to distortions in the allocation of production factors and ultimately, to low-productive and inefficient farms. This is particularly evident for

<sup>1</sup> WB TTF support ITS Strategy and equipment and report says that in the verbatim, but the associated table shows that it is financed through IPA and WBIF.

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heavily supported sectors, such as tobacco and livestock. A support to tobacco is also contrary to public health objectives.

The Ministry of Agriculture, Forestry and Water Economy would be advised to consider a greater alignment with current CAP practices to facilitate a stronger market orientation of production decisions and production factors allocation, medium term reforms, including convergence of area-based support and even the introduction of a flat rate of support per ha. Decoupled subsidies would allow farmers to respond to market demand rather than subsidy rates, thereby shifting land use and making production decisions towards higher-value production where North Macedonia displays a comparative advantage.

Policy makers should distinguish between support and social assistance measures, which could improve the efficiency of the governments' fiscal resources use. A rethinking of the mix of poverty reduction measures for rural areas should be considered. A better-targeted social assistance policy measure could be a more effective way to deal with rural poverty, while agricultural support could focus on the development of the productive base of rural areas. Further, aligning structure of subsidies with the EU would enable the reallocation of scarce public resources to other priorities. Within agriculture, these resources could be used for strengthening the institutional capacity for delivering important services, such as extension and knowledge transfer systems, and on sanitary and phytosanitary measures for improving the sector's competitiveness.

Public support on programs promoting rural development should be increased. The analysis shows that North Macedonia's farmers who invest in fixed agricultural assets have higher technical efficiency. The absorption of rural development programs in North Macedonia has increased significantly in recent years, indicating that additional funds could be spent with impact. Yet, the low average technical efficiency of North Macedonia's farms points to the need to pay more attention to the enabling environments and provision of public services such as irrigation investments, agricultural extension, knowledge sharing programs, business development, and productive partnerships. These programs require additional resources (and technical guidance), which could originate from reducing the current farm subsidy budget.

With regard to the ERP Measure 6: Consolidation and defragmentation of agricultural land, while this is for sure useful to take place, North Macedonia does not have currently a unified policy or law on public land, its administration or its management. The responsibility for protecting and utilizing state land lies with different organizations depending on whether land is arable, pasture or forest. Management of arable state-owned land falls under the responsibility of the Ministry of Agriculture, Forestry and Water Economy (MAFWE), management of pasture under the responsibility of the Public Enterprise for Management of Pasture, and management of forests under the Public Enterprise for State Forests "National Forests". The Agency for Real Estate Cadastre (AREC) is in charge for registration for all types of land and other real estate objects, recording their physical characteristics, and ownership and related rights. There is no reliable and up-to-date inventory of state land, and the reliability, actuality and correctness of data on state land registered with AREC is not known. For all the institutions involved, it is challenging to manage state land in a sustainable and financially responsible manner, throughout its life cycle, and to support an optimal, cost-effective and efficient delivery of Government programs. The World Bank-supported Agriculture Modernization Project includes support to strengthen MAFWE's capacity to manage state-owned agricultural land.

**Industry sector development:** In the industry section, it would be useful to describe the multitude of state aid programs for firms, that are fragmented and often overlapping in scope, leading to suboptimal outcomes. This is in addition of the already sizable state aid that is provided to companies, compared to the EU average. Strengthening the effectiveness and the transparency of state aid would be highly recommended.

Activities related to the EU Green Deal initiative are rarely mentioned (mostly in the EU for Growth project targeting start-ups and SMEs in least developed regions). A more sizable effort targeting green investments by medium and large companies (including FDI) is needed. One option is a creation of a hybrid public-private Green Strategic Investment Fund (GSIF) with the objective to crowd-in private investment for equity, quasi-equity and long-term debt finance of green enterprise and infrastructure PPP projects in the priority sectors of the European Green Deal (EGD).

**Service Sector Development:** CEFTA ADDITIONAL PROTOCOL 6 on liberalization of trade in services has been submitted to Parliament for approval. Once it is approved, the MoE will need to adopt necessary regulations to ensure compliance. The WB Trade and Transport Facilitation project has resources allocated to support the MoE in this process but so far there has been slow progress (this may be partially addressed through measure 17 on strengthening the internal market).

#### Part 5.3.3.

The Ministry of Finance and the Development Bank of North Macedonia are in the process of establishing a Guarantee Fund which should facilitate easier access to finance for companies that are lacking the necessary collateral requirements or do not have credit history. Even though this is introduced as a crisis measure, the guarantee fund should have long-term effects on stimulating investments and supporting the economic growth. The WB and the IMF are providing technical assistance in this area. The instrument can be later expanded to support EU-funded financial instruments programs.

The document can also mention that there is a sizable state involvement in product markets, one of the highest in the region. This is particularly true for (i) failure to apply the competitive neutrality principle so that state-owned and private businesses compete on a level playing field, (ii) barriers to entry in network sectors, and (iii) undue restrictions on regulated professions. These reforms are also the core of the EU accession negotiation agenda, and have been assessed to have positive impact on potential growth.

#### Part 5.3.4.

The Ministry of Economy together with the Ministry of Education and Science are developing the **Smart Specialization Strategy** which should be leading future interventions in innovation, industrial development, SME policies in the country. This strategy is developed based on the EU methodology and is a prerequisite for further EU funding for competitiveness support. The initial research is completed, and the ministries requested the WB support in completing the Entrepreneurial Discovery Process and the formulation of the strategy. While the Smart Specialization Strategy is referred to in the body of the report, it should also be mentioned as a specific measure, since it will be important for future absorption of EU funds.

To attract serious private and institutional investors in North Macedonia, Ministry of Finance is working on a reform of the legal and regulatory framework for private equity and venture capital in line with the international best practices, which will ensure their adequate supervision by the Securities Exchange Commission and increase transparency of their operations. The reform program should cover (i) Translation of the European Venture Capital (EuVECA) Regulation; (ii) Establishment of the limited partnership in contractual form; and (iii) Transposition of the EU Alternative Investment Fund Managers (AIFM) Directive. The WB is providing technical assistance for that matter.

The FITD is committed to establishing a hybrid public-private MSME Fund of Funds (FoF) sponsored by the FOF Development Corporation, a 100-percent owned subsidiary of FITD, and managed by a competitively selected private fund manager. The MSME FoF would invest in seed funds, venture capital funds and a green SME fund managed by private fund managers and will replace grants crowding out private seed funding. The cap for seed investment would be €100,000, and for venture capital and green SME investments it would be up to €1 million, with an average investment of €500,000. Investments would be accompanied by innovation advisory support and other forms of technical assistance from the fund managers. Investee funds would be selected by the FoF manager with the endorsement of the FITD independent Investment Committee. The WB is providing technical assistance in this area.

#### Part 5.3.6.

When discussing the learning improvements, you may want to refer to the recent TIMSS results. Also in the same overview, the access to educational levels could be mentioned.

The information on the WB Human Capital Index needs to be properly referenced and the same goes for the reference on the estimate of COVID-19 impact on learning losses.

The WB Growth and Jobs report in addition to skills acquisition of youth and elderly, underlined managerial skills scarcity as well. Automotive, textile, and food processing firms must cope with low levels of the managerial and innovation skills necessary to add value; this is emerging as a major area of

competitive weakness for North Macedonia's exporters, whether small or large. A pilot Supplier Development Program run by the IFC showed that firms in the automotive value chain do not yet understand the global market and what foreign investors require. Investment in training for managers as well as technical, quality, engineering, and sales personnel is essential for sustained long-term development, higher productivity, and higher multiplier impact of foreign investments. In contrast, and against the prevalent trends, in the textile industry skills and workmanship are of high quality, which implies potential to upgrade to more complex and sophisticated products.

#### Part 5.3.7.

The MLSP in 2018 initiated drafting of a completely new labor law, which should have facilitated more flexible working arrangements that are more in line with the modern business practices. This process should continue, as the current law is quite restrictive in part-time work, flexible working hour, work-from-home etc. The WB sent comments on several drafts back in 2018 which still remain largely relevant. While we acknowledged that the draft law provided solid and comprehensive basis for the regulation of the labor market of the Republic of North Macedonia, we also noted that several provisions deserved further consideration. These are provisions regulating: (i) permanent and fixed-term work; (ii) cancellation of work; (iii) collective dismissals; (iv) judicial review of the validity of termination of employment contract; and (v) the prevention of employment relationship carried out under the disguise of civil contracts. We have also discussed other important aspects, such as (i) the use of civil law contracts; (ii) working hours and the treatment of work breaks; (iii) the maximum probation period; (iv) incentives for mothers to return to the labor market and consider options for parental leave; (v) rebalancing income support from severance pay to unemployment benefits; and (vi) the regulation of benefits for part-time work. The World Bank also calculated the Employment Protection Legislation index, building on the OECD methodology. The analysis showed that North Macedonia outperformed most of its peers in legal flexibility for employment protection of regular contracts. On the other hand, with respect to the employment protection of temporary contracts, the OECD index ranked North Macedonia as the country with the most rigid legislation. Evidence shows that it is in times of crisis, such as the current one, flexibility of the labour legislation, if properly managed, could allow for faster restructuring and hiring during the recovery phase.

The WB Growth and Jobs diagnostic recently published suggests a list of interventions on the supply side of the labor market to help improve labor market outcomes that could be considered in the ERP. Among many measures, the report suggests facilitating youth acquisition of labor market experience, for instance, by adjusting VET and university class schedules to better match company needs for students and interns, and by ensuring compulsory internships. The report also suggests to strengthen labor market intermediation and disseminating more labor market information, for instance, by exploring outreach and promotion of Employment Service Agency services in secondary schools to increase use of services by the low-skilled. The report also mentions that regulations related to temporary contracts are more rigid compared to advanced economies in Eastern Europe, which affect the youth relatively more. Reducing restrictions on part-time, and temporary work would allow more employers to test the quality of workers and allow workers to acquire experience.

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**Draft Economic Reform Programme**
January 6, 2021 3:35 PM

From: Aleksandar Nikolov
To: Andrija Aleksoski
Cc: Aleksandra Velkova, Patrizia Di Giovanni, Bore Pucoski, vmitkovska, Artur Ayvazov, Vesna Cvetanova

Macedonian vers... ERP 2021-2023.docx (16.2 KB) Download Briefcase Remove

Dear Mr. Aleksoski,

In accordance with our phone conversation I'm sending for your kind consideration comments to the Draft Economic Reform Programme 2021-2023. As requested, a Macedonian language version is attached. Feel free to contact me on my phone, available in the signature line at the end of this email, if you need further info.

Under the measure 18 "Further development of the qualifications system" it could be useful to slightly expand the description of relevant developments in the field of remote learning, and more specifically on page 71 of the Macedonian language version to replace the sentence "An educational TV show with teaching materials is broadcast on the national TV in order to reach out to all the children" with the following text:  
*"The Bureau for the Development of Education, with the support of UNICEF and the British Embassy in Skopje, has developed a collective portal for educational content called Eduino, which was launched shortly after the schools closed. Through a system of co-creation and verification, the portal catalogues video lessons, educational resources and trainings / webinars for students and teachers. With the help of this content in the school year 2020/2021, an educational TV show is organized which is broadcast on the national television in order to reach all children. The educational content covers pre-school, primary and secondary education, and in 2021, in cooperation with the Center for Vocational Education and Training and E4E, a platform specially designed for teachers in vocational education is being developed."*

Under the measure 19 "Strengthening the social inclusion system of vulnerable groups of people" it could be useful to consider the following:

- In line with the Government's 2020-2024 Work Programme, whose social protection segment places particular focus on reducing child poverty, and having in mind that the child poverty rate and the rate of severe material deprivation of children is significantly higher compared to the overall rates for the entire population, it might be suitable to also introduce children specific targets. More specifically, please consider introducing the following two rows in the performance indicators table on page 78 of the Macedonian language version:

Baseline value
2018
Intermediate target
2022
Target
2023
Poverty rate for children
(0-17 years of age)
29.3%
26.5%
25.8%
% of children with severe
material deprivation (0-17
years of age)
33.5%
30.3%
29.5%

- The activity envisaged for 2021 on page 78 of the Macedonian language version "improve the local governments' engagement in enhancing the availability of community based social services" could be reformulated to more systematically address barriers to access social services, in the following manner: "Resolve and alleviate barriers that prevent access to basic social services and facilitate the access to basic social services to the most disadvantaged households, including by improving the local governments' engagement in enhancing the availability of community based social services"
- There might be an issue with the Macedonian translation of "benefits" in the following activity envisaged for 2021 on page 78 of the Macedonian language version: "Развој и тестирање на нов софтвер што му интегрира придобивките и услугите од областа на социјалната заштита". Perhaps it should read 'правата', or 'причината помош' instead of 'придобивките'.

Kind regards,

**Aleksandar Nikolov**  
Social Policy Specialist  
United Nations Children's Fund (UNICEF) Skopje | Orce Nikolov 74, 1000 Skopje-MK  
Cell: +389 71 237 844 | Office: +389 2 3231 202 | Email: [anikolov@unicef.org](mailto:anikolov@unicef.org)  
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#### GENERAL COMMENTS ON THE ECONOMIC REFORM PROGRAM 2021-2023

The Economic Chamber of Macedonia recognizes that the Republic of North Macedonia is under regular multilateral and fiscal monitoring on the part of the European Commission (EC), which includes submission of fiscal reports, as well as annual Economic Reform Programs. With these initiatives and requirements from the candidate countries such as the Republic of North Macedonia, the goal of the EC is to ensure that the countries are better prepared for further coordination of the economic policies as future EU member states through the development and submission of these Programs.

We recognize that the Program represents a medium-term macroeconomic and fiscal framework, as well as that it contains the Agenda about the key structural reforms in the upcoming period. In the absence of more comprehensive National Development Plan, the last one was developed in 2006, we recognize that this is the only formal institutional document that provides certain foreseeability and overview of the planned economic activities and structural reforms in the coming period.

However, we wish to note that it is not clear what is the common goal of the priority reform activities laid down, i.e., how do they connect and complement each other. Taken at face value, they resemble more to measures that would provide short-term effects, rather than a strategic approach to develop the economy. Specifically, we believe that this Program should clearly determine the vision for the kind of economy we wish the Macedonian economy would become in the near future. For example, the reforms presented in the EUROPE 2020 Strategy have the following goal: "... achieving *"smart, sustainable and inclusive growth as an asset to overcome the structural weaknesses of the European economy, to promote the competitiveness and productivity and lay the foundations of sustainable social economy on the market"*. This year's Economic Reform Program does not contain such vision, which hinders the relation between the priorities, but also the relation with a certain comprehensive vision for the development of the country. Moreover, we believe that an overview should be developed that would explain how the priority measures laid down in this Program contribute to overcome the challenges noted in the Assessment of last year's Program developed by the European Commission (p. 2-3 at: [North Macedonia 2020 ERP assessment \(europa.eu\)](#)).

In addition, the Economic Chamber of Macedonia strongly believes that the Economic Reform Program (2021-2023) should be designed to maximize the utilization of the finances available to North Macedonia through the European funds (IPA 2). These funds are an important source of financing to numerous projects, which ensure attainment and building new competitive advantages and contribute to the cohesion of the country with the European Union. This would also provide proper preparation of North Macedonia to effectively use the EU funds in the upcoming financial prospects. Therefore, it is not clear whether EU projects have been laid down to share the best practices, which should support the implementation of the priority measures of the country provided for in the Program for this year.

#### SPECIFIC COMMENTS – KEY CHALLENGES THAT SHOULD BE ADDRESSED IN THE PROGRAM:

##### 1. Grey economy

Page 43 states that almost 30% of the companies in North Macedonia point out the grey economy as the primary obstacle to their growth. IMF and the World Bank note in their regular reports on the country that the size of the informal sector continues to represent a challenge to the business environment, considering that it creates unfair competition from non-registered companies. Unreported income and employment also harm the collection of public revenues and reduce the formal employment and its accompanying benefits, including safety at work. Apart from this, the COVID-19 pandemic resulted in an increase of illegal and non-regulated supply via the social and other digital channel, which additionally increased the grey economy. Due to the complex nature, we believe that the reduction of the informal sector should be a top economic and political priority, which would imply well-coordinated approach on the part of the key institutions to implement measures to reduce the informal economy. Consequentially, this year's Program should represent such coordinated approach and should also deliver more specific measures to resolve this important issue. Moreover, all initiatives (best practices from the EU) that are relevant to reduce the informal sector should be taken into consideration.

##### 2. Digitalization and digital transformation

The COVID-19 pandemic imposed a need for quicker digitalization of the services and the processes that cover the entire society. In the past period, the private sector invested plenty into the promotion of the digital services and in the digital transformation in general. Digitalization may lead to an increase in cost efficiency, both in the private and the public sector. Moreover, digitalization contributes to the reduction of bureaucracy, which in turn, would contribute to a rise in creativity and innovativeness in the private sector. Therefore, it is of exceptional importance to lay down certain measures for digitalization of the public services in this Economic Reform Program, but also measures for further support of the digitalization of the private companies. Digitalization will unleash the economic potential of the companies and must be regarded as a key priority in the short- and medium-term. The foundations of the digital transformation are the electronic and communication systems and services. Nevertheless, this Program does not recognize any type of development measures for this sector, in a situation where it is expected to be in accordance with certain challenges such as the 5G technology, expansion of fixed networks based on optic fibers etc. Consequently, we propose cooperation and partnership between the relevant public institutions and the private business to analyze the digital opportunities, in order to increase the potential for economic growth. Furthermore, measures related to complete digitalization of the processes in the public administration should be considered, since it would reduce the bureaucracy, but also the possibility for corruption.



##### 3. Economic integration


The Program lists the following measures aimed at further economic integration with the EU: a) trade facilitation; b) facilitation of the cross-border movement between North Macedonia and Serbia, and c) promotion of the internal market. We recognize that these specific initiatives are legitimate to increase

the economic integration of the country, but we believe that additional measures should be provided for. A rather important topic that needs to be reflected in this Program is the reform of the tariff rates and their harmonization with the EU. To that end, the Economic Chamber of Macedonia notes the following:

1. The present Law on Customs Tariff does not reflect the contemporary global developments regarding the reduction of the emissions and environmental protection.
2. There is an ongoing debate for over 2 years between the Chambers and the relevant institutions to harmonize the tariff rates on certain products with those of the EU. Nonetheless, apart from the adoption of certain autonomous measures with limited duration, no serious initiative and dialogue have been launched in terms of reform of the Law on Customs Tariff.
3. The foreseeability of the international trade regime is of exceptional importance for the companies that operate in the country, but also for the potential foreign investors. Therefore, instead of temporary autonomous measures, we propose the Government to develop a well-defined plan to gradually harmonize the customs charges with the EU. Not only would this approach benefit the companies in the private sector, but it would also cause transitional adaptation of the Budget revenues to the conditions that will be present at the moment the country joins the EU.
4. If the goal is to harmonize with the EU in the area of tariffs, then the Government should establish a principle that for each newly introduced tariff line, the tariff rate will be harmonized (made even) with that of the EU.
5. The recommendations on the part of our members, serious multinational companies, concerning the revision of the Law, which aim to provide a better position to the country and benefit from the global nearshoring movement are not taken into consideration. Therefore, it is of exceptional importance to lay down measures in the proposed Program that would be favorable to the future investors, including a revision of the Law on Customs Tariff. This will create conditions for closer integration of the country with the global economy, the European Economic Area, greater regional integration, but it will foremost contribute to a rise in foreign direct investments, aiming at greater employability and economic growth.
6. Aiming to ensure unhindered supply of certain materials in the key industries that have no local manufacturers, and which would be protected by import charges, temporary measures are being implemented to abolish the customs charges even to 0% for certain groups of products. Aiming to provide transparency and foreseeability in the business operations, being the primary principles of the World Trade Organization, as well as the EU practice, our member companies request the autonomous measures to stay in force longer than 3 years, instead of the current practices of 6 months to 1 year.

The revision of the Law on Customs Tariff has been identified as a serious obstacle to the further investments on the part of the foreign investors in the country, which are members of our Chamber. They strongly believe that it is necessary to engage in comprehensive revision of the customs tariffs, with the aim of increasing the economic integration of the country with the European Union.

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**Re: Консултации за нацрт Програма на економски реформи за 2021 - 2023**

December 30, 2020 12:55 PM

From: [trajkovski](#)

To: [Aleksandra Velkova](#)

Cc: [Andrija Aleksoski](#) [Vesna Cvetanova](#) [Kristijan Aleksoski](#) [risteska](#)

Почитувана Александра,

Во прилог нашите сугестии по однос на Нацрт-Програмата за економски реформи 2021-2023 на англиски јазик.

- 
- The statistical data should be updated. For example, youth unemployment figures from 2017 are used.
- As a precognition for economic development, the fight against corruption and the rule of law should be considered priorities. This is especially important in section 5.3.3 *Business environment and reduction of the informal economy*, in which the development of the current situation with the informal economy is insufficiently recognized. Numerous studies indicate that citizens are disappointed with the corrupt and inefficient spending of the public funds due to their declining trust in the government, thus, resulting in unwillingness to pay taxes.<sup>1</sup> This is especially evident among citizens of smaller ethnic communities. The current proposed measures are quite specific, however are merely aimed at altering the economic behaviour of citizens. The public policy makers and reformers should be reminded that the formalization of the economy is closely linked with the fight against corruption and the rule of law. Herewith, the state will bear increased responsibility and will strengthen the pressure for reforms on its part.

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1 [https://www.iri.org/sites/default/files/iri\\_n\\_macedonia\\_february\\_2020\\_poll\\_presentation.pdf](https://www.iri.org/sites/default/files/iri_n_macedonia_february_2020_poll_presentation.pdf)

Имајте пријатен работен ден и среќни новогодишни и божиќни празници!

Со почит,

Кристијан



**From**  
**KROMBERG & SCHUBERT MACEDONIA DOOEL Bitola,**  
 A Industriska Zona Zhabeni, Bitola

**Subject:** Proposals for the Draft Economic Reform Programme for 2021-2023

Dear Sirs,

With this Letter, we submit our proposals and suggestions regarding the Draft Economic Reform Programme for 2021-2023.

As a general note, we find that the Draft Programme requires concretization of the activities and steps that need to be undertaken for the purpose of reaching of the economic reforms' goals.

Below are our proposals regarding the individual reform measures:

#### Measure 10: Streamline the use of para-fiscal charges

We propose implementation at an accelerated pace, as follows:

- Establishment of a Register of para-fiscal charges - 2021
- Inclusion of all para-fiscal charges - 2022

#### Measure 13: : Enhancing cooperation between the academic community and the industry

Our proposal:

Extension of this measure with establishment of a Science and Technology Park (STP) to the universities in Macedonia besides UKIM.

#### Measure 14: Extension of the scope of digital services provided on National E-service Portal

Regarding this measure, we would like to emphasize the following:

The digitalization of the institutions and the improvement of the efficiency of the businesses is a strategic goal which we consider that it should start with adoption of the necessary legal changes needed for its implementation.

As a highest priority, we consider the legislative changes that would solve the following issues:

- digitally issued documents to have general validity in the procedures;
- enabling electronic payment for all services and administrative fees and avoiding the need for verification of payments with bank statements or proof of payment;
- use of electronic signature for signing all types of documents that the companies work with (contracts, resolutions, certificates, etc.), as well as for issuing certificates and resolutions from state institutions, judicial authorities and local self-government bodies;
- e-invoices - recognition and acceptance by the institutions (Ministry of Finance\_Public Revenue Office\_Customs Administration);
- free or discounted digital service for the users for a certain period, frameworks for social tariffs.

#### Measure 18: Further development of the qualification system

Our proposal:

Inclusion of the Pelagonia region as a fourth pilot region for the introduction of a Regional Center for Vocational Education and Training (VET) in Bitola.

This would mean support of the started project Dual Education in cooperation with the Delegation of the German Economy in North Macedonia.

In this context, we propose the development of the following qualifications:


- Technician for industrial mechatronics;
- Mechanical Engineer;
- Industrial management;
- Electronics and electrotechnics technician.

Respectfully,

**KROMBERG & SCHUBERT MACEDONIA DOOEL Bitola**

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**Re: Консултации за нацрт Програма на економски реформи за 2021 - 2023**
December 21, 2020 8:39 PM

From: ana tomik  
To: Aleksandra Velkova

Почитувана г-ѓа Велкова,

Би сакале да ја поздравиме новата Програма на Економски Реформи 2021-2023 како стратешки важна иницијатива.

Ви се обраќам од име на тимот на **Институт за истражување во животна средина, градежништво и енергетика (ИЕГЕ)**. ИЕГЕ зеде учество на онлајн настанот што го организиравте на 10 Ноември 2020 година, каде што ги разговаравме главните предизвици во образовниот систем.

Нашиот Институт е позициониран како интерфејс помеѓу академијата и индустријата и имаме развиено модел за соработка (КО-ИН модел) кој е препознаен и наградуван во европски и светски рамки. Зеमेјќи го во предвид нашето искуство и резултати постигнати на темите поврзани со истражување и развој образование и енергетика, имаме некои забелешки кои би сакале да ги дадеме како препораки:

**5.3.4 Истражување, развој и иновации и дигитална трансформација**

1. Сметаме дека има потреба од дополнителни мерки и препораки за соработката помеѓу академијата и индустријата, со цел да се постигне истата;
2. Треба да се стави посебен акцент на соработката помеѓу академија и индустријата во овој дел на документот.

**5.3 Анализа по области и структурни реформски мерки**

1. Вклучување на други сектори (градежништво, водостпанство, метална индустрија, металургија, услуги итн) - истите недостасуваат во овој нацрт;
2. Формирање на платформа на државни и приватни институти за трансфер на знаење и поддршка на стопанството и нивно активно вклучување во програмата за национални квалификации и обуки - поголема транспарентност на процесите на едукација и поттик на претприемништвото во стопанството, преку поширока инклузивност на научните и едукативните центри во земјата.

**5.3.6 Образование и вештини**

1. Обезбедување услови за меѓународна соработка на секторите, не само преку стопанските асоцијации, туку во вид на пошироки платформи за трансфер на знаење и бизнис интеракција;
2. Во однос на делот за Образование, потребна е нова Стратегија за иновации и поврзување на постоечките тела како Национален Совет;
3. Цениме дека препораките од паметната специјализација треба да се вклучат во мерките и плановите, бидејќи сега истите не се вклучени во програмата.

Сметаме дека нашето искуство и пристап може да бидат од знаење, па би сакале да Ве информираме дека стоиме на располагање за натамошна соработка и разговор.

Поздрав,

Ана Томиќ

### **Annex 3: Status of implementation in January 2021 of recommendations from the Third Joint Conclusion of Economic and Financial dialogue in May 2020**

*Joint Conclusion:* Regular monitoring of the financial stability challenges posed by the coronavirus pandemic and taking appropriate action, if necessary. Operationalisation of the redesigned Financial Stability Committee and ensuring legal clarification of the macroprudential mandate of the National Bank. Further implementation of denarisation strategies and dealing with non-performing placements, ensuring effectiveness of the measures taken and implementation of appropriate adjustments, if necessary.

**a) Regular monitoring of financial stability challenges posed by the coronavirus pandemic.** In the first months of the pandemic, the National Bank took several measures and activities to release additional bank liquidity, with the ultimate goal of providing support to the economy by supporting lending to the most affected sectors and, in general, by maintaining credit flows and credit cycle by the banking system. Namely, the policy rate was cut three times, and the supply of CB bills, as the main monetary policy instrument, was reduced in two steps. In addition, the National Bank made changes to the reserve requirement, releasing additional liquidity, primarily to support lending to the most affected sectors in the economy and expanding the scope of domestic banks' securities acceptable as instruments for injecting Denar liquidity to the banking system. Under such conditions, banks' deposits and loans continued to grow at a moderate pace.

The two main pillars of the banking system stability, high liquidity and solvency, were an important "barrier" to protect against the negative consequences from the coronavirus. Satisfactory levels of liquidity and solvency made it easier for banks to meet the needs of their customers, in conditions of severe shock. As early as March 2020, banks began a massive restructuring of household and corporate loans, by providing grace periods and other changes to contractual terms. Thus, conditions were created for temporary relief of the borrowers' credit burden in the coming months in order to easily overcome this crisis episode. The regulatory flexibility provided by the National Bank regarding the treatment of these restructurings also added to this, while maintaining caution, by limiting the possibility of additional risks to the banks' balance sheets. The regulatory changes allowed for two modifications in the credit standards, and during September, the banks pursued with customer analysis for a potential second modification, for customers with performing status, thus avoiding excessive risk accumulation. In the coming period, both banks and the National Bank will continue to closely monitor the situation and the potential risks.

**b) Denarisation strategy.** In the period 2009-2015, there was a trend of intensive *denarisation*, first on the liabilities side, and then on the balance sheet assets, reducing the share of deposits with FX component to total deposits by about 18 p.p., and the share of loans with FX component in total loans by about 11 p.p.. The shift in currency preferences in favor of denar deposits, in addition to the macroeconomic stability and the sound and stable banking sector, was also due to the 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 requirement). After the short-term interruption of the denarisation in the second quarter of 2016 (due to the political uncertainty), followed by a rapid rebound to the pre-crisis level, as well as stagnation during 2017-18, in 2019, deposit denarisation moderately resurged. However, the 2020 pandemic, given the uncertain protraction and consequences, moderately increased the share of deposits with FX component in total deposits (by 1.5 p.p.), primarily in the corporate sector, and less in the households.

In 2017, the National Bank drafted a denarisation strategy aimed at boosting confidence in the domestic currency, which is aimed at supporting the monetary strategy of targeting the denar exchange rate and strengthening the financial stability. At the end of 2018, the Government adopted this Strategy, which includes measures aimed at denarisation of the economy, as well as involvement of other competent institutions. The Strategy was first applied in 2019, and of nine scheduled activities, seven were fully implemented as of March 2020, and two were significantly implemented. In 2020, besides the continuous implementation of sustainable macroeconomic policies aimed at maintaining macroeconomic stability, measures were taken to further increase the spread between interest rates on government securities in denars and those with FX clause in the primary market in favor of the domestic currency, in order to increase the attractiveness of denar instruments; to further increase the issuance of denar government securities versus government securities with FX clause; to further

develop financial education, thus the National Strategy for financial education and financial inclusion is in the final stage of discussion among relevant institutions.

**c) Non-performing loan resolution and management strategy.** In 2016, the National Bank submitted a comprehensive questionnaire to the banks aimed to explore possibilities for efficient settlement of banks' bad claims. Thus, in 2017, the National Bank provided a Draft Strategy, which was adopted by the Government at the end of 2018 and implemented in coordination with 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 activities that initiated the implementation of the Strategy. Three Strategy measures were foreseen for 2019, which were fully implemented.

In 2020, efforts were made to improve the quality of financial reporting and corporate governance, analyse the possibility and the need to regulate the terms and conditions, the manner and the procedure for executing market transactions in claims, including non-performing claims (within the EU twinning project of the National Bank with the Croatian Central Bank), further strengthen the supervision and supervisory surveillance of the banks' non-performing loans management. In the last years, the share of non-performing in the total placements has been about 5%, however it reduced to 3.4% in the third quarter of 2020.

**d) Macro-prudential framework.** At the beginning of April 2020, a new Memorandum of Understanding for maintaining financial stability was signed between the National Bank, the Ministry of Finance, the Securities and Exchange Commission, the Insurance Supervision Agency, the Agency for Supervision of Fully Funded Pension Insurance and the Deposit Insurance Fund. The memorandum was concluded in accordance with the recommendations of the International Monetary Fund and the World Bank, enhancing the role and expanding the composition of the Financial Stability Committee, following the model of the European Systemic Risk Board<sup>124</sup>. This Memorandum of Understanding strengthens the institutional capacity and the level of cooperation between the financial supervisory authorities in monitoring the financial system, timely identification of systemic risks and taking appropriate measures and activities to prevent and reduce their effect on the financial system, thus further strengthening our financial system resilience to shocks. Two subcommittees were formed within the Committee, playing the role of operational bodies - Subcommittee on Monitoring Systemic Risks and Proposing Macroprudential Measures and Subcommittee on Preparation for Financial Crisis Management. As of November 2020, the Financial Stability Committee has held three meetings, while the two subcommittees have held two regular meetings each.

In the period ahead, efforts will be made to strengthen macroprudential framework aimed to improve regulation, while implementing the recommendations of the Financial Sector Assessment Programme of the International Monetary Fund and the World Bank, from 2017 and 2018. In this context, the new Law on Financial Stability, whose draft is in the final stage, defines the Financial Stability Committee as a macro-prudential body in North Macedonia. The Law on Financial Stability prescribes that the Financial Stability Committee adopts a macroprudential policy implementation strategy, which will be drafted by the National Bank in cooperation with all other supervisory authorities. The main goal of the macroprudential policy will be maintenance of financial stability by achieving intermediate objectives set in the macroprudential strategy.

#### **Annex 4: Indicators for the Macedonian economy in 2019 according to the Macroeconomic Imbalances Procedure of the European Commission**

The headline macroeconomic imbalances indicators for the Macedonian economy as of 2019, in line with the thresholds for the relevant indicators, within the EC Macroeconomic Imbalances Procedure<sup>125</sup> for the member states, is given below. This approach also shows the degree of the Macedonian economy convergence towards the EU.

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<sup>124</sup> Since 2009, the Committee has consisted only of representatives of the National Bank and the Ministry of Finance.

<sup>125</sup> Alert Mechanism Report, European Commission, February 2012.

Table 1. EC Macroeconomic Imbalances Procedure indicators for North Macedonia

Indicators	Indicative thresholds		2011	2012	2013	2014	2015	2016	2017	2018	2019
	upper	lower									
<b>External imbalances and competitiveness</b>											
Current account balance (% of GDP, 3-year moving average)	-4	6	-3,8	-2,6	-2,4	-1,8	-1,4	-1,8	-2,0	-1,3	-1,3
International Investment position, net (end-year, % of GDP)□	-35		-52,6	-55,1	-55,9	-53,1	-56,0	-57,7	-58,0	-56,5	-57,6
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	-0,7
Share in the world export (at current prices, 5-year percent change)	-6		23,9	-9,5	-5,9	21,7	25,2	24,6	47,7	56,4	44,7
Nominal unit labour costs (3-year percent change)		12	0,6	1,6	4,2	1,8	3,0	2,2	7,2	11,6	17,1
<b>Internal imbalances</b>											
Real estate prices (annual change in %, deflated)		6	-10,2	-1,1	-6,0	-0,5	0,0	1,5	-2,9	1,0	2,6
Credit flows to the private sector (% of GDP)		14	3,5	2,5	2,9	4,5	4,5	3*	2,5	3,3	2,8
Private sector debt (% of GDP)		133	82,1	87,2	84,4	85,9	88	87,6*	87,5	87,1	87,3
Public debt (% of GDP)		60	32,0	38,3	40,3	45,8	46,6	48,8	47,7	48,4	49,4
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	11,4
Unemployment rate (3-year moving average)		10	31,9	31,5	30,4	29,3	27,7	25,9	24,1	22,3	20,1
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	1,3
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	-6,7
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	-12,7

\* 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 indicate noncompliance with the threshold.

The current account deficit of North Macedonia, as a three-year moving average, in the period 2011-2019, remained below the minimum 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 2018-2019 (in 2019 it was -57.6% 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 2019, the net external debt of the Republic of North Macedonia was 24.7% of GDP (24.3% of GDP in 2018).

In the period 2013-2018, the three-year change in REER indicates a moderate appreciation of about 2% (determined mainly by the NEER), and in 2019, it shows mild depreciation, 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 global crisis, registered a rapid annual growth in the period 2014-2019. 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 2018 and slightly exceeded the threshold in 2019 (amid faster wage growth and minor fall in productivity in line with the employment growth), pointing to risks to the competitiveness of the economy. Generally, concerning 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.

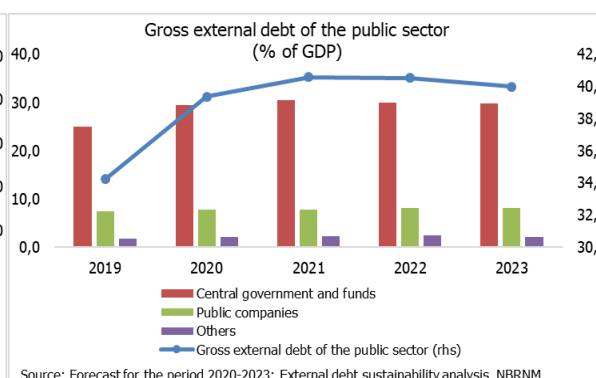
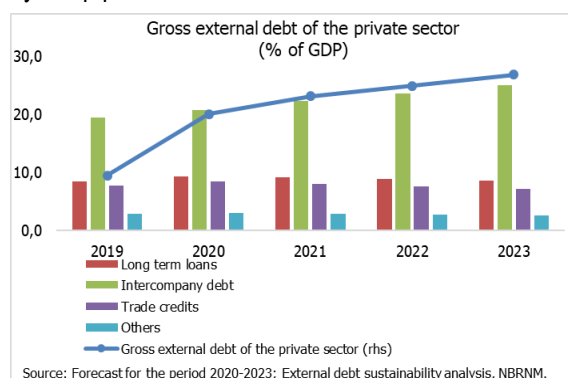
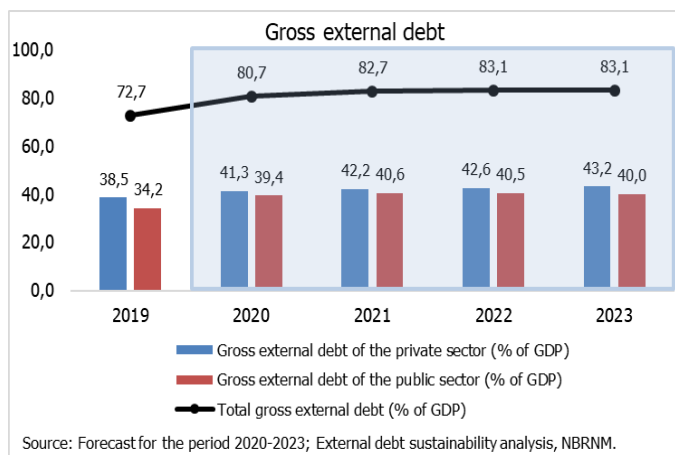
Analysing the internal imbalances, the annual changes in banks' loans to the private sector after 2011 have been moderate and constantly below the vulnerability threshold (14% of GDP). In 2019 this indicator was 2.8% of GDP (3.3% of GDP in 2018), which is still significantly below the threshold. In 2018, financial sector liabilities recorded an annual growth of 11.4%, which is an acceleration compared to last year, but remain below the threshold (16.5%). Real estate prices registered small positive changes in the period 2015-2016, a decrease in 2017 (by 3.1% annually), and a moderate increase in 2018 and 2019 (2.6% in 2019). The total domestic and foreign private debt (loans from domestic banks and abroad) was also constantly below the threshold of vulnerability. In 2019, it remained relatively sound and accounted for 87.3% of GDP, well below the threshold of 133% of GDP. Public debt was also below the threshold in 2019.

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 2019 registered favorable changes (reduction of youth and long-term

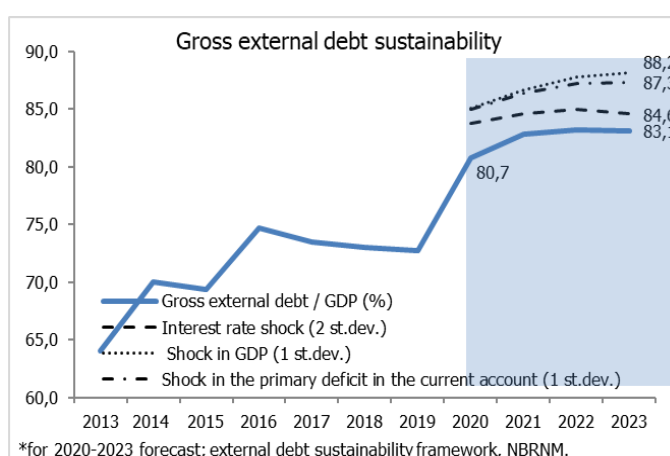
unemployment), within the safe zone. After three years of decline, in 2019, the activity rate resurged. Hence, concerning internal imbalances, the Macedonian economy shows vulnerability to total unemployment rate.

## Annex 5: External debt sustainability analysis

According to the analysis of the external debt sustainability<sup>126</sup>, the gross external debt at the end of 2020 is estimated at 80.7% of GDP, which indicates an increase relative to the previous year by 8 p.p. of GDP. The estimated increase of the external debt in 2020 mainly reflects the assessment for higher public sector debt by 5.1 p.p. of GDP, due to the external borrowing of the Government in order to assure the necessary support for the economy and the health system during the COVID-19 pandemic. Additionally, an increase by 2.8 p.p. is estimated for the external debt of the private sector, amid the increase of the intercompany debt. In 2021, 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, as well as the more moderate increase of the private sector external debt. In the following two years, 2022 and 2023, the external debt is expected to increase slightly, stabilising at a level of 83.1% by the end of 2023, amid small decrease of the public sector debt, but also higher intercompany debt. Thus, the level of external debt in 2023 is expected to be higher than the actual in 2019 by 10.4 p.p., due to the increase in the public sector debt by 5.8 p.p. and in private sector debt by 4.6 p.p. of GDP.



On average within the analysed period, the flow that affects the increase of the external debt is the deficit in the primary current account (excluding interest payments). On the other hand, the non-debt creating capital flows and the automatic debt dynamics (which includes the effects of the real GDP growth and the changes in the prices and nominal effective interest rate) act in the opposite direction by reducing the debt on cumulative bases. It should be noted that in the next three years, 2021-2023, an increase in the foreign



<sup>126</sup>Source: Calculations and analysis of NBRNM, based on the IMF approach. The basic scenario assumes average GDP growth in the period 2020-2023 of 1.7% and it is based on NBRNM October 2020 medium term projections for the period 2020-2023 and the presented balance of payments forecast (October, 2020). The projections were prepared prior to the publication of the medium term fiscal strategy and therefore are based on the NBRNM own assessment for the fiscal parameters on a long run.

exchange reserves is expected as well as their maintenance at the adequate level.

Within the external public debt, in 2023 relative to 2019 a highershare of debt to GDP is expected in several sectors, although most notably in the central government (by 4.8 p.p.), while the increase of the external debt of the public enterprises and the public banks is moderate and mostly due to the external borrowing for infrastructure projects and support of small and medium enterprises during the pandemic. Within the private sector external debt only the intercompany debt relative to GDP is expected to increase by 2023 compared to 2019 (by 5.5 p.p. of GDP), 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 economic growth and the primary current account. 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: Results of the FITD operation**

The Fund for Innovation and Technology Development (hereinafter: the Fund) develops and performs services and allocates financial resources according to the Law on Innovation, Innovation Strategy of the Republic of North Macedonia 2012-2020, bylaws and work programmes of the Fund.

The Fund was established at the end of 2013. In 2014, the Fund established its structure, staff and financial management, while the first call for financing was in 2015.

The mission of the Fund is to encourage and support innovation activities in micro, small and medium-size enterprises (MSMEs) in order to achieve more dynamic technological development based on knowledge transfer, development research and innovation that contribute to job creation, and to economic growth and development, while simultaneously improving the business environment for the development of competitive capabilities of companies.

Priorities and objectives of the Fund are: improved access to financial support for innovation and technological development and promoting and encouraging innovation activities in the Republic of North Macedonia.

Instruments developed and financed via the World Bank's loan:

- Co-financed Grants for Newly Established Enterprises: Start-up and Spin-off
- Co-financed Grants for Commercialisation of Innovations
- Co-financed Grants for Technology Extension
- Co-financed Grants for the Establishment, Operations and Investments of Business and Technological Accelerators

Instruments developed and financed under the Plan for economic growth (pillar 3):

- Co-financed grants for technology development
- Co-financed grants for improvement of innovation and
- Co-financed Grants for professional development and practice of newly employed young people

Also, as a result of the crises from the pandemic, during 2020 FITD created a new instrument for support of private sector for overcoming the consequences from the pandemic "Co-financed grants for technology development for overcoming the consequences of COVID-19". First call was launched in May 2020 and after the selection process, 87 companies were awarded.

As of November 30<sup>th</sup>, 2020, total volume of FITD portfolio is EUR 75,949,550.30 (558 supported projects) where the beneficiaries are financing EUR 33,290,514.03 or 44% of the total investment and FITD provides EUR 42,659,036.27 or 56%.

<b>Total portfolio: Analytics per size of the supported companies</b>	<b>number</b>	<b>%</b>
Micro	265	47.49%
Small	246	44.09%
Medium	40	7.17%
Large	7	1.25%



<b>Total</b>	<b>558</b>	<b>100%</b>
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<b>Total portfolio: Analytics per industry</b>	<b>number</b>	<b>%</b>
IT	161	28.8%
Engineering & Technology	87	15.6%
Health&Medical research	45	8.1%
Marketing&Sales	36	6.5%
Energy & energetic resources	29	5.2%
Textile & Leather	29	5.2%
Education	29	5.2%
Construction	27	4.8%
Agriculture	24	4.3%
Food procesing	20	3.6%
Creative industry	21	3.8%
Hospitality	17	3.0%
Ecology	14	2.5%
Biochemistry & Biomedicine	8	1.4%
Furniture&Wood processing	7	1.3%
Transport	4	0.7%
<b>Total</b>	<b>558</b>	<b>100%</b>

<b>Analytics : Woman as owners/managers</b>	<b>number</b>	<b>%</b>
companies with women owners/managers	204	36.56%
companies with men owners/managers	354	63.44%
<b>Total</b>	<b>558</b>	<b>100%</b>

<b>Analytics per planning region:</b>	<b>number</b>	<b>%</b>
Skopje region	333	59.68%
East region	54	9.68%
Pelagonija region	47	8.42%
Vardar region	40	7.17%
South - east region	38	6.81%
South-west region	24	4.30%
Polog region	14	2.51%
North - east region	8	1.43%
<b>Total</b>	<b>558</b>	<b>100%</b>

### Monitoring the financial performance of users

During the second quarter of 2020, FITD published the results of the analysis of the financial performance of some of the FITD users. The analysis was made based on data from the financial statements of users (a total of 204 users were covered, users who signed a contract and received funds from FITR in 2019).

<b>Indicator</b>	<b>Relative values</b>
Average annual growth of revenues from the operation of the total portfolio of companies for the period 2015-2019	11%
Average participation of the companies that make a profit in the total number of companies financed within the current calls for the period 2015-2019	82%

Average annual growth of the number of companies that make a profit at the level of the entire portfolio of companies for the period 2015-2019.	19%
Average annual growth of the profit of the entire portfolio of companies for the period 2015-2019.	71%
Average share of the profit as a % of the revenues from the operation of the total portfolio of companies for the period 2015-2019	28%
Average annual growth of employees of the entire portfolio companies for the period 2015 - 2019	6%
Average annual growth of the average monthly salary by employee of the entire portfolio of companies for the period 2015 - 2019	10%
Average annual growth of payments to the country of the entire portfolio of companies for the period 2015 - 2019	18%

In the forthcoming period FITD will strive to make analyses by comparing how the companies that have received financial support from FITD are performing compared to the companies that have applied but haven't received financial support from FITD.

**Annex 7: Link between structural reform measures and key challenges according to Commission Assessment on ERP 2020-2022, Sustainable Development Goals, the European Green Deal and the European Digital Strategy**

Reform measures ERP 2021-2023	Key structural challenges according to Commission assesment of ERP 2020-2022	Sustainable development goals 2020-2030	The European Green Deal	The European Digital Strategy
<b>Measure 1: Increasing the competitiveness of the electricity market</b> 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. The adoption of the new Energy Law enabled for establishment of organised electricity market, as well as full liberalisation of the energy market, which had started from January 2019.	<b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains	<b>SDG 7 – Affordable and clean energy</b> - Investment in low-carbon energy infrastructure, reduction of greenhouse emissions and improving energy efficiency.	The measure is in line with the goals for decarbonising the energy system form the European Green Deal.	
<b>Measure 2: Promotion of renewable energy sources</b> The implementation of the measure will ensure: diversification of the supply, increased competition of the energy market and increased resilience to energy price hikes. The measure promotes use of alternative methods for energy efficiency and increased use of renewable energy sources.	<b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains	<b>SDG 7 – Affordable and clean energy</b> - Increased renewable energy sources and improving energy efficiency as well as reducing the dependency on energy import	The measure is in line with the goals for ensuring clean and affordable energy from the European Green Deal as well as the goals for decarbonising the energy system and reduction of greenhouse emissions.	
<b>Measure 3: Improvement of energy efficiency</b> This measure will ensure adoption of bylaws arising from the Energy Efficiency Law, adoption of Strategy for reconstruction of buildings by 2030 and establishment of Energy Efficiency Fund.	<b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains	<b>SDG 7 – Affordable and clean energy</b> - Improving energy efficiency and reducing private energy consumption, as well as reducing the number of households that are unable to keep home adequately warm.	The measure is in line with the goals for ensuring clean and affordable energy from the European Green Deal, as well as the goals for reconstruction, use and building energy efficient bulidings.	
<b>Measure 4: Implementation of an Intelligent Transport System (ITS) along Corridor 10</b>	<b>Key challenge 2:</b> Improving the competitiveness of	<b>SDG 9 – Industry, Innovation and infrastructure</b>	The measure is in line with the goals for ensuring clean	The measure is in line with the goals for digitalisation of

<p>The measure envisages implementation of ITS with several devices such as WIM (weight in motion) on A1 Motorway, part of Corridor X, section Tabanovce - Gevgelija 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. This measure 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.</p>	<p>domestic companies and integration in global value chains</p>	<p>- The use of ITS in the field of transport, related to infrastructure, vehicles or users improves network capacity, traveller mobility and therefore enhance economic productivity. The use of this technologies promotes sustainable infrastructure and industrialisation.</p>	<p>and affordable energy from the European Green Deal, as well as the goals for decarbonising the energy system and reduction of greenhouse emissions. This measure will also accelerate the shift to sustainable and smart mobility.</p>	<p>the industry from the European Digital Strategy.</p>
<p><b>Measure 5: Improving of irrigation systems</b></p> <p>The measures envisages capital investments in construction of dams and irrigation systems that have already started and will continue in the mid-term run. The measure is expected to increase of the irrigated areas in the country and to ensure sustainable production and boost sustainable development and efficient management of natural resources. Additionally, the measure will enable production of electricity through construction of hydropower plants on new dams that will be constructed.</p>	<p><b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains</p>	<p><b>SDG 2 – Zero hunger &amp; SDG 7 – Affordable and clean energy</b></p> <p>- Ensuring productive and sustainable agriculture systems is a key element in fighting hunger and one of the main challenges is access to safe irrigation and sustainable farming production.</p> <p>- New renewable energy sources are ensured with construction of hydropower plants on new dams.</p>	<p>The measure is in line with the goals for designing a fair, healthy and environmentally-friendly food system from the 'Farm to Fork' strategy of the European Green Deal.</p>	
<p><b>Measure 6: Consolidation and defragmentation of agricultural land</b></p> <p>With the National Land Consolidation Programme and the Law for agriculture and rural development, the main goals of the national agriculture policy are set.</p> <p>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</p>	<p><b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains</p>	<p><b>SDG 2 – Zero hunger</b></p> <p>- Land consolidation provides greater efficiency in agriculture production and increased possibility for adoption of new agricultural technologies for production that provides higher revenues and lower production costs. Expected long-term effects of implemented land</p>		

sector.		consolidation projects are sustainable agriculture system and more investments in rural development.		
<b>Measure 7: Agricultural cooperatives</b> The establishment of agricultural cooperatives is envisaged in the National Strategy for Agriculture and Rural Development 2014-2020, aimed at improvement of the structure in the agriculture sector, improvement of the market position of farmers, increase of their negotiation power in relation to wholesale buyers, as well as getting lower prices for raw materials, machinery and investment assets. 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.	<b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains	<b>SDG 2 – Zero hunger</b> - Agricultural cooperatives will contribute to development of productive and sustainable agriculture systems based on extensive cultivation methods that have no negative impact to nature and produce healthy food for the population. The agricultural cooperatives will be a model of sustainable agriculture that cares for the protection of the environment and biodiversity.	The measure is in line with the goals for designing a fair, healthy and environmentally-friendly food system from the "From farm to fork" strategy of the European Green Deal. In the upcoming period, agricultural cooperatives will implement the concept of "green" agriculture as a logical and natural way of carrying out their agricultural activities.	
<b>Measure 8: Farm road (re)construction programme</b> The focus of this measure is to ensure wider access to arable land in areas of intensive agricultural activity through construction and reconstruction of agricultural (farm) roads. The aim is to upgrade the rural infrastructure by increasing the size of the agricultural road network in the Republic of North Macedonia. The implementation of rural infrastructure projects would enhance the economic growth of agricultural holdings. The broader and improved farm road rural infrastructure will enable easier access to agricultural (arable) land, leading to increase in yields, quality and quantity of the farm production.	<b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains	<b>SDG 2 – Zero hunger &amp; SDG 12 – Responsible consumption and production</b> - The increased efficiency of farms and their improved operation, should lead to more sustainable exploitation of the natural resources, which will provide a long-term sustainable growth in agriculture.		

<p><b>Measure 9: E-marketplace for low value procurement</b></p> <p>The focus of the measure is introduction of an electronic market for small public procurements, based on the Law on Public procurement which will provide for easier and cheaper conditions 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.</p>	<p><b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains</p>	<p><b>SDG 8 – Decent work and economic growth</b></p> <p>-This measure is creating conditions for fair competition among economic operators, and 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</p>		<p>The measure is in line with the goals for digital transformation and online platforms which will give business a possibility to digitalise as part of the European Digital Strategy , as well as the initiatives for open digital society from the same strategy.</p>
<p><b>Measure 10: Streamline the use of para-fiscal charges</b></p> <p>The goal of the measure is to simplify the system of non-tax duties and parafiscal fees, improve their transparency and predictability, and thus contribute to a more favourable business environment.</p>	<p><b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains &amp;</p> <p><b>Key challenge 3:</b> Formalisation of the economy</p>	<p><b>SDG 8 - Decent work and economic growth &amp;</b></p> <p><b>SDG 9 – Industry, Innovation and infrastructure</b></p> <p>- By reducing the administrative and financial burden on companies and increasing their competitiveness. One of the objectives of this measure is to create more favourable environment for establishment of new businesses, which will further increase the entrepreneurship incentives among all citizens including youth and woman.</p> <p>- Digitalisation of the services, is reducing both costs and time for business operations, which will have overall positive effect on the competitiveness of the</p>		<p>The measure is in line with the goals for digital transformation and online platforms which will give business a possibility to digitalise as part of the European Digital Strategy , as well as the initiatives for open digital society from the same strategy.</p>

		industry.		
<p><b>Measure 11: Support start-ups and SMEs in selected less-developed regions of the country to grow, produce added value and create a local living economy</b></p> <p>The measure envisage activities for increasing local economic activity and competitiveness in the less developed regions in the country i.e. in the North-East, Polog, South-West and Prespa area (Resen opština/municipality) of North Macedonia by improving access of start-ups and SMEs to financing and high value-added services.</p>	<p><b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains</p>	<p><b>SDG 8 - Decent work and economic growth &amp; SDG 10 - Reduced inequalities</b></p> <ul style="list-style-type: none"> <li>- Support for start-ups and SMEs is boosting economic activities in those regions and creating new jobs.</li> <li>- This measure envisages jobs or self-employment for people below 40 years of age, women and people belonging to vulnerable groups and minorities.</li> </ul>	<p>This measure will target activities related to the European Green deal that will strive to provide support to start-ups and SMEs for business activities to move towards the green economy, i.e. companies strongly committed towards boosting the efficient use of resources by moving to a clean, circular economy and restoring biodiversity and cut pollution towards zero pollution and zero waste model.</p>	
<p><b>Measure 12: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities</b></p> <p>The measure is directly related to project activities for designing voucher-based system or equivalent mechanisms which promote better working conditions and formal employment in sectors with high incidents of undeclared activities.</p>	<p><b>Key challenge 3:</b> Formalisation of the economy</p>	<p><b>SDG 1 – No poverty &amp; SDG 8 - Decent work and economic growth</b></p> <ul style="list-style-type: none"> <li>- Formalisation of the economy provides equal access do economic resources and health and pension insurance for the vulnerable groups.</li> <li>- Fair competition among firms and stimulate the creation of regular employment, decreasing in employment insecurity and new possibilities for decent work.</li> </ul>		



<p><b>Measure 13: Enhancing cooperation between the academy and the industry</b></p> <p>The measure 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 higher education institutions.</p>	<p><b>Key challenge 1:</b> Improving the quality and relevance of the education system</p>	<p><b>SDG 4 - Quality Education &amp; SDG 8 - Decent work and economic growth</b></p> <ul style="list-style-type: none"> <li>- This measure will provide better education and increased number of young people who will have relevant job skills for decent employment.</li> <li>- 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.</li> </ul>		
<p><b>Measure 14: Broadening the scope of digital services provided on National E-service Portal</b></p> <p>The goal of the measure is to increase the usage of the National e-services Portal (the Portal) <a href="http://uslugi.gov.mk">uslugi.gov.mk</a> as a central point for e-service delivery.</p>	<p><b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains</p>	<p><b>SDG 8 - Decent work and economic growth</b> <b>SDG 9 – Industry, Innovation and infrastructure &amp;</b></p> <ul style="list-style-type: none"> <li>- Building sustainable digital infrastructure promotes inclusive growth and industrialisation.</li> <li>- The E-service portal is expected to reduce the administrative and financial burden not only for the citizens, but also for the companies which will increase the efficiency of businesses.</li> </ul>	<p>The measure is in line with the goals for mobilisation of research and innovation through digitalisation of the processes according to European Green Deal.</p>	<p>The measure is in line with the goals for digital transformation and online platforms which will give business a possibility to digitalise as part of the European Digital Strategy, as well as the initiatives for open digital society from the same strategy.</p>
<p><b>Measure 15: Trade facilitation</b></p> <p>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</p>	<p><b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains</p>	<p><b>SDG 9 – Industry, Innovation and infrastructure</b></p> <ul style="list-style-type: none"> <li>- The measure contribute for efficient transport systems and mobility which are the key aspects for competitive</li> </ul>		<p>The measure is in line with the goals for digitalisation of the industry from the European Digital Strategy.</p>

information between customs authorities.		economy.		
<b>Measure 16: Facilitating North Macedonia-Serbia cross-border crossing</b> The measure foresees construction of new Joint Railway Border Station (JRBS) between Macedonia and Serbia. By building JRBS in Tabanovce, all custom 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 greatest impact is expected to be in the time saving.	<b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains	<b>SDG 9 – Industry, Innovation and infrastructure</b> - The new Joint Railway Border Station is expected to improve the competitive advantage of the rail compared to the road transport, with better infrastructure and mobility.	The measure is in line with the initiatives to increase and better manage the capacity of railways and inland waterways of the European Green Deal.	The measure is in line with the goals for digitalisation of the industry from the European Digital Strategy.
<b>Measure 17: Strengthening the internal market in the Republic of North Macedonia</b> The measure will contribute to boosting the economic development and trade relations with the EU while improving conformity with health, safety and environmental requirements. It will enhance the harmonisation with the EU acquis in the area of internal market with a primary focus on free movement of goods and services, protection of consumers' rights and better regulation of the business functioning. Also it will enhance the harmonisation with the EU acquis in the area free movement of goods and services and strengthen the market surveillance for protection of consumers.	<b>Key challenge 2:</b> Improving the competitiveness of domestic companies and integration in global value chains	<b>SDG 8 - Decent work and economic growth &amp; SDG 16 – Peace, justice and strong institutions</b> - The measure will contribute to improving the business environment and boosting economic growth i trade relation with EU by improving conformity with health, safety and environmental requirements - Creating transparent and efficient institutions.		
<b>Measure 18: Further development of the qualification system</b> The measure will increase the quality of curricula and will lead to the acquisition of knowledge, skills and competences that will enable smooth transition from school to work that will lead to the acquisition of knowledge, skills and competences that will enable smooth transition from school to work . Establishing Regional Vocational Education and Training (VET) Centers it can be seen as a part of the plan for reforming	<b>Key challenge 1:</b> Improving the quality and relevance of the education system	<b>SDG 4 - Quality Education</b> - With provided better education the young people will acquire transversal skills that will contribute to better mobility of the workforce and career development.		

VET, restarting the economy, protecting and creating jobs and making the regional labour market more sustainable for future generations				
<b>Measure 19: Strengthening the system for social inclusion of vulnerable categories of people</b> The goal of this reform is decreasing the poverty rate, especially for vulnerable categories and their successful re-integration in the society. Hence, of utmost importance is linking social benefits with the activation of GMA beneficiaries. Therefore, 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.		<b>SDG 1 - No poverty &amp; SDG 8 - Decent work and economic growth</b> - The reform is directly linked through the activities for decreasing the poverty rate - Securing employment of vulnerable groups.		
<b>Measure 20: Strengthening the quality of the Primary Health Care</b> The measure has a goal to improve the primary health care through reform of the payment method of the primary healthcare which will secure better preventive, defining and adopting standards for health services, reducing the level of referral to a higher level of health care, a larger number of general practitioners who will have a specialisation in family medicine, encouraging the realisation of certain health services by nurses and facilitating the administrative load. The measure will increase the awareness of the population for a healthy lifestyle through preventive activities, screenings and regular monitoring of chronic conditions.		<b>SDG 3 – Good health and well being</b> - Healthy population through increasing the awareness for a healthy lifestyle through preventive activities, screenings and regular monitoring of chronic conditions.		

## Annex 8: Institutions involved in the preparation of ERP 2021 – 2023

Content of the Economic Reform Programme	Institution	Person in charge
<b>i Introduction</b>		
<b>1. Overall Policy Framework and Objectives</b>	Ministry of finance	Andrija Aleksoski
<b>2. Implementation of the policy guidance</b>	Ministry of finance	Vesna Cvetanova
<b>3. Macroeconomic framework</b>	All institutions in charge	
3.1. Recent economic developments	Ministry of finance National Bank	Nexhati Kurtishi Aneta Krstevska
3.2. Medium-term macroeconomic scenario	Ministry of finance National Bank	Nexhati Kurtishi Lenche Tagasovska Viktorija Mitevska Aneta Krstevska
3.3. Alternative scenario and risks	Ministry of finance National Bank	Nexhati Kurtishi Aneta Krstevska
<b>4. Fiscal framework</b>		
4.1. Fiscal strategy and medium-term objectives	Ministry of finance	Tanja Kostovska Anica Ivanoska Alen Kalach
4.2. Budget implementation in 2020	Ministry of finance	Biljana Minoska Branko Dimchevski Viktorija Hristovska
4.3 Budget plans for 2021	Ministry of finance	Tanja Kostovska Anica Ivanoska Alen Kalach
4.4. Medium-term budgetary outlook	Ministry of finance	Tanja Kostovska Alen Kalach
4.5. Structural deficit	Ministry of finance	Nexhati Kurtishi
4.6. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments	Ministry of finance	Sanja M. Mancheva Alev Sulejman
4.7. Sensitivity analysis and comparison with the previous programme	Ministry of finance	Nexhati Kurtishi Sanja M. Mancheva
4.8 Quality of public finances	Ministry of finance	Ardian Xheladini Natalija Kozhovska Tanja Kostovska Anica Ivanoska
4.9. Fiscal governance and budgetary frameworks	Ministry of finance	Tanja Kostovska Anica Ivanoska Alen Kalach
4.10. Sustainability of public finances	Ministry of finance	Nexhati Kurtishi
<b>5. Structural reform priorities in 2021-2023</b>		
<b>5.1. Identification of key obstacles to competitiveness and inclusive growth</b>	Ministry of finance	Vesna Cvetanova Kiril Simeonovski
<b>5.2. Summary of reform priorities</b>	Ministry of finance	Aleksandra Velkova
<b>5.3. Analysis by area and structural reform measures</b>		
5.3.1. Energy and transport market reform	Ministry of Economy Ministry of Transport and Communication	Valentina Stadelova Magdalena Bilbilovska Elena Markova Velinova Bojana Stojchevska Biljana Zdraveva Jasminka Kirkova Mevludin Shabani

		Vesna Cvetanova, MoF Irena Rashovik, MoF
5.3.2. Sectoral development		
5.3.2.1. Agricultural sector development	Ministry of Agriculture, Forestry and Water Economy	Larisa Kitanov Acevska Maja Lazareska Joveska Lile Simonovska Kiril Georgievski Vaska Nedanovska Stojan Gacov Aleksandar Gjorgjevski Sashka Jovanovska Vukeljk Tatjana Simovska-Novkovska Vesna Cvetanova, MoF Irena Rashovik, MoF
5.3.2.2. Industry sector development	Ministry of economy	Jasmina Majstorovska Vesna Cvetanova, MoF
5.3.2.3. Services sector development		
5.3.3. Business environment and reduction of the informal economy	Public Procurement Bureau Ministry of economy Cabinet of the DPM in charge of economic affairs Ministry of labour and social policy	Aleksandar Argirovski Marina Arsovska Dane Josifovski Mirjanka Aleksevaska Goran Veleski Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.3.4. Research, development and innovation and digital transformation	Fund for Innovation and Technical Development Ministry for information society and administration	Sonja Andova Tanja Ilievska Rozalinda Stojova Solza Kovachevska Vesna Cvetanova, MoF
5.3.5. Economic integration reforms	Ministry of Economy Ministry of Transport and Communication Cabinet of the DPM in charge of economic affairs	Ilir Shabani Zorica Smileva Biljana Zdraveva Jasminka Kirkova Mevludin Shabani Dane Josifovski Vesna Cvetanova, MoF
5.3.6. Education and skills	Ministry of Education and Science	Nadica Kostoska Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.3.7. Employment and labour markets	Ministry of labour and social policy	Mirjanka Aleksevaska Goran Veleski Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.3.8. Social protection and inclusion, including health care	Ministry of labour and social policy Ministry of health	Sofija Spasovska Valentina Petrovska Dukoska Aleksandra Slavkovska Elena Petrovska Vesna Cvetanova, MoF
<b>6. The cost and financing of structural reforms</b>	Ministry of finance	Aleksandra Velkova
<b>7. Institutional issues and stakeholder involvement</b>	Ministry of finance	Aleksandra Velkova