



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 6.11.2007
SEC(2007) 1432

COMMISSION STAFF WORKING DOCUMENT

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA 2007
PROGRESS REPORT

accompanying the

**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

Enlargement Strategy and Main Challenges 2007-2008

{COM(2007) 663 final}

TABLE OF CONTENTS

1.	Introduction	4
1.1.	Preface	4
1.2.	Context	5
1.3.	Relations between the EU and the former Yugoslav Republic of Macedonia.....	5
2.	Political criteria	6
2.1.	Democracy and the rule of law	6
2.2.	Human rights and the protection of minorities	12
2.3.	Regional issues and international obligations.....	16
3.	Economic criteria	18
3.1.	The existence of a functioning market economy	18
3.2.	The capacity to cope with competitive pressure and market forces within the Union	22
4.	Ability to assume the obligations of membership.....	24
4.1.	Chapter 1: Free movement of goods.....	24
4.2.	Chapter 2: Freedom of movement for workers.....	26
4.3.	Chapter 3: Right of establishment and freedom to provide services	26
4.4.	Chapter 4: Free movement of capital.....	27
4.5.	Chapter 5: Public procurement	28
4.6.	Chapter 6: Company law.....	29
4.7.	Chapter 7: Intellectual property law	30
4.8.	Chapter 8: Competition policy	32
4.9.	Chapter 9: Financial services	33
4.10.	Chapter 10: Information society and media	34
4.11.	Chapter 11: Agriculture	36
4.12.	Chapter 12: Food safety, veterinary and phytosanitary policy	37
4.13.	Chapter 13: Fisheries	39
4.14.	Chapter 14: Transport policy	39
4.15.	Chapter 15: Energy.....	41
4.16.	Chapter 16: Taxation	42

4.17.	Chapter 17: Economic and monetary policy	43
4.18.	Chapter 18: Statistics	44
4.19.	Chapter 19: Employment and social policy	45
4.20.	Chapter 20: Enterprise and industrial policy.....	46
4.21.	Chapter 21: Trans European networks	47
4.22.	Chapter 22: Regional policy and coordination of structural instruments.....	48
4.23.	Chapter 23: Judiciary and fundamental rights.....	49
4.24.	Chapter 24: Justice, freedom and security	53
4.25.	Chapter 25: Science and research	56
4.26.	Chapter 26: Education and culture.....	58
4.27.	Chapter 27: Environment.....	58
4.28.	Chapter 28: Consumer and health protection.....	60
4.29.	Chapter 29: Customs union.....	61
4.30.	Chapter 30: External relations	62
4.31.	Chapter 31: Foreign, security and defence policy.....	63
4.32.	Chapter 32: Financial control.....	64
4.33.	Chapter 33: Financial and budgetary provisions.....	65
	STATISTICAL ANNEX.....	66

COMMISSION STAFF WORKING DOCUMENT

The former Yugoslav Republic of Macedonia 2007 Progress Report

1. INTRODUCTION

1.1. Preface

The European Council of 17 December 2005 granted the status of candidate country to the former Yugoslav Republic of Macedonia. This is the second report on progress made by this country in preparing for EU membership.

The report:

- briefly describes the relations between the former Yugoslav Republic of Macedonia and the Union;
- analyses the situation in the former Yugoslav Republic of Macedonia in terms of the political criteria for membership;
- analyses the situation in the former Yugoslav Republic of Macedonia on the basis of the economic criteria for membership;
- reviews the former Yugoslav Republic of Macedonia's capacity to assume the obligations of membership, that is, the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

The period covered by this report is from 1 October 2006 to early October 2007. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of the former Yugoslav Republic of Macedonia, the Member States, European Parliament reports¹ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding the former Yugoslav Republic of Macedonia in its separate communication on enlargement², based on the technical analysis contained in this report.

¹ The *rapporteur* for the former Yugoslav Republic of Macedonia is Mr Meijer.

² Enlargement Strategy and Main Challenges 2007-2008.

1.2. Context

The European Council of December 2005 granted the status of candidate country to the former Yugoslav Republic of Macedonia. The Stabilisation and Association Agreement (SAA) between the former Yugoslav Republic of Macedonia and the EU was signed in April 2001 and entered into force in April 2004.

1.3. Relations between the EU and the former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia is participating in the **Stabilisation and Association Process (SAP)**.

The former Yugoslav Republic of Macedonia has made progress in the implementation of the **Stabilisation and Association Agreement (SAA)** and complies with most of its obligations. Efforts have been made to improve implementation of SAA provisions in the field of competition, industrial property rights and the telecommunication market. However, further progress is needed in these areas.

Political and economic dialogue between the EU and the country has continued through the SAA structures. The SAA Committee met in June and the SA Council in July. Seven sectoral sub-committees have been held since November 2006.

The EU provides guidance to the authorities on reform priorities through the European Partnership. Progress on these reform priorities is encouraged and monitored through the bodies set up under the SAA. Based on the European Partnership, the 2006 Regular Report and comments made by the Commission, the former Yugoslav Republic of Macedonia adopted a national programme for the adoption of the *acquis* in April.

Visa facilitation and readmission agreements between the EU and the former Yugoslav Republic of Macedonia were signed in September. The new arrangements are important to facilitate people-to-people contacts. They will simplify procedures for issuing visas for certain categories of citizens of the former Yugoslav Republic of Macedonia, including students, academics, businesspeople, journalists and tourists. They will also keep the cost of visas at its current level and, in some cases, lead to visas free of charge. This will allow more interaction between citizens of the EU Member States and the citizens of the former Yugoslav Republic of Macedonia.

As regards **financial assistance**, the new Instrument for Pre-Accession Assistance (IPA) started on 1 January 2007. The 2007-2009 Multi-Annual Indicative Planning Document (MIPD) for the former Yugoslav Republic of Macedonia was adopted in May. In 2007, the national programme amounted to € 58 million. In addition the country continues to benefit from regional and horizontal programmes. Cross border cooperation is used to promote dialogue between local and regional authorities of neighbouring countries.

The national CARDS allocations to the former Yugoslav Republic of Macedonia since 2002 amount to € 195.5 million. Assistance focused on support to the implementation of the Framework Agreement, strengthening of administrative capacity with particular emphasis on the rule of law sector, economic development, social cohesion and support in the field of the environment.

As regards financial support to **civil society**, two projects have been launched and co-financed by the EU with € 1.2 million to support the Civil Society Foundation and seven Civil Society

organisations. The aim is to promote the protection of human rights and to strengthen democracy and good governance.

CARDS assistance is implemented by the European Agency for Reconstruction and preparations are ongoing for the transfer of that responsibility to the Commission Delegation in Skopje. IPA assistance is implemented by the Delegation in Skopje. The EU aims to transfer the management of IPA Funds to the national authorities under the Decentralised Implementation System (DIS) once the national authorities have developed the necessary capacity to assume this responsibility. Further attention is needed to developing accountable administrations and institutions with appropriate capacity.

As regards Community programmes, the former Yugoslav Republic of Macedonia signed a memorandum of understanding for participation in the 7th Framework Programme for research and technological development in June 2007. The former Yugoslav Republic of Macedonia received support from EU member states through the EU Monitoring and Information Centre for Civil Protection (MIC) to help deal with forest fires during the summer.

2. POLITICAL CRITERIA

This section examines progress made by the former Yugoslav Republic of Macedonia towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and respect for international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia (ICTY).

2.1. Democracy and the rule of law

Parliament

The Public Prosecutor's Office initiated procedures against 20 perpetrators of election irregularities relating to the parliamentary elections in July 2006. No verdicts have yet been handed down. The response of the judiciary has been weak, despite the increased severity of the electoral code. The State Anti-Corruption Commission and the State Audit Office assessed the financing of the political parties during the elections. They found that campaign costs had exceeded the limits set by law, and that many unreported donations had been received, in particular in the form of under-priced media advertising. The electoral code does not, however, penalise such donations.

The first-ever plenary session of parliament on the process of EU integration took place in December, and the Committee on EU Affairs remained among the most active committees. A committee on equal opportunities and an oversight committee on interception of communications were constituted. The oversight committee on security and intelligence issues finally started its work, and annual reports from the Intelligence Agency and the Administration for Security and Counter-intelligence were submitted.

However, the normal functioning of the parliament was disrupted by a dispute between the government and the main ethnic Albanian opposition party (Democratic Union for Integration) over the application of the double majority mechanism and the proper functioning of the committee on relations among communities. The double majority mechanism is a

constitutional principle and a key guarantee for the non-majority communities. The dispute triggered a 4-month boycott of parliament by DUI. The work of the three committees chaired by DUI members, on finance and budget, culture and health was put on hold. Following intensive political dialogue with VMRO-DPMNE (*Internal Macedonian Revolutionary Organisation-Democratic Party for Macedonian National Unity*), DUI returned to parliament at the end of May. However, establishing an inclusive dialogue within the parliament remained difficult. Several major items of legislation were held up, notably in relation to judicial reform.

A dialogue between the government coalition and the opposition on issues of mutual concern was gradually established, although outside the parliament.

On 25 September there was a confrontation in parliament, which escalated into physical violence, between the ethnic Albanian parties. Clashes among MPs from DUI, PDP and DPA broke out during the debate on the amendments to the Electoral Code. Other people were also injured, including journalists.

In addition, a backlog of EU-related legislation built up in the second half of 2006. The government, in pursuit of its stated objective of having all the legislation for 2006 and 2007 adopted by the end of the summer, stepped up its efforts on legislative drafting. It managed to catch up partially, but without always giving sufficient attention to the quality and enforceability of legislation.

Parliament has so far failed to enact new rules of procedure that would streamline parliamentary procedure and clarify the use of the Albanian language by committee chairs. Little attention has been given to providing adequate budget and staffing for the parliament, in particular to support the work of the committees.

Overall, some efforts were made to speed up the legislative process. However, the functioning of the parliament was seriously disrupted by insufficient consultation between government and opposition, the boycott of parliament by DUI and political wrangling, which slowed down legislative activity. All political forces should commit themselves to working constructively within the democratic institutions.

Government

The government coalition remained stable but tensions were occasionally apparent between the coalition partners, which pointed to a lack of effective internal coordination. The Party for Democratic Prosperity (PDP) joined the government coalition, taking over the local self-government portfolio. However, two of the three PDP deputies decided to stay in the opposition. The government underwent three minor reshuffles, involving mainly the ethnic Albanian coalition partners.

The government's work focused on the process of EU integration and NATO accession, as well as on the implementation of the Ohrid Framework Agreement. The government adopted a national plan for adoption of the *acquis*, which was subsequently endorsed by the parliamentary committee on EU affairs.

Cohabitation between the government and the President, who belongs to an opposition party, has been made all the more difficult, as VMRO-DPMNE disputes the validity of the President's election in 2004. Members of this party did not attend the President's annual

address to parliament. The executive has nonetheless managed to coordinate on key foreign policy issues, such as its position on Kosovo.

Decentralisation has continued to make progress, notably thanks to a spirit of cooperation between the central authorities and municipalities. A law on regional development was enacted. The second phase of the fiscal decentralisation process was launched in July with 42 of the 85 municipalities considered ready. The grants currently planned to fund education, welfare, fire and rescue services and cultural institutions will be replaced with block grants. Municipalities will henceforth have to manage funds and decide on priorities themselves. The debts of the municipalities have been substantially reduced. The approach to financing education has been improved but remains inadequate. Municipal tax collection has also improved, though it is still far from satisfactory. Internal audit units have been established in some 20 municipalities.

However, funding of the tasks decentralised to the municipalities remains insecure. Some municipalities still have sizeable debts and have had their accounts blocked. No steps have been taken to develop the capacity of the municipalities to manage state-owned property. The qualitative and quantitative capacities of some municipalities are rather low. Coordination and information-sharing between municipalities remains limited.

Public administration

In the area of public administration reform, implementation of the law on civil servants passed in 2000 is continuing. Some ministries are using performance-based appraisal. The Civil Service Agency (CSA) has played its role in disciplinary procedures more actively, which have increased in number: from January to May, 59 disciplinary procedures were initiated against civil servants compared to 44 for the whole of 2006. In August, a government decree established new human resource management units within the administration with the objective of developing administrative capacities.

The code of ethics for civil servants was amended to include the obligation to report all illegal acts. A code of ethics for local officials has been adopted. Further steps have been taken to implement the law on freedom of information. In addition, a citizens' charter was introduced in January as part of the government's work programme, and information points have been set up in some ministries which provide public services. The resources provided to the Ombudsman have been increased. Cooperation of public bodies with the Ombudsman has also improved; in 2006, state bodies carried out the instructions of the Ombudsman in 75% of cases. The General Secretariat of the Government carried out a number of training events in the field of strategic planning and published a manual for policy-making. A regulatory reform to simplify administrative procedures was launched in November. An inter-ministerial committee to examine the audit reports of the state administrative bodies was established.

The structure of line ministries has been adapted to deal with preparations for EU accession by creating sectors for EU affairs. These sectors each consist of at least three units: adoption of the *acquis*; programming and implementation of IPA funds; and internal monitoring and documenting of EU-related activities. The sector for the implementation of the Ohrid Framework Agreement was converted into a new Secretariat. Some progress has been made in the training of civil servants at local level.

The new police law, a key priority of the European Partnership, was adopted in October 2006. Steps were undertaken to implement the key elements of the reform and prepare for the full

entry into force of the law in November 2007. These included: reorganisation and clearer assignment of competences in the Ministry of Interior; implementation of an integrated border management strategy; and the decentralisation of the police by, among other measures, reducing the present twelve regional offices to eight and creating a new system for appointing local police station commanders (*See also Chapter 24 – Justice, Freedom and Security*).

There was progress on defence reform as part of preparations for NATO membership. The general level of security remained satisfactory. The police further improved their country-wide capacity to patrol and investigate.

However, strengthening of the CSA is still necessary, in particular to ensure that it can play a full role in the performance assessment of civil servants and in disciplinary procedures. A number of assessment reports were not submitted to the CSA. The introduction of career salary supplements stipulated in the civil servants law was postponed until the end of 2007, which removed the possibility of linking appraisals to performance-based bonuses.

The large-scale dismissals of officials following the change of government in 2006 illustrated the politicisation of appointments at all levels in the public administration and disrupted its functioning well into 2007. Time and expertise were lost in reorganisation and extensive changes of personnel in the public administration. This contributed to the build-up of a legislative backlog and deprived the government of valuable expertise which could have ensured better drafting of legislation and timelier implementation. Recruitment and promotion should be regulated by objective and merit-based criteria and a clear distinction between the political and the administrative level should be observed.

Few ministries are preparing strategic plans and fewer still are implementing them. Administrative capacity for both strategic planning and policy development needs to be further strengthened. Capacity to prepare legislation, and hence the quality of draft laws, continues to be uneven. This problem has been exacerbated by the government's commitment to rapidly eliminating the legislative backlog from 2006. The transparency of the legislative drafting process remains limited and prior consultation of stakeholders unsystematic.

In April, the Secretariat for European Affairs demoted 40 employees (two thirds of the permanent staff) on the grounds that they had not been lawfully appointed, a ruling which was subsequently upheld by the CSA. The method applied as well as its timing affected to some degree the functioning of the Secretariat. Adequate human and financial resources to implement the SAA and the National Programme for the Adoption of the *acquis* (NPAA) are lacking. The structural reorganisation of the ministries has tended to be geared to accommodating staff changes rather than responding to strategic and functional planning needs. In the absence of a general strategy, there is no comprehensive training for all civil servants. Some ministries submitted annual training programmes, but these were not accepted. Training remains ad hoc and largely funded by international donors. Efforts made by the CSA to introduce the national system for coordinating civil servants' training have met with a limited response.

The law on access to information is not fully implemented as many public bodies which hold information of public interest are not fully prepared or are unwilling to facilitate access to it. In addition, the administrative capacity of the commission for the protection of the right to free access to public information remains weak. Insufficient training and information have been provided both to the holders of the information and to the public.

The police law has not yet entered into force. Management of available resources, including training, is not yet done in a modern and effective manner, nor is there adequate budgetary planning. An effective mechanism for independent oversight and investigation of cases of death and serious injury by law enforcement officials is lacking. In 2007 there was a ruling of the European Court of Human Rights against the country for a violation of Article 3 of the Convention on account of the failure of the authorities to conduct an effective investigation into allegations of police ill-treatment.

More efforts are needed to ensure the accountability of the intelligence services to parliament and to clarify their competences, in particular as regards surveillance activities.

Overall, reforms are gradually being implemented in the area of public administration. However, there have been limited results, in particular due to lack of a strong commitment to meet the announced objective of a more transparent, professional and depoliticised public administration and better organised public services. Public administration remains weak and inefficient. Implementation of the police reform is underway but still at an early stage.

Judicial system

Some progress was achieved in implementing the strategy on judicial reform, one of the key priorities of the European partnership. The new court structure is gradually being established. Five specialised court departments have been established to deal with organised crime and corruption, one of which is fully operational. Steps have been taken to make the academy for the training of judges and prosecutors functional. New IT systems have entered into use. The implementation of the laws on litigation procedure and on enforcement of civil judgements is gradually having an impact on the enforcement of court decisions. Ministry of Justice statistics point to an increase in solved cases by 8% in the first six months of 2007.

The reformed Judicial Council began operating in January with 10 of its 15 members in place. In October 4 additional members were appointed. Eight procedures have been initiated against 10 judges. One judge has been dismissed and the remaining procedures are ongoing.

However, the judiciary continues to suffer from serious deficiencies, in particular as regards lack of independence and low efficiency. Completing the legislative framework through the enactment of laws on the public prosecutor's office and the council of public prosecutors is needed to improve the functioning of the judiciary. The Public Prosecutor was dismissed immediately after the new government took office, and the position remained vacant for four months due to difficulties in reaching a consensus on the nomination.

The deadlock on the appointment by parliament of the 5 remaining members of the Judicial Council disrupted its functioning, limiting its capacity to play a more active role in strengthening the independence and impartiality of the judiciary, hindering important judicial reforms. Broad political consensus is required to proceed with the reform and its implementation.

The courts' budget remains insufficient. Efforts on training will have to be sustained to allow for the effective implementation of the reform. The new law on misdemeanours has applied since the end of May, but it has not been fully implemented, as necessary amendments to many laws remain pending. The continuing delay in setting up the Administrative Court, which should have been operational in May, created a gap in jurisdiction over second-instance appeals in administrative cases.

Overall, steps were undertaken to gradually address the deficiencies of the judicial system. However, a number of delays were encountered, notably as regards the appointments to the Judicial Council and the reform of the prosecution service. A broader consensus is required to proceed with reforms. Judicial reform remains a major challenge, and a sustained track record of implementation has yet to be established. *(See also Chapter 23 – Judiciary & fundamental rights)*

Anti-corruption policy

Progress was made in anti-corruption policy and measures. The legal and institutional framework was strengthened, and strong political commitment yielded some results. The parliament ratified the United Nations Convention against Corruption. Most of the recommendations of the Council of Europe Group of States against Corruption (GRECO) have been implemented.

Amendments to the anti-corruption law have been enacted to prohibit political parties from receiving and spending funds from anonymous sources. The amendments reinforced the obligation on all appointed and elected officials to declare their assets, and made it obligatory for these to be published on the State Anti-Corruption Commission website. A law on conflict of interest was adopted. A number of misdemeanour procedures were brought against officials who failed to submit asset declarations following the elections in 2006 and a few court decisions have been issued.

There were court decisions in a number of high profile cases, including those of a former Deputy Minister, a former Customs Director, judges, lawyers, notaries, and police officers.

Determined efforts were made to prevent and punish corruption. The renewed State Anti-Corruption Commission began its five-year mandate and the government adopted an Action Plan. Cooperation with the Public Prosecutor's Office and other state bodies improved. Law enforcement agencies, in particular the Ministry of Interior and the public prosecution service, and also the customs administration, demonstrated a stronger determination. The capacity to investigate corruption was reinforced and coordination among law enforcement agencies improved. Toll-free telephone hotlines have provided a channel for the public to report cases of corruption.

However, corruption is widespread and constitutes a very serious problem. The approach to tackling corruption is not yet comprehensive and the Action Plan lacks a clear budget allocation. The NGO sector remains weak, politicised and divided in this field.

The high number of legislative acts has created a fragmented legal system which makes implementation and monitoring more difficult. Attention must be paid to the loopholes in the legislation identified by the State Audit Office and the state commission, as well as to the quality of the legislation in order to increase its clarity and consistency. More effective implementation of the preventive measures provided by the anti-corruption legal framework, including the law on general administrative procedures and the law on free access to public information, would narrow the opportunities for corruption. Overall, the anti-corruption legal framework needs to be reviewed and strengthened, in particular with a view to ensuring effective implementation.

Lack of human and technical resources continues to impede the work of the state commission. Although a large number of officials have declared their assets, the commission's capacity to publish them is limited, checking remains weak and sanctions lenient.

A track record demonstrating the capacity of the judiciary to take decisions against corruption at all levels needs to be established. Improved coordination between the police and the prosecution office during investigations is needed. Delivery and enforcement of court decisions need to be strengthened.

There is still neither a unified methodology nor a system for collecting and sharing intelligence and for mutual access to databases. This hampers more effective coordination among law enforcement agencies and watchdog bodies. Furthermore, there has been limited follow-up to the review of discretionary powers of ministers and other officials in the administration.

Overall, implementation of the framework for fighting corruption has yielded some results, in particular a number of high level prosecutions and convictions. However, legal reforms are still in early stages of implementation and a more comprehensive and consistent approach across all sectors would improve their impact. Corruption is widespread and constitutes a very serious problem. Considering the challenges the country has to meet, sustained political commitment is required (*See also Chapter 23 – Judiciary & fundamental rights*).

2.2. Human rights and the protection of minorities

Observance of international human rights law

As regards **ratification of human rights instruments**, the inter-ministerial committee set up in 2006 to monitor the obligations stemming from the ratification of Protocol 1 to the European Social Charter has continued its work. Ratification of the revised protocol No 2 from 2005, reforming the control mechanism, is still pending.

In 2006 **the European Court of Human Rights** (ECtHR) delivered 7 judgements finding that the former Yugoslav Republic of Macedonia had violated at one article of the ECtHR. In 1 case the ECtHR ruled that there was no violation of the ECHR.

A total of 343 new applications regarding the country were made to the ECtHR from 1 January to 31 December 2006. The total number of pending cases before the Court regarding the former Yugoslav Republic of Macedonia is 1033.

As regards **promotion and enforcement of human rights**, the inter-ministerial body for protection of human rights met for the first time in 2007 to follow up the recommendations by the UN and the Council of Europe on elimination of all forms of discrimination.

Civil and political rights

As regards **prevention of torture and ill-treatment and fight against impunity**, the capacity to investigate ill treatment has been further developed, notably by means of training. In the past 10 months the Sector for Internal Control and Professional Standards in the Ministry of the Interior has dealt with only one case of ill-treatment and two cases of illegal arrest. This marks a significant decline in the number of cases compared with previous years. Criminal charges were brought against the officers involved. The 2006 annual report of the

Ombudsman's office indicates an improvement in police behaviour towards people held in custody.

The Ministry of the Interior developed an action plan to implement the code of police ethics, which envisaged adequate training and funding. Cooperation between the Ombudsman and the Sector for Internal Control and Professional Standards in the Ministry of the Interior improved significantly, at the initiative of the Ministry of the Interior. In 2006, 83% of the recommendations made by the Ombudsman in this area were followed up.

Use of informative talks by the police was regulated by the 2006 police law thus improving the transparency of detention procedures.

There is still limited **access to justice** for appeals against acts and decisions by civil servants affecting individual citizens' rights and obligations. There are long delays in the review of administrative decisions carried out by second-instance administrative commissions. The quality of decisions is poor – the Supreme Court accepted 42% of the appeals in 2006. The majority of the recommendations made by the Ombudsman that have not been followed up relate to these commissions.

As regards the **prison system**, the Government adopted a programme to improve conditions in prisons. However, no significant progress has been made. During 2006 there were 6 deaths and 3 suicides in prisons, compared with 6 and 5 respectively in 2005. Limited progress has been made in the implementation of the recommendations of the Council of Europe's Committee for the Prevention of Torture and Inhuman and Degrading Treatment or Punishment on the conditions of detention.

The report by the European Parliament's temporary committee on the alleged use of European countries by the CIA for the transport and illegal detention of prisoners, which was approved by the European Parliament, noted a lack of thorough investigation of the Khaled El-Masri case by the authorities. It urged the authorities to carry out investigations and parliament to set up a committee of inquiry. At a special session of the oversight committee on security and intelligence issues, the Government maintained that it had not been involved in any illegal detention.

The Law on Interception of Communications was enacted, satisfactorily filling the previous legal vacuum. Implementing legislation was adopted in January on the special arrangements for protection of data collected by authorised interception of communications. An oversight committee was set up in parliament.

The legal framework on **freedom of expression** and the media now meets most international standards. However, despite new legal procedures to ensure the independence of the Broadcasting Council and the public service broadcaster, these bodies remain vulnerable to political interference. The economic and financial independence of the public service broadcaster and the regulatory body has not been sufficiently ensured. The quality of the service provided by the public service broadcaster is inadequate; that of the private broadcasters is satisfactory. The broadcast media are dominated by a large number of private TV stations, while the public broadcasters are weak. Ownership of the leading print media is highly concentrated, while the remainder are financially fragile. The media continue to be subject to significant political influence. (*See also Chapter 10 – Information society and media*)

As regards **freedom of assembly and association**, the Law on civic associations and foundations has been amended to provide for such bodies to be registered in the Central Registry. In May 2007, 40 trade unions were registered in accordance with the Labour Relations Law.

The Government adopted a strategy for cooperation with **civil society organisations** and developed an action plan. One of its aims is to involve civil society more in the policy development process and in legislative drafting. The activities of civil society are still hampered by lack of finance and heavy dependence on foreign sources of financing. The 2006 Law on Sponsorship and Donations has not been implemented pending the necessary bylaws. The transparency of the criteria for allocating grants from the state budget to NGOs remains to be strengthened.

As regards **freedom of religion**, the Law on the Legal Status of Churches, Religious Communities and Religious Groups has been enacted. The revision provided for more liberal procedures for registration of religious institutions. Compulsory religious education was introduced for primary school pupils, who can choose between religious instruction and history of religion.

Overall, further steps were taken to strengthen civil and political rights. However, continued efforts are needed.

Economic and social rights

As regards **women's rights**, parliament adopted a declaration which condemned all forms of violence against women and within the family and committed parliament to give these issues priority and to strive towards greater gender balance. Implementation of the 2006 legislation on equal opportunities is slowly progressing. Some progress has been made in areas such as education, health care, political participation and the non governmental sector. Equal opportunities have been set up in a number of municipalities. 33 out of 120 members of parliament as well as 3 members of the government out of 23 are women. However, the situation of women in rural areas and of women from minorities or who are victims of domestic violence or trafficking remains a cause for concern. The definition of rape in criminal law remains very narrow thus making successful prosecutions highly unlikely. Stronger measures against sexual harassment are needed.

A sector dealing with human trafficking and illegal migration was set up within the organised crime department in the Bureau for Public Security. Also a memorandum of understanding was signed between the Ministry of the Interior and an NGO to give new impetus to the fight against trafficking. However, progress has been limited in this field.

Implementation of the action plan for the protection of **children's rights**, adopted by the government in 2006, is slow.

As regards **socially vulnerable and/or persons with disabilities**, the mental health strategy which defines and protects the rights of patients has been adopted. Conditions in psychiatric hospitals remain a matter of concern. There is too few qualified staff with appropriate training. The deaths of six patients at the Demir Kapija special institution for the mentally disabled in early 2007 underlined the urgent need to improve the institutional care provided for socially vulnerable and disabled people and to further develop community-based alternatives.

As regards **labour rights and trade unions**, tripartite social dialogue remained very formal and bipartite social dialogue is very weak. The criteria laid down by law for determining who should take part in the social dialogue are not implemented. The lack of representativeness is currently one of the factors hindering the development of an all inclusive social dialogue. It is also suffering from a lack of capacity of the social partners.

In the area of **anti-discrimination policies**, further efforts are required to fight against all forms of discrimination. A comprehensive law on anti-discrimination should allow for more effective mechanisms to identify, pursue and penalise all forms of discrimination by state and non-state bodies against individuals or groups.

As regards **property rights**, the process of return of property confiscated during the Yugoslav regime still has not been completed. No progress has been made on the issue of return of properties of the Orthodox church and the Muslim community.

Overall, there has been limited progress. Significant additional efforts are needed.

Minority rights, cultural rights and protection of minorities

As regards **cultural rights**, the parliament ratified the UN Convention on the Protection and Promotion of the Diversity of Cultural Expressions.

As regards **minorities**, inter-ethnic tensions have remained at a low level. Several constructive gestures were made by the government. These include the Prime Minister's address to students at the South-East Europe University in Tetovo, the authorisation to erect a statue of Skanderbeg in Skopje and the Law on Public Holidays, which recognised the different ethnic and religious holidays. Dialogue and confidence-building among communities is slowly progressing. The Ohrid Framework Agreement remains a crucial guarantee of the rights of the ethnic communities in the country. Further progress has been made on its implementation, for instance regarding equitable representation, local self government and use of languages.

In 2006 the Ombudsman's office received a very limited number of complaints concerning discrimination and equitable representation (11 compared with 4 in 2005).

Some steps have been taken to ensure equitable representation across the public sector. A comprehensive strategy on equitable representation, along with an action plan, was adopted by the government. Increased resources have been allocated for implementing the strategy. 3 of the 8 members of the Judicial Council elected by the judges are from the non-majority communities. The army has made some progress on implementing its strategy on equitable representation.

Some of the committees for interethnic relations set up at local level to promote the concerns of the various communities are contributing effectively to participation by all communities in public life. Introduction of bilingual road signs has been initiated.

However, integration of ethnic minorities is quite limited. Most of them remain at a disadvantage with respect to education and employment. The increase in representation of the non-majority communities remains uneven among individual ministries. The number of non-majority communities' members in the army remains low. Slow progress has been made within the police overall, and none in senior ranks, in particular within the criminal police and the department for security and counter-intelligence. The strategy for equitable representation

is not yet fully satisfactory, notably in terms of its targets and sanctions. Committees for inter-ethnic relations have not been set up in all the municipalities concerned and are often not effective. Sustained commitment to implementing the regulatory framework for use of minority languages is required. There are not enough qualified interpreters for fully effective implementation of the law on use of minority languages in criminal proceedings and in local and central government.

As of August 2007 there were 1,907 **refugees/asylum seekers** in the country, of whom the vast majority were Roma from Kosovo. The number who received recognised refugee status since the Law on Asylum entered into force has remained unchanged (28). Most applicants have been granted humanitarian protection for up to 12 months. Concerns persist regarding the independence of the government commission that deals with appeals against first-instance decisions on refugee status. The Supreme Court's handling of appeals is often perfunctory. The number of registered **internally displaced persons** (IDPs) remained fairly stable (755). The government decided to pay the rent for IDPs accommodated in private houses and to grant them monthly allowances.

As regards the **Roma**, the implementation of the four action plans prepared by the Ministry of Labour and Social Policy in the framework of the 2005-2015 Decade of Roma Inclusion has continued. Some projects were approved for financing under the Roma Education Fund set up as part of the Decade. However, efforts to meet the objectives of the National Strategy for Roma have yielded no visible results. Discrimination against Roma people continues. The enrolment rate in primary education is below 30 %, and high drop-out rates are still recorded, in particular among girls. There is evidence of police violence and targeting against the Roma. Unemployment among the Roma remains extremely high, and social and civic marginalisation is common. No specific measures have yet been taken to promote access to the general employment programmes. No solution has yet been found to address the issue of lack of legal status of Roma without citizenship or with denied refugee status.

Overall, inter-ethnic relations have improved. However, the spirit of the Ohrid Framework Agreement needs to be upheld consistently, through a consensual approach and readiness to compromise. There has been only limited progress on the situation of the Roma, which continue to face very difficult living conditions and discrimination, especially in the areas of education, social protection, health care, housing and employment.

(See also Chapter 23 – Judiciary and fundamental rights)

2.3. Regional issues and international obligations

The former Yugoslav Republic of Macedonia has maintained full cooperation with the **International Criminal Tribunal for the former Yugoslavia** (ICTY). The trial of the only case ("Ljuboten") for which ICTY indicted citizens of the former Yugoslav Republic of Macedonia, including the former Minister of Interior, started in April in The Hague. A law on cooperation with ICTY came into force in June 2007 which, inter alia, provides for monitoring by the OSCE and the EU, training of judges and prosecutors and the confiscation of assets. The four files for which the Tribunal decided not to pursue its investigations, in view of its "exit strategy" (UNSCR 1534/04), have not been referred back to the national authorities for possible further investigation, pending the upgrading of the judicial structures and the fulfilment of the other necessary pre-conditions to ensure due process. The judicial reforms required to ensure proper handling of the cases when they are returned have not yet been completed.

As regards the **International Criminal Court (ICC)**, the former Yugoslav Republic of Macedonia still maintains a bilateral immunity agreement with the United States of June 2003 granting exemptions from ICC jurisdiction which does not comply with the EU Common Positions on the integrity of the Rome Statute as well as related EU guiding principles on bilateral immunity agreements. It needs to align with the EU position.

Regional cooperation and good neighbourly relations form an essential part of the process of moving towards the European Union. The country has continued to actively participate in other regional initiatives: Stability Pact and the process of its transition into a more regionally owned cooperation framework with a strengthened South East Europe Cooperation Process (SEEC) and a new Regional Cooperation Council (RCC). The country hosted the first meeting of the Council of Ministers of the Energy Community Treaty after the Treaty entered into force. 2007. The former Yugoslav Republic of Macedonia participated actively and constructively in the negotiations for the new Central European Free Trade Agreement which entered into force in July 2007. It has also ratified the Agreement on the European Common Aviation Area (ECAA).

Agreements have been signed with Bulgaria, Albania and Greece on preventing and resolving border incidents, as well as protocols with the Albanian and Bulgarian Ministries of Interior on cooperation on border control and prevention of illegal migration. The Public Prosecution Office signed bilateral memoranda on cooperation with its counterparts from Albania, Bosnia and Herzegovina, Montenegro and Serbia.

As regards **bilateral relations with other enlargement countries and neighbouring member states**, relations with *Albania* have remained good, with reciprocal high-level visits and the entry into force of an agreement on cultural cooperation.

Relations with *Bosnia and Herzegovina* have remained good, with increased cooperation on defence and high-level reciprocal visits.

Relations with *Croatia* have continued to develop intensively. The first meeting of the Joint Committee set up to implement the bilateral agreement in accordance with Article 10 of the SAA has taken place. Agreements on cooperation in the fields of tourism, health and medical sciences have been ratified.

The authorities were keen to engage in cooperation with *Montenegro*, and reciprocal high-level visits took place. A memorandum on cooperation in defence has been signed.

Relations with *Serbia* are good in general. The Agreement on protection of national minorities has entered into force. There have been no developments regarding the dispute between the *Macedonian Orthodox Church* and the *Serbian Orthodox Church* but the issue was played down in the public debate.

The position of the former Yugoslav Republic of Macedonia on *Kosovo* continued to be supportive of the efforts made by the international community throughout the status process, backed by a broad consensus across the political spectrum. The government is committed to aligning with the EU position on the Kosovo status process. Reciprocal high-level visits have contributed to fostering cooperation. Interim protocols on police cooperation were signed with UNMIK. The reference to the border demarcation issue in the Ahtisaari plan was welcomed by the country's authorities.

Relations with *Bulgaria* have been developing, marked by several meetings at senior political level. New agreements have been concluded, notably on the promotion and protection of investments, on cross-border police cooperation, on travel of citizens and on cooperation in the field of labour and social policy.

Relations with *Greece* are close and cover many areas, notably economic matters and foreign direct investment. The government decided to authorise Greek citizens to enter into the country with their domestic identity cards to facilitate cross border movements. However, relations between the two countries were affected by the name issue. No progress has been made in this context. The renaming of Skopje airport after Alexander the Great was received in Greece as a provocation, contrary to the 1995 interim agreement. Actions which could negatively affect good neighbourly relations should be avoided. Renewed efforts are needed, with a constructive approach, to find a negotiated and mutually acceptable solution on the name issue with Greece, under the auspices of the UN, within the framework of UNSCR 817/93 and 845/93, thereby contributing to regional cooperation and good neighbourly relations.

Relations with *Turkey* developed positively with reciprocal high level visits.

3. ECONOMIC CRITERIA

In examining the economic developments in the former Yugoslav Republic of Macedonia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

3.1. The existence of a functioning market economy

Economic policy essentials

The country is fully participating in the EU's pre-accession fiscal surveillance. It presented its first Pre-accession Economic Programme (PEP) in December 2006 and submitted its second fiscal notification in April 2007. All the political parties concerned agree on the objective of establishing a market-based economy. The new government presented its economic programme in autumn 2006, emphasising the goals of fostering economic growth and addressing unemployment. Programme cooperation with the International Monetary Fund (IMF) and World Bank is on track, with positive assessments from both institutions concerning the programme commitments. A broad political consensus has been maintained on the fundamentals of economic policy, although political disputes have occasionally slowed down the reform process.

Macroeconomic stability

Real GDP growth accelerated from 3.5% in the second half of 2006 to 5.5% in the first half of 2007. The main factors were strong growth of commodity exports and increased private consumption. Industrial production also increased, by some 2.5% in the first eight months of 2007, compared with 2.8% for the same period the year before. Overall, stability has been maintained.

The current account deficit declined further to 0.4% of GDP in 2006, compared with 1.4% in 2005. During the first half of 2007, the current account even posted a small surplus, benefiting from strong export growth and private transfers. The share of exports in GDP increased from 36% of GDP in 2006 to 38% in 2007. Net private transfers remained high, on around 19% of GDP in 2006 and a similar level in the first half of 2007. Net inflows of foreign direct investment (FDI) returned to some 1¼% of GDP in the second half of 2006 and rose to 2¼% of GDP in the first half of 2007, after privatisation of an electricity distribution company had pushed them up to 5.6% in 2006. Overall, external imbalances have again narrowed substantially, although FDI inflows are still low.

The official reserve assets of the *National Bank of the Republic of Macedonia* (NBRM) stood at € 1.5 billion mid-September 2007, which is equivalent to about five months of imports of goods and services. The main reasons for the further increase in reserves were the private transfers and other foreign exchange inflows via the cash exchange offices. Gross external debt had fallen to about 33% of GDP by end-August 2007, reflecting early repayments to Paris Club creditors, the IMF, the World Bank and the EIB. This reduced the costs of servicing the public debt by about 10% (or 0.1% of GDP).

Unemployment is very high at some 36% of the labour force and declined only by about a ½ percentage point over the last year (to 35.8% in the first quarter of 2007). Employment, however, increased by some 3% during the last year, raising the employment rate from some 35% in mid-2006 to about 36% in mid-2007. The modernised labour code, which has been in force since 2005, has probably had a positive impact on job creation. However, a considerable part of the unemployment is structural, as confirmed by the weak link between economic growth and the level of employment. Unemployment among the young is still very high and the duration of unemployment in this age group is long. Because of the large informal sector, unemployment could be overestimated. Overall, employment is continuing to grow. However, progress with reducing unemployment has remained limited.

The NBRM has managed to keep the exchange rate of the denar stable at 61.2 denar/ euro and sustained a *de facto* peg. The NBRM has slightly reduced policy interest rates. Rates for Central Bank bills declined from 5.5% in mid-2006 to 5.1% by August 2007. Private-sector rates have continued to decline: weighted lending rates of commercial banks in domestic currency were cut from 11.1% at the end of August 2006 to 10.1% in August 2007. Credit growth to the private sector continued to be high, at some 34% (year on year) during the first eight months of 2007. The volume of broad money (M4³) rose by 33% year on year during the first eight months of 2007. Overall, exchange rate and monetary policy have remained sound. This has helped to maintain confidence in the stability of the financial system.

Consumer price inflation slowed down to 1.4% during the first nine months of 2007, compared with 3.3% for the same period in 2006. Consequently, inflation returned to the low levels of previous years after special factors, such as the increase in excise taxes and higher energy prices, had pushed inflation up to 3.2% in 2006. Overall, inflation remains under control.

Fiscal policy became more expansionary towards the end of 2006, when the new government adopted a supplementary budget with additional spending of some 2% of GDP. Substantial budget surpluses in the first half of 2006 kept the annual public-sector deficit within the target

³ The money aggregate M4 includes all notes and coins in circulation and deposits on bank accounts.

for 2006 of 0.6% of GDP⁴. After a fiscal surplus of 0.2% of GDP in 2005, this performance represented a fiscal impulse of 0.8% of GDP. The budget proposed for 2007 envisages a significant reduction in the fiscal burden while containing expenditure growth. In order to stimulate investment and economic growth, the authorities have introduced a "flat tax" on personal income and profits, reducing the rates for these two taxes to 12% from 1 January 2007. The same law provides for a further reduction to 10% on 1 January 2008. On the expenditure side, the government plans to reduce public spending by 2 percentage points of GDP by 2010. In all, an increase in the deficit to about 1% of GDP is planned for 2007. However, data for the first eight months point to a better than expected performance of revenue and expenditure. Overall, fiscal policy has become slightly more expansionary, but remains sound. However, the regular underperformance in implementing public investment plans points to serious administrative weakness in this sector.

Fiscal decentralisation entered its second phase in July 2007. Measures are being taken to settle the issue of municipal debt arrears, with the overall level reduced from about 1% of GDP in mid-2006 to about 0.5% by mid-2007. However, in some cases the new powers pose significant challenges to the municipalities and require close monitoring by the central authorities. At the moment, expenditure by the lower levels of government accounts for about 7% of total public-sector expenditure or about 2.4% of GDP. Mainly due to early debt repayments, public debt has fallen significantly (according to GFS from 39.4% of GDP end of 2006 to about 29% by end July 2007). The authorities have continued to improve the efficiency of tax administration and to simplify the tax system. Overall, the accounts of the public sector have remained largely balanced and public administration has been further strengthened. However, the quality of the public finances is impaired by weaknesses in medium-term budget planning and priority-setting, leading to a high share of discretionary and short-term oriented spending decisions.

The country's fiscal and monetary policy has supported an acceleration of economic activity, while maintaining overall economic stability. Public finances remain close to balance. Exposure to external shocks has been reduced by increasing foreign exchange reserves and reducing external debt. Inflation has been kept under control. However, unemployment remains high. Overall, the macroeconomic policy mix has succeeded in maintaining economy stability, although high unemployment and insufficient investment remain key challenges.

Interplay of market forces

Privatisation has largely been completed and the share of the private sector in total output has increased further to about 80% of the value added. The value of state-owned assets accounts for some 15% of GDP, with five state utilities accounting for 13.7% of GDP. The value of state-owned assets in the other 65 companies adds up to some 1.5% of GDP. Majority state-owned companies employ some 10,000 people or about 1.3% of the labour force. During the last year, the sale of a number of the last remaining minority state shares in the banking sector, combined with the sale of company shares owned by the Health Insurance Fund, generated revenue totalling about 0.5% of GDP. In the telecommunications sector, the state has liberalised access to the market, which has already resulted in a reduction in communication tariffs. Liberalisation of the air transport market has also started. Overall, the free interplay of market forces has further increased.

⁴ The data are still based on the IMF accounting standard GFS and are not yet fully in line with the ESA 95 European accounting standard.

Market entry and exit

The government has continued to lower entry barriers and to speed up registration and exit procedures. Major developments in this respect were amendments to the laws on the one-stop shop, the trade registry and the registry of other legal entities, which resulted in a further simplification and facilitation of company registration procedures. For example, the time taken for company registration was further reduced from 5 days to 3 days, and registration costs are now less than € 100. During the first nine months of 2007, about 7,500 new companies were registered, compared with 6,700 in the same period of 2006. Companies which registered during the last year make up nearly 15% of the total stock of companies. In June, the authorities started to implement the "regulatory guillotine", involving a significant reduction in redundant legislation, introduction of the "silence is consent" principle, lowering of fees in a number of areas and simplification and shortening of a number of procedures. The legislation on bankruptcy procedures was amended with a view to improving the procedures and accelerating implementation. During the first nine months of 2007, 4,100 companies were taken off the register, while nearly 2,100 new bankruptcy procedures were registered. The backlog in bankruptcy cases has been reduced. Overall, barriers to market entry and exit have been further reduced and key implementing legislation has been adopted.

Legal system

The necessary legal system is largely in place. Significant progress has been made on accelerating registration of property rights. By August 2007, the coverage of the real estate cadastre had increased to 68% of the territory of the country, compared with 47% in autumn 2006. The registration procedure was amended in order to facilitate registration of foreign investors. Allowing commercial cases to be enforced by licensed enforcement agents has led to significantly faster enforcement of court decisions. However, legal procedures in general are still slow, which impedes proper law enforcement. Therefore, progress on settling ownership disputes has been limited. Overall, progress has been made on further accelerating market entry, clarifying property rights and speeding up enforcement of court rulings. However, weaknesses in the judiciary are still impeding the proper functioning of market mechanisms.

Financial sector development

The assets of the banking sector accounted for some 61% of GDP in mid 2007, compared with some 50% a year before. In view of the relatively high number of banks (19 banks and 12 savings banks), the sector's asset concentration still can be considered to be moderate, with the five largest banks holding some 75% of the sector's assets and deposits. In May 2007, a foreign bank became the majority owner of a medium-sized local bank, which should foster competition in the sector. The share of state ownership in this sector is low, at some 7% of the sector's assets, mainly consisting of a majority share in one development bank (5% of the sector's assets) and a limited number of remaining minority shares in other private banks. Credit to the private sector rose by about 30% in 2006, giving a credit-to-GDP ratio of 26%, compared with 24% at the end of 2005. This trend continued during 2007, bringing the credit-to-GDP ratio close to 30%. The range of financial instruments has been further diversified, for example by issuing three-year treasury bonds for the first time. A new banking law was adopted at the end of 2006, facilitating establishment of branches of foreign banks and bringing the sector's supervisory and prudential standards closer to international norms. Overall, the banking sector has developed further.

Interest rates on the benchmark central bank bills have fallen by about half a percentage point and rates on treasury bills by nearly one percentage point. Private-sector lending and borrowing rates have been declining by up to 1 percentage point during the last 12 months, while the spread between lending and borrowing rates has narrowed, to some 5 percentage points, compared with 6.5 the year before. The quality of the credit portfolio has improved, with the share of non-performing loans in the total credit portfolio falling from 10.9% at the end of 2005 to 6.4% by the end of June 2007. Capitalisation of the sector is still relatively high, with a capital adequacy ratio of 18% end June 2007, compared with some 21% a year before. Small banks have a high capital adequacy ratio of some 50% on average, while large banks have a ratio of around 12%. The profitability of the sector is continuing to improve. End June 2007, returns on assets and equity stood at 2.4% and 19.3% respectively. Market capitalisation of the 39 private and publicly owned companies currently listed on the *Macedonian stock exchange* rose from about 20% of GDP in mid-2006, to 29% end of 2006 and to some 84% by mid-2007. Overall, the size of the non-banking financial sector has increased, but the level is still low.

The size of the financial sector remains small, but significant progress has been made on deepening financial intermediation, increasing competition on the financial market and strengthening the legal framework for the sector. Overall, the situation in and stability of the financial sector have improved further.

3.2. The capacity to cope with competitive pressure and market forces within the Union

Existence of a functioning market economy

The former Yugoslav Republic of Macedonia has maintained macroeconomic stability. It has made significant progress on reducing its external vulnerability and further lowering barriers to market entry and exit. It has adopted legislation to put into action major structural reforms. However, a fully functioning market economy is still impeded by weaknesses in the judiciary, a still insufficient legal certainty and a considerable number of unsettled property disputes. The high unemployment rate points to structural weaknesses and inadequate functioning of the labour market.

Human and physical capital

The authorities have stepped up their efforts to align the education system with international standards. Recent amendments to the laws on primary and secondary education include the extension of primary education to nine years and making compulsory as from 2008/2009 three additional years of general or vocational and educational training in secondary education, the introduction of two compulsory foreign languages and computerisation of the education system. The authorities have markedly increased the budget for modernisation of education, although from a low base. Despite these efforts, the overall level of education and training of the labour force still need to be upgraded in order to improve not only labour mobility but also the competitiveness of the country as a whole. Furthermore, equal access to education in all regions is not yet guaranteed in practice. Overall, substantial measures have been taken to improve education, which will have positive effects on human capital.

Job creation has improved. Labour contracts have become more flexible as a result of the new labour code adopted in 2005. Furthermore, active labour market measures have also been intensified. These have helped to increase employment. However, unemployment has

remained very high. In particular, a large part of unemployment is structural, mainly affecting the young and poorly qualified. Furthermore, the current system of calculating social contributions does not yet take into account the newly introduced concept of part time work, which creates a significant disincentive of registering low wage or part time employment. Overall, the labour market has become more flexible, but the supply and demand mismatch is still sizeable.

Overall, private and public investment remained relatively low during the last year, reflecting a still difficult business environment and high financing costs. The quality of transport networks has suffered from two decades of underinvestment. Upgrading of the overall infrastructure system has started for projects related to European transport corridor X. Division of the railway company into two operating companies has been completed. The next step planned is the sale of the transport company. Overall, the share of investment in GDP has remained relatively low, in particular in view of the country's need to catch up with international standards.

FDI inflows returned to the previous levels of around 1% to 2% of GDP during the second half of 2006 and the first half of 2007. The main foreign investors are from the EU. The new government has launched a programme to attract FDI, for example by establishing free economic zones. So far the impact of these zones on FDI has remained limited. Greenfield FDI inflows also remain limited. In general, unclear property rights, slow legal procedures and fragmented responsibilities between the central and local governments are impeding FDI. Public research and development expenditure was raised to 1% of GDP in 2006. Overall, infrastructure continues to require repair and modernisation.

Sector and enterprise structure

The economic structure is gradually moving towards a larger contribution by manufacturing and trade, while the share of agriculture in the economy is declining. The number of new enterprises, and in particular of SMEs, has increased markedly. However, the informal economy has remained sizeable, affecting the competitiveness of the economy as a whole. Furthermore, provision of collateral for credit is impeded by the low degree of real-estate registration, and slow legal and administrative procedures are delaying structural change. Overall, the business environment for SMEs appears to have improved.

State influence on competitiveness

Direct state influence is relatively small and, following the establishment of the Commission for Protection of Competition in 2005, the institutional set-up is in place. However, establishment of a level playing field between market players appears to be impeded by the sometimes insufficient independence and resource endowment of the country's regulatory and supervisory agencies. The authorities have taken the first steps to reduce indirect state aid in the form of non-cost-recovering energy prices and of payment arrears. However, these distortions have not yet been fully addressed. Furthermore, the new government appears more active in directly intervening to promote domestic and foreign investment. In some cases, those interventions can lead to distortions in the competitive positions of market participants. Overall, the state's influence on competitiveness is rather limited, although the new government has been demonstrating a greater willingness to actively promote domestic and foreign direct investment. Indirect state aid is still leading to distortion of relative prices.

Economic integration

The country has a small and open economy, in which total trade in goods and services accounted for around 100% of GDP in 2006. The country's main trading partners are the EU and the neighbouring countries in the Western Balkan. During the first eight months of 2007 about 67% of all its exports went to EU-27, while about 50% of its imports came from EU-27. Trade integration with the Western Balkan region remains significant, accounting for 28% of the country's exports and 11% of its imports. In 2006, the country concluded a number of free trade agreements, including with Kosovo, and it joined the new CEFTA agreement, which became operational in mid 2007. The export structure is still highly concentrated on a limited range of products, with textiles and clothing accounting for about 24% of total exports and manufactured iron and zinc products for some 26%. Overall, trade integration is well advanced, but still concentrated on a few price-sensitive products.

International price competitiveness has improved slightly during the last half year, benefiting again from low inflation and a nominally stable exchange rate against the euro. The real effective exchange rate remained largely unchanged in 2006 and the first half of 2007, while overall labour productivity deteriorated due to the relatively strong increase in registered employment. Real wage increases remained in line with productivity growth and unit labour costs decreased slightly in 2006. Overall, price competitiveness has remained stable, while labour productivity has decelerated. The country's per capita income, measured in purchasing power standards, rose to 27% of the EU-27 average in 2006, compared with 26% the year before.

4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

This section examines the former Yugoslav Republic of Macedonia's ability to assume the obligations of membership – that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses the former Yugoslav Republic of Macedonia's administrative capacity to implement the *acquis*. The analysis is structured in accordance with the list of 33 *acquis* chapters.

4.1. Chapter 1: Free movement of goods

No developments have occurred as regards the **general principles**. The former Yugoslav Republic of Macedonia needs to ensure that its legislation is compatible with Articles 28-30 of the EC Treaty and the related case law, including both distinctly and indistinctly applicable measures.

For **horizontal measures**, the Law on Product Safety was amended to allow the State Market Inspectorate to impose fines, thereby bringing this law into line with the Law on Misdemeanours. Four horizontal by-laws have been adopted: an ordinance on the manner of notification of conformity assessment bodies; a decree on the procedure of notification as regards adoption of technical and non-harmonized regulations, technical specifications and standards; a decree on the content and the procedure of notification through the rapid information system (RAPEX) of products which pose a serious threat; a regulations on the notification of dangerous products placed on the market by producers and distributors.

In the area of *standardisation*, the pace of adoption of European standards has accelerated. As of August 2007, a total of 2,754 harmonised European standards had been adopted as national standards, mostly by endorsement and mainly related to the areas of low voltage equipment, safety of machinery, construction products and equipment for potentially explosive

atmospheres. Of these, 2,367 standards give presumption of conformity to technical regulations transposing the “new approach” directives. A list of harmonised standards on construction products, which contained some 200 standards, was also recently published. The number of technical committees within the *Institute for Standardisation of the Republic of Macedonia* (ISRM) has increased to 22. The administrative capacity of the ISRM has been strengthened with new staff and training in several areas, and membership of the ISRM assembly increased to 55. A website has been developed with up-to-date information on all new developments regarding standards. A Memorandum of Understanding was concluded with the European Telecommunications Standards Institute (ETSI).

As regards *conformity assessment*, a decision was adopted which specifies the procedure for introducing the CE marking. A manual on the conditions that conformity assessment bodies will have to fulfil was adopted. Legislation concerning the designation and notification of conformity assessment bodies has not yet been adopted.

In the area of *accreditation*, the *Institute for Accreditation of the Republic of Macedonia* (IARM) has sufficient equipment, its staff was increased from 4 to 9 and the number of lead assessors and trainers has increased. As of August 2007, the IARM has accredited 17 conformity assessment bodies, mainly inspection bodies and testing laboratories. It has also established a website.

Regarding *metrology*, the capacity of the Bureau of Metrology was strengthened by hiring additional employees, but it still does not have sufficient staff and equipment to perform its functions. It joined the Metre Convention, and obtained candidate status in the European Association of National Metrology Institutes (EURAMET). A bilateral cooperation agreement was concluded with the Metrology institute of Turkey.

The administrative capacity of the coordination body for cooperation in *market surveillance* established in 2006, whose role is to coordinate the activities of all inspectorates is not satisfactory. A new Law on the State Market Inspectorate has entered into force, which designates the State Market Inspectorate as the body responsible for performing inspections of products placed on the market. Overall, even if some of the necessary structures have already been established, further efforts will be required in order to create an adequate market surveillance system for the proper implementation of the *acquis* on free movement of goods.

As regards **"old approach" product legislation**, laws on the safety of cosmetic products, on chemicals and on pharmaceuticals and medical devices were enacted. Regulations on crystal glass products were adopted, which transposed the *acquis* in this area; alignment remains to be confirmed.

In relation to the **"new and global approach" product legislation**, ten by-laws aiming to transpose sector-specific *acquis* have been adopted. These include transpositions concerning machinery, equipment and protective systems in potentially explosive atmospheres (ATEX), low voltage equipment (LVD), electromagnetic compatibility (EMC), personal protective systems (PPE), energy efficiency of household refrigerators, energy efficiency of hot-water boilers, pressure equipment, transportable pressure equipment and lifts. Regulations on cableway installations, non-automatic weighing instruments (NAWI) and gas appliances as well as manuals on the implementation of the Law on Product Safety and the Law on Construction Products were adopted.

In the area of **procedural measures**, a decision was adopted which specifies the notification procedures. The Ministry of Economy and the ISRM have been designated as the institutions responsible for notification. The law on weapons entered into force and implementing legislation was adopted. There were no developments in relation to external border checks and cultural goods.

Conclusion

Some progress can be reported on alignment of legislation with the *acquis* on the free movement of goods and in strengthening the administrative capacity of the various institutions. However, most of the sectoral *acquis* on free movement of goods still remains to be transposed and implemented. The capacities of the implementing bodies are still insufficient to perform their tasks. Alignment with the *acquis* in this area is still at an early stage.

4.2. Chapter 2: Freedom of movement for workers

With regard to **access to the labour market**, the law on employment of foreigners has been adopted. It provides that foreign workers enjoy equal treatment with citizens of the country. No development can be reported regarding the legislation on employment in the public sector and exercise of public authority. Preparations in this area are advancing.

The employment agency and its network of employment offices still lack the required technical and human capacity and have not yet made the necessary preparations for participation in the **European Employment Services Network (EURES)**.

In the field of **coordination of social security systems** there has been some progress. Bilateral social security agreements with Slovenia, Poland, Luxembourg and Belgium have been ratified. The country has now concluded a total of seven bilateral social security agreements. However, substantive steps still have to be taken to develop sufficient administrative capacity to apply Community rules fully.

Preparatory measures for the introduction of the **European Health Insurance Card** have not been considered.

Conclusion

Some progress has been made with adoption of the law on employment of foreigners. Alignment with Community rules has started. However, the institutional capacity and human resources required for coordination of social security systems and EURES have to be strengthened.

4.3. Chapter 3: Right of establishment and freedom to provide services

In the area of **right of establishment**, no progress has been made towards removing the remaining barriers to the right of establishment for EU natural and legal persons, apart from the identification of all regulations that need to be simplified or abolished in the framework of the deregulation reform. The provision of certain services by foreigners is still not allowed or is allowed only on condition of reciprocity. Furthermore, there are rules that require foreign companies to register with the Ministry of Economy, which delays the authorisation process and increases the costs of registration. Some problems persist, linked to the transparency and objectivity of the granting of authorisations. The amendment of the Law on the One-Stop-

Shop System and the Maintenance of the Trade Register and the Register of Other Legal Persons is a step in the right direction. Preparations in this area are at an early stage.

In the area of **freedom to provide cross-border services**, the legislation still does not distinguish between foreign operators performing services on a temporary basis and those providing services through a permanent establishment. Some changes have been introduced by the Law on Employment and Work of Foreigners, although the licensing and the authorisation systems have not been reviewed so as to allow service providers to receive free access and enjoy free exercise of a service activity. The overall level of preparedness in this area is low.

A strategy for the development of postal services was adopted in June. The law on **postal services**, based on the second postal directive, has not yet been enacted and an independent regulatory authority has not been established but preparations in this respect are ongoing. The transformation of the Public Enterprise for Postal Traffic, *Makedonska Posta*, into a state-owned joint stock company has been completed. The company is undergoing financial and organisational restructuring. The preparations in this area are on track.

As regards **mutual recognition of professional qualifications** the law on higher education has been amended in April. It provides, however, only for an acceleration of the procedures for recognition of higher education diplomas obtained abroad. There is no distinction between academic and professional qualifications in the national legislation. An Information Centre for the recognition of foreign academic diplomas was established within the Ministry of Education and Science but its administrative capacity is poor. Overall, the preparations in this area are lagging behind.

Conclusion

There has been limited progress, primarily in the area of postal services. There is moderate legislative alignment, mainly regarding the right of establishment. The administrative capacity, particularly with regard to mutual recognition of professional qualifications and freedom to provide services, is not sufficient. Alignment in this chapter remains at an early stage.

4.4. Chapter 4: Free movement of capital

No progress can be reported in the field of **capital movements and payments**. However, the country fulfils all the commitments made under Stage I of the SAA and has undertaken to gradually liberalise its capital account. Apart from that, legislation within the *acquis* remains limited and will require considerable effort given the continued existence of significant restrictions. There are restrictions on the acquisition of real estate by non-residents, which can be transacted only under the conditions set in the special laws or ratified agreements on the basis of the principle of reciprocity.

Portfolio investment remains partially liberalised. In particular, non-residents have to open custody accounts with authorised banks for the purchase of securities and have to pay a premium for the right to cover the security position of the custody account, except for investments made for at least one year. This limitation is to be lifted after the end of the Stage I of the SAA which provides for the full liberalisation of portfolio investments. In addition, the Parliament ratified the protocol to the bilateral investment treaty with Bulgaria to take

account of Bulgaria's accession to the EU. A protocol was initialled to amend the bilateral investment treaty with the Czech Republic, in order to align it with EU requirements.

Pension funds must comply with stringent restrictions and requirements regarding the type and volume of domestic securities that they can purchase on the stock exchange. In particular, they may not invest more than 20% of their capital in non-domestic securities. Significant restrictions on short-term capital movements remain. Non-residents can open foreign exchange and denar accounts in local banks. However, residents are not allowed to open accounts in foreign banks. In the area of capital movements and payments, preparations are still very limited.

Some progress has been made as regards **payment systems** legislation. A new law on payment systems was enacted with the aim of approximating the national legislation with the EC acquis and a strategy on development of payment operations was adopted. Implementing legislation and the administrative structure have yet to be developed. The charges for cross-border electronic payment transactions are disproportionate to those for domestic electronic payment transactions. Preparedness in this area is on track.

Progress can be reported in the area of **money laundering**. The national strategy against money laundering and funding terrorism is now being implemented. The Directorate for the prevention of money laundering has established good cooperation with the reporting institutions, primarily the banks, and with other bodies involved in prevention of money laundering. A new law on the financial police has been enacted, which makes a clearer distinction between the investigative authorities of the Ministry of Finance and the Ministry of the Interior with respect to financial crime. The Directorate for prevention of money laundering has a purely analytical role. Although the number of staff has risen to 10, the Directorate is still under-staffed. The reports it sends to the investigating and prosecuting authorities for further investigation are still not adequate in terms of their length and quality. As of August, only two of the 36 reports sent by the Directorate to the investigating and prosecuting authorities had led to enforcement action. Preparations in this area are moderately advanced.

Conclusion

Progress in this area has been very limited. The legislative alignment is poor. There is adequate administrative capacity to implement the capital movements and payment systems legislation, but not the anti-money laundering legislation. Overall, preparations in the area of free movement of capital are still lagging behind.

4.5. Chapter 5: Public procurement

As regards **general principles**, no further developments can be reported. Alignment is on track.

In the area of the **award of public contracts**, further progress has been made in raising public sector awareness of public procurement procedures and in increasing compliance with the public procurement rules. The Public Procurement Bureau (PPB) has sufficient capacity to manage the public procurement policy. In performing its role in detecting corrupt activities, the Bureau regularly submits reports to the state anti-corruption commission and the state audit office. The PPB has organised several seminars on public procurement legislation for

stakeholders. However, the administrative capacity of the contracting authorities is not adequate. Some public companies still do not comply with public procurement procedures.

The **remedies** remain the weakest part of the system. The Complaints Committee is overloaded with complaints and suffers from a persistent shortage of committee members. Because it lacks an appropriate mandate, it has no means to enforce compliance with its decisions.

Conclusion

There has been progress in the area of public procurement. Alignment of legislation with the *acquis* is moving forward. Development of e-procurement remains a medium-term goal. However, administrative capacity at the level of contracting authorities is not sufficiently developed. Preparations in this area are fairly advanced.

4.6. Chapter 6: Company law

Some progress has been achieved in the field of **company law**. The Company Law was further amended in order to improve corporate governance. The law on the "one-stop shop" system, trade registry and registry of other legal entities was amended so as to further simplify and shorten the process of company registration. This process has been shortened from five days to three days, the costs of company registration have been substantially reduced and additional staff has been employed at the Central Register. The entire company registration process has been facilitated by reducing the number of documents required (*see also Economic criteria*). Businesses are still not able to register on-line.

The Central Registry has become the focal point for registering all companies and for data management of other registers. The register is accessible to the public for a fee of about €60. The law on takeovers was amended so as to increase the protection of small shareholders by making the takeover procedures more transparent. The amended securities law removes the right of existing shareholders to take precedence in the purchase of new shares. The first phase of the regulatory reform process has been completed, with all regulations that need to be simplified or abolished having been identified. The second phase is now under way.

With regard to **corporate accounting**, the Ministry of Finance updated two manuals on annual accounts, in order to align them with the 4th and 7th company law directives. The manuals contain separate instructions for small companies. The manuals are updated once a year, although there is some delay in translating and transposing revisions of the International Accounting Standards and of the International Financial Reporting Standards (IFRS); currently the IFRS version of 2003 is used. The department for financial systems in the Ministry of Finance has four employees, which is not sufficient to prepare instructions and properly enforce accounting and financial reporting.

As regards **auditing**, the charter of the Institute for Chartered Auditors (ICA) has been approved and its executive bodies have been established. The ICA's accounting standards committee has become operational, performing activities related to transposition and implementation of the International Financial Reporting Standards. The ICA adopted a manual on recognition of chartered auditors' qualifications acquired abroad. A programme of quality assurance for audit reporting has been prepared. The register of chartered auditors and the register of audit companies have been opened to the public. The quality of the audit profession has improved, especially with regard to the auditing of companies listed on the

stock exchange. However, the ICA lacks institutional capacity, operating without any premises and employing only one person permanently; the rest of the staff works on a voluntary basis. Preparations in this area are well advanced.

Conclusion

Progress has been substantial in this chapter, in particular with regard to company law and the further improvement of the one-stop-shop system. The Central Registry has adequate administrative capacity, whereas the Institute for Chartered Auditors and its accounting standards committee do not have sufficient staff. Alignment is now moderately advanced.

4.7. Chapter 7: Intellectual property law

With regard to **copyright and related rights**, the criminal code was amended to create a precise definition of intellectual property rights offences. The amended law on the State Market Inspectorate (SMI) empowered the SMI, which already has a right to initiate misdemeanour proceedings, also to impose fines in cases of breach of intellectual and industrial property rights. The former Yugoslav Republic of Macedonia signed a memorandum of cooperation with the World Intellectual Property Organisation. Three collective rights management societies are operating in the country; however, cooperation between the government, collective rights management societies and other stakeholders is insufficient, which prevents addressing piracy and counterfeiting more effectively. The administrative capacity of the Ministry of Culture to manage copyright policy and conduct inspections is insufficient. The preparations in this area are lagging behind.

The legislation on **industrial property rights** was amended with the aim of bringing it into line with the *acquis*. Penalties for violation of those rights were increased. The law on the protection of new agricultural plant varieties was adopted. This is the first step in the ratification procedure of the International Convention for the Protection of New Varieties of Plants (UPOV). The State Office for Industrial Property (SOIP) and the Customs Administration were empowered to impose sanctions, including fines, for misdemeanours. The SOIP keeps registers of patent applications and other registered industrial property rights. The SOIP has equipment for maintaining all the registers and for monitoring the implementation of the legislation on intellectual and industrial property rights. Five new employees were recruited, but the total number and the level of competence of the staff are still not sufficient. Inspectors and prosecutors lack equipment and expertise. Preparations are moderately advanced.

The Customs Administration is establishing a credible **enforcement** record in combating cross-border breaches of industrial property rights.

Within the country, the activities and the capacity of the SMI and the Ministry of the Interior are not sufficient, especially with regard to the seizure and destruction of equipment used to produce counterfeit goods. The data provided by different institutions on seized and destroyed counterfeit goods are not yet consistent. The 13 basic courts are not yet exercising their new powers for cases related to intellectual property law. In 2006 there was an increase in the number of court proceedings following misdemeanour complaints: a total of 406 court procedures for misdemeanours were initiated, and 30 were finalised. Similarly, in 2006, the number of criminal charges rose to 24, compared to 8 in 2005.

A joint coordinating body for both intellectual and industrial property rights was created, consisting of 11 members from various institutions. Its aim is to coordinate the activities of all relevant institutions and to enhance the enforcement of the legislation on intellectual and industrial property rights.

However, the political will to tackle properly the enforcement of intellectual property law is weak. Fines and other sanctions are not effectively applied and do not have a dissuasive effect, and further awareness-raising actions are necessary. Very few right owners bring actions for infringements of their rights before the courts or request action from customs. There is no coherent National Strategy for intellectual property rights, since the present strategy only covers copyrights. Although some training has been provided, greater efforts are needed (e.g. training for judges and law enforcement authorities). Insufficient resources are being allocated to ensure a level of protection of intellectual and industrial property rights similar to that which exists in the Community, including effective means of enforcing such rights.

Conclusion

There has been some progress in this area, especially with regard to alignment of legislation in the area of industrial property rights and interception of counterfeit goods at the border. The legislative preparedness is satisfactory. However, the administrative capacity, in particular of the State Market Inspectorate, is insufficient to achieve proper enforcement. Strong political will is needed to crack down on piracy. In the area of intellectual property law, the former Yugoslav Republic of Macedonia partially meets its targets.

4.8. Chapter 8: Competition policy

Progress can be reported in the area of **antitrust, including mergers**. The Law on protection of competition was amended so that the Commission for Protection of Competition (CPC) now has the right to conduct misdemeanour procedures and impose fines. However, in the case of an appeal, a suspension clause becomes effective which might lead to long delays in paying the fines imposed by the CPC. This weakens their deterrent effect. Several guidelines on implementing the competition law were published. The merger notification conditions and the definitions of professional secrecy were aligned with the *acquis*. There remain overlapping competencies between the CPC and the public prosecutor's office in cartel cases.

The *administrative capacity* of the CPC was strengthened, but needs to be further reinforced. In accordance with the competition law, the Parliament appointed a new Commission consisting of three full-time and two part-time Commissioners. The new Commissioners carry out their tasks independently. The number of staff dealing with antitrust issues and their level of training remain insufficient. The CPC has moved to new, suitably equipped premises.

Enforcement in the antitrust field has improved, but still needs to be strengthened and should concentrate on the most serious infringements of competition (cartels and abuse of a dominant position). The CPC began to exercise its new powers and imposed fines in a number of cases. Since February 2007, the CPC took 22 administrative decisions: 12 regarding merger cases, 2 against cartels and 8 regarding abuse of dominant position. Adequate training of judges in competition law needs to be ensured.

Progress was made in the area of **state aid**. The state aid law was amended and it now incorporates horizontal aid rules and is aligned with the *acquis*. The implementing regulations on rescue and restructuring were adopted. The law on technological-industrial development zones – on which the CPC had issued a negative opinion – is not compatible with EU state aid rules. The law has not yet been amended as announced. On the contrary, new technological-industrial development zones have been created.

The CPC prepared a partial inventory of state aid measures for the period 2001-06. Unauthorised state aid granted by several government institutions was approved retroactively. On the basis of this inventory, aid schemes need to be aligned.

As regards *administrative capacity*, additional employees were recruited, but their number and level of training remain insufficient in order to perform the complex task of monitoring state aid. Measures have been taken to increase awareness among state institutions and cooperation between the various aid grantors and the CPC. Each state aid provider has designated one person responsible for notifying state aid to the CPC, and the CPC has organised training for this newly established network. However, some state aid grantors are still reluctant to report on the state aid provided. According to the amended rules of

procedure, the Memorandum for submitting documents to the Government by state aid grantors must include a reference to state aid compatibility, which must have been assessed by the CPC. The CPC has published a manual on state aid notification procedures.

Concerning *enforcement*, the CPC must make further efforts to put in place an effective system of ex-ante state aid control. The CPC issued 23 decisions on state aid approved in the period 2001-06, three on state aid approved in 2007, and nine opinions at the request of the state aid providers. It is important that the decisions of the CPC are respected by the other government institutions.

Overall, the CPC has increased transparency and accountability by publishing all anti-trust and state aid decisions in the official gazette and on its new website.

The CPC has monitored all sectors where there is insufficient market **liberalisation** or competition. In this context, the CPC signed memoranda of cooperation with the regulatory authorities in the area of energy and electronic communications, mainly on training for their staff on competition issues.

Conclusion

Progress can be reported in the area of competition and state aid policy. The legislation is mostly in line with the *acquis*. The administrative capacity and the independence of the competition authority have been strengthened. However, the CPC still needs more and better qualified staff and adequate funding. Further efforts are needed to increase awareness of the benefits of competition policy among the general public, and understanding of the state aid control system among state aid providers. The law on technological industrial development zones must be amended to bring it into line with the *acquis*. Preparations in the area of competition are advancing.

4.9. Chapter 9: Financial services

Progress can be reported in the area of **banks and financial conglomerates**. A new law on banking and a number of implementing regulations issued by the National Bank (NBRM) have improved the compliance of the banking regulation with EU banking directives. The NBRM has been implementing a Supervisory Development Plan and has made progress towards risk-oriented supervision. However, further alignment with the new Capital Requirements Directives is needed. In addition, supervisory practices, capacity and expertise need to be further enhanced in the light of forthcoming challenges, such as the growing presence of foreign capital, product complexity, accelerating development, further liberalisation, increasing consolidation and competition on the financial services market. Consumer protection needs to be adequately addressed. Preparations in this area are on track.

Progress can also be reported in the area of **insurance and occupational pensions**. Amendments to the law on insurance supervision have been enacted which partially transposed the *acquis* in this area. The law established an independent insurance supervision agency, which has yet to become operational. The current supervisor, the Financial System Department of the Ministry of Finance, is seriously understaffed. Supervision continues to be insufficient, on-site inspections are very rare, the IT system necessary for off-site supervision is lacking and enforcement is lagging behind. The supervisor has not concluded Memoranda of Understanding with other supervisors in the financial sector or with foreign insurance supervisors. As yet there is no properly financed guarantee fund in place for insolvency of

insurers. Not all insurance companies have adequate reinsurance. As regards motor third party liability insurance, the new law on traffic safety, adopted in May, is a positive step towards combating uninsured driving. The new law introduces mandatory insurance stickers, a penalty points system and European-model number plates; it also doubles the penalties for uninsured driving and introduces the European claims form. However, implementing legislation has yet to be adopted.

As regards occupational pensions, work is well on track: additional implementing legislation was adopted and both the administrative capacities and supervisory practice of the Agency for Supervisor of Fully Funded Pension Funds seem to be adequate.

The *acquis* in the area of **financial market infrastructure** is regulated by the law on the payment system and the NBRM decisions on classification of assets and on limits for credit exposure. Alignment with the *acquis* has still to be confirmed, in particular as regards the NBRM decisions which predate the relevant directive. Legislation is not in line with the *acquis* as regards settlement finality.

There has been some progress in the area of the **securities market and investment services**. Amendments were enacted to the Law on securities, and several items of implementing legislation were adopted. Recent amendments authorised the Securities and Exchange Commission (SEC) to impose fines, thereby bringing this law into line with the law on misdemeanours, and abolished the right of joint stock companies to give precedence to existing shareholders in the purchase of new share issues. Furthermore, the SEC adopted a manual that regulates the area of investment advisory services, and the administrative capacity of the SEC has been strengthened by the hiring of additional staff. However, legislation is not in line with the *acquis*, especially as regards the directives on capital adequacy. The number of staff, IT equipment and software and the enforcement powers of the SEC remain insufficient. The Parliament enacted amendments to the law on investment funds, which lower the criteria for establishing an investment fund. However, no investment fund has been established yet. Preparations in this area are on track.

Conclusion

There has been some progress in the area of financial services. Some deficiencies remain in the legislation, in particular as regards the insurance and securities sector, and there is no clear definition of responsibilities as between supervisory bodies. The problem of uninsured vehicles requires further attention. Administrative capacity and the guarantees of operational independence of non-financial sector supervisors are insufficient. Overall, preparations in the area of financial services are advancing.

4.10. Chapter 10: Information society and media

In the area of **electronic communications and information technologies**, the former Yugoslav Republic of Macedonia made good but uneven progress. Amendments to the law on electronic communications empowered the Agency for Electronic Communications to impose fines. The amendments were also aimed at clarifying appointment and dismissal rules and introducing accountability principles. Several pieces of implementing legislation were adopted.

As regards market liberalisation, the reference interconnection offer was revised to lower the interconnection fees by up to 50%. However, the new prices have not yet entered into force,

so a level playing field has not yet been achieved. Thus, the four companies which have signed interconnection agreements with the incumbent have not begun to offer services in the domestic fixed voice market. Although a reference unbundling offer from the incumbent to access its local loop was adopted in February, there is currently no unbundled loop available. Competition has been enhanced in the mobile market with the selection through an international tender of a third mobile operator. The largest alternative operator, which provides wireless internet throughout the country, was bought by Slovenian Telecom. The Agency for Electronic Communications launched an international tender for fixed wireless access on the territory of the entire country.

Several issues remain to be addressed, such as notification procedures, fees, obligations such as, cost accounting and accounting separation, retail tariffs regime, use of radio frequencies, or universal service provisions. The emergency number 112 has not yet been introduced. The independence of the Agency for Electronic Communications is not yet secured in all its aspects. The level of cooperation with the competition authority is insufficient.

Overall, alignment with the *acquis* in this area is well advanced. However, implementation of the legislation is lagging behind and enforcement remains weak. The country remains in breach of its SAA obligations with respect to implementation of a full set of mandatory competitive safeguards to be imposed on SMP operators, as referred to the Electronic Communications Law.

Some progress can be reported in the field of **information society services**. The government adopted a strategy on electronic communications aimed at promoting an inclusive information society in the economy with the use of information and communication technologies. Legislation on electronic commerce and conditional access is in preparation, as well as Law on cyber crime.

There has been some progress in the field of **audiovisual policy**. The secondary legislation necessary to implement the Broadcasting Law was enacted. In February, the law was amended to change the organisational structure of the public service broadcaster. Despite new legal procedures to ensure the independence of the Broadcasting Council and the public service broadcaster, these bodies remain vulnerable to political interference. Further efforts are needed to ensure independence of regulatory authorities consultations with the relevant stakeholders. Moreover, the capacity to develop broadcasting regulations and ensure compliance with them has to be preserved.

The funding of the regulatory bodies has not been secured. The system for collection of license fees collapsed when the amount collected by the Broadcasting Council reached zero in January 2007. A national broadcasting strategy remains to be adopted. In this area, the country is largely aligned with the *acquis*, but implementation of the legislation is weak.

Conclusion

Overall, the former Yugoslav Republic of Macedonia has made progress in aligning the legislation with the *acquis* and in strengthening competition on the market. However, in the field of electronic communications, the country is still in breach of its obligations under the Stabilisation and Association Agreement. In all sectors, implementation and enforcement of the legislation remains weak. The independence of the regulators is not sufficiently ensured and there is no functioning broadcasting fee collection scheme. In this area, preparations are lagging behind.

4.11. Chapter 11: Agriculture

Under **horizontal** issues, the agriculture census was conducted in June and provisional results were published. A general law on agriculture and rural development has not yet been enacted. The National Strategy on Agriculture and Rural Development 2007-2013 was adopted by the Government in June.

Preparation of the legislative and administrative measures required to give farmers access to *direct support* according to EU standards is at an early stage. Pilot projects were installed for setting up an integrated administration and control system (*IACS*). The administrative responsibility for collecting and sharing the necessary data among different institutions is unclear. No action has been taken to establish a land parcel identification system (*LPIS*). A large proportion of agricultural land has not yet been registered in the real estate cadastre. The cadastre presently covers 63% of the country's territory.

The Law establishing an Agency for Financial Support of Agriculture and Rural Development (*paying agency*) was enacted. The law regulates the agency's powers and determines its sources of funding. Some of the staff has yet to be recruited. SAA negotiations on changes in the *trade* arrangements following the accession to the EU of Bulgaria and Romania were completed successfully.

The strategy and operational plan for development of a sustainable and efficient Agricultural Information System have been prepared. Some progress has been made in establishing elements of the Farm Accountancy Data Network (*FADN*), where a law establishing the whole system in compliance with EU standards has been enacted.

The budget of the Ministry of Agriculture, Forestry and Water Economy for 2007 was increased by 37.7% to € 32.8 million. With regard to *state aid*, € 16.9 million was allocated to subsidies. Direct payments linked to certain sectors, including arable crops and tobacco, were increased in order to stimulate production. A credit fund of € 13.3 million was established for agricultural development.

The structure of the Ministry of Agriculture, Forestry and Water Economy was modified and now includes departments for policy analyses and agricultural information system, for the management of agricultural land, and for rural development. Appropriate human resources are still lacking within the Ministry. No detailed strategy or action plan has been prepared for reinforcing the State Agricultural Inspectorate. Its human resource capacity and equipment are not sufficient to respond to its existing and future responsibilities. These include controlling and monitoring the implementation of some 20 legal acts. Overall, preparations in the area of horizontal issues are still in their initial phase.

Concerning the **common market organisations**, limited progress can be reported. There were no developments either in the area of **arable crops, fibre and sugar**, or in the area of **animal products**. In the area of **specialised crops**, manuals on classification of grape varieties for *wine* production and on wine labelling were adopted. The extension to the entire territory of the country of the *vineyard register* has started only recently. Implementing legislation was adopted for the law on *tobacco* and tobacco products, relating to the criteria for qualitative and quantitative measurement of tobacco leaves, and to the licence for assessing tobacco. A manual on setting up certifying bodies accredited to control the production of *seed* and seedling materials was adopted. Overall, preparations in these areas are in the start-up phase.

The **rural development** programme is part of the national agricultural and rural development strategy and provides a framework for future rural development policy. The sum allocated to this programme for 2007 was initially 2.2% of the Ministry's budget and the same as in 2006, but was later increased by 66%. It includes activities aimed at the revitalisation of rural communities. Preparations for the national accreditation of the IPARD agency are ongoing, in parallel with the timetable for finalising the IPARD programme. A recruitment plan for staffing the IPARD structures was prepared. Additional training has been provided for new and existing staff (IPARD, extension agency, food quality and standards). The Agency for Financial Support of Agriculture and Rural Development will assume the role of paying agency for the measures under the agriculture and rural development policies, and especially in terms of the utilisation of IPARD funds. Changes have still to be made to the legislation and procedures have still to be adopted. Administrative capacity is insufficient and a clear assignment of responsibilities to the various actors has yet to be made.

An inter-ministerial body responsible for rural development policy was set up. It comprises 10 members representing the relevant line ministries and the Secretariat for European Affairs. The capacities of the Ministry of Agriculture, Forestry and Water Economy, as the lead Ministry responsible for implementing the programme, are insufficient.

The 2007 programme for supporting the development of agriculture introduced **quality** standards for target products with a high export potential. A Strategy for the Development of Organic Agricultural Production and a National Action Programme for Organic Agricultural Production were adopted for the period 2007-2011. The 2007 budget allocates €1.8 million to this programme. Regulations were issued on the registration of organic producers, processors and traders and on the registration of authorised laboratories.

Conclusion

In the field of agriculture and rural development, there has been progress in the area of policy development. Administrative capacities are moderately developed. Alignment with the *acquis* is still at an early stage.

4.12. Chapter 12: Food safety, veterinary and phytosanitary policy

As regards the **general** principles, the law on food safety was amended. The law transposes the Food and Feed Law, with the exception of the parts referring to the accession to the European Food Safety Authority and the committee rules. Its alignment with the *acquis* has still to be confirmed. The national strategy on food safety and the software for the rapid alert system have not yet been prepared. In general, preparations in this area are on track.

In the area of **veterinary policy**, alignment of the legislation with the veterinary *acquis* has continued. The Law on Veterinary Health was enacted. It sets the framework for five other specific laws. The legislation on *control systems in the internal market* and on *control systems for imports* is partially aligned. The implementing legislation on veterinary border controls has not yet been adopted. The amended *animal identification and registration* legislation provides for identification and registration of sheep and goats. The operational character of the system for the identification of bovines and registration of their movements remains to be confirmed.

The Veterinary Directorate adopted general measures for the control of avian influenza and bluetongue diseases, as well as the multi-annual programmes for surveillance of transmissible

spongiform encephalopathies (TSE), for prevention of bovine and ovine brucellosis and for prevention of bovine tuberculosis. Transposition of the TSE *acquis* is at an early stage.

The *acquis* on trade in live animals and on the import requirements for live animals has been partially transposed; alignment remains to be confirmed. Implementing legislation transposing the *acquis* on trade in semen, ova and embryos, and on import requirements for animal products has yet to be issued. The Law on Animal Welfare and Protection was enacted. It transposes the *acquis* on non-commercial movement of pet animals and animal welfare; alignment has not yet been confirmed. The Veterinary Directorate adopted the monitoring programme for prohibition of substances and residues control. The budgetary allocations for veterinary expenditures have been increased from just under € 4m in 2006 to just over € 5 million in 2007; all of the increase relates to subsidies to farmers.

The capacity of the veterinary laboratory, which is part of the veterinary faculty, to provide reliable results is not satisfactory. The capacity of the veterinary service at both central and local levels to put in place an EU-compatible control system has not been sufficiently strengthened. Despite recent recruitments, there are not enough veterinary inspectors, and their management and training is not yet adequate. Overall, preparations in the veterinary policy field are moderately advanced.

As regards the **placing on the market of food and feed**, the legislation on hygiene rules, specific rules for animal products and control rules transposes the EU regulations; alignment remains to be confirmed. The EU legislation on specific control rules for animal products is partially transposed; it does not include inspection surveillance and sampling. The aid scheme for Hazard Analysis and Critical Control Point (HACCP) certification for exported products was extended to 2007. HACCP certification is only implemented in a limited number of establishments. It is not mandatory for the domestic market. The strategy for enhanced implementation of the HACCP system from 2009 has not yet been prepared. The country still does not have a programme for upgrading food-processing establishments to meet EU requirements. New rules for animal by-products have been adopted. The funding for food checks is provided by the producers and the importers.

The Food Safety Directorate has a new organisational structure, with two new units for consumer protection and for administrative and legal issues. The current number of staff corresponds to about two thirds of the staffing needs. The number of legal staff is not sufficient to pursue misdemeanours. There is no effective overall organisational structure or coordination of all stakeholders in the area of food safety. The administrative capacity of parts of the system is very poor. Overall, preparations in this area are lagging behind.

In the area of **food safety rules**, the *acquis* on flavourings, fortified food, food for particular nutritional uses, ionising radiation and quick-frozen foodstuffs has been transposed; alignment remains to be confirmed. The Food Safety Directorate has not yet established registers for fortified food, food for particular nutritional uses, food additives and mineral waters. The legislation on food contact material, food supplements, and implementing legislation on novel food and GMOs has not yet been adopted. In general, preparations in this area are moderately advanced.

The **specific rules for feed** have not yet been transposed. Preparedness in this area is in its initial phase.

In the area of **phytosanitary policy**, the EU regulations on *plant health (harmful organisms)*, *plant protection products* and *quality of seeds and propagating material* have been partially transposed in primary legislation and in some implementing legislation. Alignment remains to be confirmed. The former Yugoslav Republic of Macedonia has a monitoring programme for surveillance of seed and seed materials. The registers of operators and plant protection products have not yet been established. The *acquis* on *plant variety rights* has not yet been transposed.

The responsibilities of the plant health authority are divided between the Phytosanitary Directorate and the Seed and Seed Materials Directorate. The Agricultural Inspectorate and the State Phytosanitary Laboratory are also responsible for implementing aspects of phytosanitary policy. The Phytosanitary Directorate is not properly staffed and trained. It does not have adequate equipment for border controls. The laboratory capacity of the phytosanitary services is appropriate, but not adequately used. Overall, preparations in the phytosanitary area are at an early stage.

Conclusion

There has been modest progress in the area of food safety, veterinary and phytosanitary policy, mainly in the area of food safety. The level of legislative preparedness is moderate. The administrative capacity, in terms of both number and competence of staff, is not adequate to ensure proper implementation of the *acquis*. Overall, alignment remains at an early stage.

4.13. Chapter 13: Fisheries

A unit for fisheries has been set up in the Ministry of Agriculture, Forestry and Water Economy. Apart from the one staff member previously assigned to this area, no additional human resources have been allocated to this unit. The Law on Fisheries and Aquaculture has not yet been enacted. In the absence of the law, there is no basis for introducing these parts of the *acquis* relevant to the landlocked country.

Conclusion

There has been limited progress in this area. Administrative capacity remains weak. Most of the fisheries *acquis* is not relevant for the former Yugoslav Republic of Macedonia.

4.14. Chapter 14: Transport policy

Good progress was made in the area of **road transport**. In December 2006, amendments to the law on road transport introduced new conditions for issuing licences to transport operators. The law is partly aligned with the *acquis* on market access. Following the adoption of the amendments to the Law, implementing legislation on road passenger transport on technical conditions for vehicle checking points, in the public and commercial transport and on categorization and necessary equipment of bus stations was adopted. A new law on road transport safety was enacted. The law addresses issues such as driving and rest time, driving licenses, liberalisation of periodic vehicle inspections and tachographs. A new software system was introduced for the electronic distribution of ECMT licences, aimed at preventing corruption. In accordance with the law on misdemeanours, the road fund has been empowered to impose sanctions and penalties for infringements of the law on public roads. The recently adopted implementing legislation partly transposes the fiscal *acquis*. As of 2008, charges will be based on the utilisation of infrastructure, instead of fuel prices. The law on transport of

dangerous goods by road and rail has been enacted. Its alignment with the *acquis* remains to be confirmed. Administrative capacity remains poor. In particular, the number of road inspectors is inadequate to ensure proper enforcement of legislation. Overall, preparations in this area are on track.

Good progress can also be reported in the area of **rail transport**. The law on railways was amended in December 2006. It regulates the organisation of the railway system and prescribes conditions for access to the railway infrastructure for rail operators. The law on rail transport safety and the law on rail transport of goods and passengers were enacted. Both laws aim at alignment with the *acquis*. The Government adopted the 2007 investment programme for the railway sector, which allocates €2.5 million to railway reconstruction and maintenance.

However, this sum is not sufficient to meet the needs. The process of dividing the railway company into two companies, one for infrastructure and one for transport services, has been completed. The current financial position of the company has improved, thanks to an increase in both passenger and freight transport.

Arrears are still high and will be divided between the two new companies. Public service obligations are still not being compensated. The system of track-access charges has not yet been introduced. The regulatory body for rail transport and the safety authority has not yet been established. Preparations in this area are well advanced.

Progress was made on **inland waterways** with the enactment of the new law on inland waterways. It regulates technical requirements of vessels and conditions for access to the profession. The Parliament ratified the convention on the safety of maritime navigation. In this area, the country is sufficiently prepared.

In the area of **combined transport**, the country continues to implement the Memorandum of Understanding on the South East European Core Regional Transport Network, which is aimed at improving and developing the capacity of the SEE road and rail network (see also chapter 21). Preparations are on track.

Some progress was made in **air transport**. The former Yugoslav Republic of Macedonia ratified the multilateral agreement establishing the European Common Aviation Area Agreement (ECAA) in March 2007 and should apply it. The Law on Aviation was amended to align with the EU aviation *acquis* which is to be implemented under the ECAA agreement. Implementing legislation for the Law on Aviation, among others relating to technical standards for operating and maintaining aircraft safety conditions for performance of public air transport and qualifications of staff involved in air transport, was adopted.

Parts of the ECAA first phase *acquis* remain to be implemented, notably those relating to market access conditions for ground handling services, aviation safety and security. Contrary to the Law on Aviation, the Civil Aviation Agency retains both regulatory and operational responsibility. A Committee for air accident investigation was established, but it lacks sufficient capacity to act as an independent body for investigation of accidents and serious incidents. Moreover, the Civil Aviation Agency and the air traffic department within the Ministry of Transport and Communication are not yet adequately staffed to fully assume their functions.

Conclusion

The former Yugoslav Republic of Macedonia has made progress in the alignment with transport policy. Administrative capacity in all transport sectors remains weak. Regulatory bodies and safety authorities have yet to become operational in the fields of air and rail transport. Overall, preparations are on track.

4.15. Chapter 15: Energy

With regard to **security of supply**, the Commodity Reserve Bureau currently possesses oil stocks equivalent to 52 days of average consumption. The country does not have a strategy for long-term development of the energy sector. In this area, the country is not sufficiently prepared.

Significant progress was made with regard to the **internal energy market**. The country is a full member of the Energy Community. From 1 July 2007 it is therefore bound to apply the relevant EU energy acquis, except for the provisions on market opening to which a specific timetable applies. Remaining issues concern public services obligations, technical rules and cross border trade mechanisms. The Law on Energy was amended in April to allow gradual opening to competition of the electricity market for eligible consumers, who may now purchase 45% of their electricity needs at prices regulated by the energy regulatory authority and the remaining 55% at market prices. The transmission grid code was approved by the Energy Regulatory Commission (ERC). The tariff models for gas and electricity pricing do not cover costs, in particular for electricity generation.

The privatisation of the electricity distribution operator was completed with the purchase of 19.9% of the capital by the main shareholder. The Negotino thermal power plant was privatised through an international tender, under conditionality that the new owners would build a new plant with expanded capacity and update the existing plant.

In the gas sector, the government announced plans to create a new state-owned company for transmission of natural gas and management of the gas system, but these were withdrawn. Issues relating to the ownership of the gas transmission system have yet to be resolved, in order not to discourage potential investors in this sector. ERC issued a decision declaring the Skopje heating utility the first ever eligible consumer of natural gas. In line with the provisions of the energy law the Skopje heating utility is authorised to purchase natural gas directly on the market from 1 January 2008.

The energy regulator ERC has achieved a certain level of independence in the regulation of oil prices, for which there is competition on the market. There is, however, insufficient independence with regard to the process of defining the regulated prices on other markets where there is very little or no competition. The prices are based on government decisions and are lower than those recommended by the ERC. The amended Energy Law prescribes that eligible consumers can purchase electricity at prices recommended by the ERC or at market prices. The energy department of the Ministry of Economy is understaffed. Preparations in this area are advancing.

The new horizontal state aid legislation provides for **state aid** for restructuring the coal industry. State aid was reported with regard to the prices that eligible consumers were paying for electricity. The prices were based on government decisions and were lower than those recommended by the ERC. The amended energy law of April resolves this situation by prescribing that eligible consumers may not purchase more than 45% of their energy at prices

regulated by the ERC. The country is in the initial phase of creating a state aid policy for solid fuels. In this area, the country is not sufficiently prepared.

Good progress was made in the field of **renewable energy**. The ERC adopted the manuals on feed-in tariffs for electricity produced by small hydro-plants and by windmills, offering financial advantages to potential investors. Within the framework of the programme for promotion of sustainable energy, the tenders for construction of 60 small hydroelectric plants have been concluded and the government published a tender for sale of land in four locations intended for construction of windmills. The Ministry of Economy amended the manual on liquid fuels to include regulations on bio fuels. Preparations in this area are on track.

Some progress has been made in the area of **energy efficiency**. The implementing legislation on labelling of home appliances has been adopted. The Energy Agency has a total of three employees and is not sufficiently operational to implement the energy efficiency policy. In this area, the country is not prepared.

Concerning **nuclear safety and radiation protection**, the existing law on radiation that was promulgated in 2002 is being updated. It is expected that the new law will clarify and precise the role and responsibilities of the different organisations involved in radiation protection matters since at present the situation is rather confused. In particular the new law should provide adequate independence and staffing for the regulatory body (the Radiation Safety Directorate) so that transposition of the *acquis* in the field of radiation protection can be carried out over the next years. The dismantling of radioactive lightning rods still constitutes an important radiological issue that require funding and technical cooperation with the neighbouring countries. Management of institutional radioactive waste and notably storage of radioactive waste remains a pending issue which should be solved in compliance with international standards and recommendations. Finally actions to prevent and combat illicit trafficking of nuclear materials and radiation sources need to be stepped up. Appropriate training of the relevant customs and police services as well as the maintenance of the existing portal monitors is needed.

Conclusion

Good progress has been made in parts of the energy sector, in particular as regards the internal energy market and renewable energy legislation. However, implementation is lagging behind. The administrative capacity to enforce energy efficiency and radiation protection regulations is not sufficient and the level of independence of the energy regulator remains inadequate. Overall, the country is not sufficiently prepared.

4.16. Chapter 16: Taxation

The former Yugoslav Republic of Macedonia made some progress in the area of **indirect taxation**. An amendment to the taxation regime for tobacco products ended the discrimination between domestic and imported products. However, the duties applied are lower than the minimum required by the *acquis*.

The VAT rate was reduced from 18% to 5% on certain goods used in the agricultural production, medicines, computers software and thermal solar systems. While this is generally allowed under the Community *acquis*, the inclusion of agricultural machinery in the list of products is not in line with the EU requirements. The country otherwise remains well aligned with the *acquis* on indirect taxation.

Little progress can be reported in the area of **direct taxation**. The New Programme for Promotion of Investments (2007-2010) reduced the profit tax and the personal income tax. It also introduced a zero tax rate for reinvested profit in the country. The withholding tax on revenues of foreign legal persons (which does not apply to foreign entities from countries which have concluded agreements on double taxation) is not in line with the *acquis*. In this area, alignment is at an early stage.

In the field of **administrative cooperation and mutual assistance**, some progress can be reported. A new income and capital tax treaty and protocol between the former Yugoslav Republic of Macedonia and Germany was ratified. Double taxation agreements with the United Kingdom and Latvia were ratified. In total, there are currently 20 agreements with EU Member States. A manual on international cooperation was adopted to improve the implementation of the legislation in this area; the relevant forms on tax relief and tax exemption have been published. The preparations in this field are advanced.

Operational capacity and computerisation has improved. Positive results can be reported with regard to the collection capacity of the Public Revenue Office. Better collection of revenues from profit tax and personal income tax allowed an increase in the total tax intake of 17 % in the first quarter of 2007 compared to the same period previous year. The Public Revenue Office adopted a strategy for increasing the reporting of taxes and improving tax collection and an operational plan to collect tax arrears and to stimulate voluntary payment of taxes. VAT tax arrears decreased with 14.06% over a period of 6 months. During the same period, the refund of VAT paid within the 30-day delay increased from 91.96% to 99.32%.

The country presented a strategic plan for external controls and standards for assessment of external controls. The IT-based system for risk analysis, including risk criteria, became operational. A system of electronic tax services was set up in the Large Taxpayers Office to allow the office to provide electronic tax records. Between January and April 2007, 54 internal corruption investigations for misconduct were initiated against staff members. Four investigations have been concluded and have resulted in disciplinary measures.

Conclusion

Little progress was made in legislative alignment. The legislation is well aligned in the area of indirect taxation, but presents significant discrepancies in direct taxation. Progress was made in strengthening the administrative capacity of the Public Revenue Office. However, further efforts to ensure effective implementation and enforcement of the legislation are still necessary.

4.17. Chapter 17: Economic and monetary policy

Limited progress can be reported in the area of **monetary policy**. In December 2006 amendments to the central bank law have been adopted increasing the central bank's independence and strengthening the position of the governor. However, the central bank has not yet adopted a secondary objective that allows for general economic objectives of the European Community to take precedence over domestic objectives and it has not yet adopted the relevant rules and structures related to the integration into the European System of Central Banks (ESCB) by the time of EU accession. There are still some legal provisions that do not preclude monetary financing of the public sector or that give rise to privileged access of public authorities to financial institutions. However, overall preparations in the area of monetary policy are on track.

On the provisions related to **economic policy** the country has made some progress. The new strategy for public debt management contributes to enhancing administrative capacity and improving coordination of fiscal policy. However, further efforts are needed to strengthen administrative capacity, in particular as regards the fiscal administration. Overall, in the area of economic policy preparations are advancing.

Conclusion

There has been limited progress in the area of economic and monetary policy. However, important issues remain to be addressed; notably as regards full central bank independence, the prohibition of monetary financing of the public sector, the prohibition of privileged access of the public sector to financial markets and issues related to the integration of the central bank into the ESCB by time of accession. Overall, preparations in the area of economic and monetary policy are on track.

4.18. Chapter 18: Statistics

Progress can be reported in the field of **statistical infrastructure**, as the amended Law on State Statistics was adopted in February 2007. Good progress has also been made as regards cooperation and coordination with the stakeholders of the national statistical system, as can be seen from the inclusion of the State Statistical Office (SSO) in various policy areas in the National Programme for the Adoption of the Acquis.

However, following the change of director of the (SSO) in the previous period, several internal changes have taken place affecting progress. The administrative capacity of the SSO remains insufficient. The budget is still low, the staff situation has barely improved and the IT equipment is largely outdated.

There has been progress as regards **classifications and registers**. The development of the statistical business register was initiated. Compliance with EU and international classifications is improving. Preparations in this area are advancing.

As regards **sector statistics**, progress can be reported as follows: For *demographic and social statistics* some work has been initiated, such as projections on the population which are to be used to improve the sampling base. As regards *macro-economic statistics*, the work on improving the national accounts continued. Cooperation with the Ministry of Finance and the National Bank improved in the period, but roles still need to be clearly defined. The Consumer Price Index and the Purchasing Power Parities have made progress by improving scope and quality.

For *business statistics*, pilot surveys have been conducted on Structural Business Statistics and Short Term Statistics. For *statistics at regional level*, progress has been made by improving the quality of the Household Budget Survey. For *agriculture statistics*, the agricultural census has made substantial progress after several postponements. The enumeration phase took place in June 2007 and preliminary results have been published. Preparations in the area of sector statistics have made moderate advances.

Conclusion

Overall, progress has been made and some significant steps have been taken in priority areas. The implementation of the National Programme for the Adoption of the Acquis 2007 is advancing well. For further progress the administrative capacity has to be strengthened.

Overall, preparations to align with the *acquis* in the area of statistics have advanced moderately.

4.19. Chapter 19: Employment and social policy

In the area of **labour law**, limited progress was made through the adoption of the Law on Employment and Work of Foreigners which aims at transposing the *acquis* on posting of workers.

Some progress can be reported with the enactment of the law on **health and safety at work**. The law aims at transposing in particular the Framework Directive on Health and Safety. The degree of alignment with the *acquis* in the area of health and safety at work remains to be confirmed. Administrative capacity, including that of the state labour inspectorate, which is understaffed and lacks proper facilities for normal working, is insufficient to ensure proper implementation and enforcement of the legal provisions.

There has been no progress in the field of **social dialogue** which remains very formal owing to the weaknesses of the social partners. The Economic and Social Council (ESC) met only once during 2006, when the national strategy for employment was discussed. In the first half of 2007 the ESC met three times. The composition of the members of the ESC was not completely in accordance with the labour law provisions, since the representativeness criteria of the trade union representatives have still to be clarified. The public sector collective agreement remained unsigned. The main reason is the confusion surrounding the eligibility of the trade union representatives in the ESC. This has also a very negative impact on bipartite social dialogue. The definition of representativeness criteria therefore currently hinders the development of social dialogue structures.

Some progress has been made in the area of **employment policy** through the adoption of the National Employment Strategy 2010 and the National Action Plan for Employment 2006–2008 with ambitious objectives. However, unemployment remains extremely high. The reforms in the unemployment benefit system, which were intended to encourage employers to recruit more people, are not yielding satisfactory results, in particular with regard to older "redundant" workers. A few specific initiatives have been undertaken to create new employment opportunities, and there are plans for improving the delivery of active labour market policies by the Employment Service Agency (ESA). Overall, however, the available capacity in this area remains poor and therefore insufficient to match the ambitious employment strategies and plans.

Activities relating to the **European Social Fund** have not advanced. Some initial progress has to be recorded with a view to the implementation of IPA component IV – Human Resources Development – which aims at preparing for future ESF management.

No particular progress can be reported in the field of **social inclusion** which remains a key challenge. Implementation of activities related to the strategy for inclusion of Roma and the action plans prepared by the Ministry of Labour and Social policy has not advanced, apart from the opening of two Roma centres by the Ministry in cooperation with local Roma non-governmental organisations. Coordination among the institutions involved in implementing social inclusion policies is inadequate. Municipalities have insufficient institutional capacities to assume the responsibilities in the social area that have been transferred to 42 of them as part of the second phase of decentralisation. Generally, statistical information on monetary and non-monetary poverty and the evaluation of policies in place is not satisfactory.

Some progress has been made as regards **social protection**. The second pillar of the pension system is operational, and the preparation of the voluntary pension insurance funds, as part of the third pillar, has started. The section for the inspection of social protection, which employees 13 staff, is operational. However, administrative capacity in the area of social protection within the relevant ministries is weak.

Some progress can be reported with regard to **anti-discrimination**. The Parliament adopted the amendments to the law on social protection intended to transpose the *acquis* in this field. However, the amended law is only partially in line with the *acquis*, as it does not refer to all forms of discrimination. The setting up of a section for equal opportunities aims at strengthening the administrative capacity of the Ministry of Labour and Social Policy in this field. The section includes a unit for gender equality and a unit for protection against any form of discrimination. Strong efforts are needed to improve the situation of people with disabilities (*See Political Criteria – Section Economic and Social Rights*).

Implementation of the law on **equal opportunities** for women and men has progressed only slowly. The definitions provided for in the law are not yet in full compliance with the *acquis*. Furthermore, it is not clear which national body has to be considered as the gender equality body required by the *acquis* and if this has all the competences required. Equal opportunity committees have been established and equal opportunity co-coordinators designated in 30 municipalities.

However, women remain vulnerable to discriminatory practices and further efforts are needed to promote women's rights notably in rural areas and to increase female participation on the labour market. The administrative capacity in this area needs to be further strengthened. Action remains insufficient in the areas of employment, the situation of rural women, the situation of women from ethnic minorities, and violence and the fight against trafficking in women. The situation of rural and ethnic minority women needs to be improved.

Conclusion

While some progress has been made, particularly as regards the development of strategies, the political ownership and administrative capacity continue to be poor in the field of social policy and employment. Capacity to implement policy is therefore limited.

4.20. Chapter 20: Enterprise and industrial policy

In the area of **enterprise and industrial policy principles**, the former Yugoslav Republic of Macedonia has made significant progress on implementing the European Charter for Small Enterprises. The SME strategy was revised in May 2007 and an action programme was adopted for the period 2007-2010. However, the country still lacks sufficient human and financial resources to implement all measures. Good performance has been achieved in areas such as cheaper and faster start-up of companies and technological capacity in SMEs through relatively successful cluster development, good enforcement of IPR and well funded export-promotion and competitiveness programmes. The regulations which need to be simplified or abolished have been identified and the government has decided to introduce a regulatory guillotine. However, there is no systematic regulatory impact assessment yet.

An industrial strategy conducive to growth and innovation has not yet been adopted, but a programme to improve the competitiveness of national products and services was adopted for 2007. Several State institutions have increased their use of ICT to facilitate communication

with the business sector and to increase transparency. A single electronic record has been available since September 2007. Preparations in this area are moderately advanced.

With regard to **enterprise and industrial policy instruments**, some progress was made. A new law on technological/industrial development zones was enacted offering tax and other incentives to potential investors. It offers operating aid to companies listed in the Fortune Global 500 and the Business Week Global 1200 and so discriminates against other investors. The government decided to open three such zones and to close the existing free economic zone located in the ferro-nickel sector. The *acquis* on combating late payments is not yet transposed. The credit guarantee scheme remained idle after 18 months, owing mainly to the highly restrictive criteria for extending guarantees and the low level of guarantee issued (only 35% of the credit). The country has finalised most formalities for effectively participating in the new Competitiveness and Innovation Programme. The voucher programme for SME advisory services was successful. A new programme for the promotion of investment was adopted by the government in June. Further efforts are needed to develop online applications for SMEs and a single SME information portal, as well as to secure the financing of cluster development. Preparations in this area are advancing.

With regard to **sectoral policies**, the report on implementation of the restructuring programme for the steel sector has been updated with the latest figures for 2006. The government reviewed the individual business plans of the steel companies for 2005 and 2006. The Ministry of Economic Affairs issued 11 manuals relating to the quality of tourist and catering services. The tourism sector has been reinforced. Initial steps have been taken to create clusters for the wood-processing and organic fruit and vegetables sectors. The textile development strategy was adopted. Preparations in this area are advancing.

Conclusion

There has been good but uneven progress in the field of enterprise and industrial policy. The former Yugoslav Republic of Macedonia's alignment with the *acquis* in this chapter is progressing.

4.21. Chapter 21: Trans European networks

In the area of **transport networks**, the former Yugoslav Republic of Macedonia has made progress in the development of the trans-European networks of transport. It has continued to participate in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO) and has approved the second rolling five year multi-annual plan 2007-2011 (MAP). The implementation of the priority projects, the coordination of investments and the annual revisions of the MAP require continued cooperation in the framework of SEETO. Implementation is partly carried out. In this area, preparations are well advanced.

In relation to **energy networks**, progress was made as regards the implementation of the Energy Community Treaty. The methodology for regional planning of the transmission network and criteria for ranking projects for transmission connections under market conditions were adopted. In this area, preparations are moderately advanced.

Conclusion

Some progress has been made in the area of Trans-European networks. The country participates in the regional initiatives and is well on track in this area. The sizeable financial resources needed to upgrade the infrastructure remain a major impediment. Overall, alignment is well advanced.

4.22. Chapter 22: Regional policy and coordination of structural instruments

As regards the **legislative framework**, some progress was made. The law on regional development (framework legislation on regional policy) has been enacted and will enter into force on 1 January 2008. The law stipulates the objectives and structures of regional development policy. The law on public internal financial control was adopted in February 2007. Nevertheless, the legislative framework for financial management and control needs to be further amended and extended. Coherence between the national and Community legislation in the areas of public procurement, competition, state aid and the environment needs to be ensured. In this area, preparations are advancing.

There has been good progress with regard to the **institutional framework**. The country has made relevant appointments with regard to the structural components of IPA including the Strategic Coordinator and operating structures. Significant progress was made in building capacity at the level of CFCD National Fund and Ministry of Finance. Adequate administrative capacity needs to be built up, particularly in line ministries. Other than the establishment in December 2006 of an inter-ministerial body for the coordination of the preparation of the regional development strategy, no specific administrative structures for the implementation of the regional development law have been established yet. Preparations in this area are still at an early stage.

In the area of **administrative capacity**, progress was made in recruiting in those institutions that will be involved in the implementation of IPA. Training is ongoing except for line ministries where it is still needed. With regard to the local and regional level, substantial efforts are still needed to increase administrative capacity. Preparations in this area are still at an early stage.

On **programming**, good progress was made. The government adopted the national development plan 2007-09 and relevant authorities drafted the Strategic Coherence Framework, agreed by the Commission, which sets up the strategy for implementing the structural components of IPA. In addition, one Operational Programme on transport and environment has been prepared by the national authorities and submitted to the Commission within agreed deadlines. It has been deemed acceptable by the services and it is expected to be adopted by the Commission by the end of 2007. The National Regional Development Strategy required by the new law on regional development has not been finalized yet. Preparations in this area are being initiated.

With regard to **monitoring and evaluation**, appropriate systems and mechanisms for monitoring and evaluating the quality and impact of development programmes have yet to be developed. Preparations in this area are at an early stage.

In the area of **financial management and control**, relevant authorities and procedures for the proper implementation of pre-accession financial assistance have started to be put in place, in particular at the level of CFCD and National Fund. Preparations in this area are at an early stage.

Conclusion

Progress can be reported in the area of regional policy and coordination of structural instruments. Substantial efforts are still needed to establish the necessary institutional and administrative capacity at central and local levels to meet the regulatory and operational requirements stemming from cohesion policy. Overall, alignment with the *acquis* in this chapter is advancing.

4.23. Chapter 23: Judiciary and fundamental rights

There has been some progress in the field of the **judiciary**.

Implementation has begun of the new rules for nominating judges and presidents of the courts, a key condition for ensuring the *independence* of the judiciary. The new Judicial Council began operating in January with 10 of its 15 members: these comprised 8 judges elected by their peers, and the Minister of Justice and the President of the Supreme Court as ex officio members. In October a further 4 members were appointed. It has started the recruitment of judges to the new administrative court and the new court of appeal in Gostivar. The laws on the public prosecutor's office and on the council of public prosecutors, which are the two remaining laws needed to complete the legislative framework set out in the constitutional amendments of December 2005, have yet to be adopted.

The Judicial Council has started to engage in combating corruption and ensuring *impartiality*. It has dismissed one judge and initiated procedures against ten others. The disciplinary procedures have been clarified under the new 2006 legal framework on the Judicial Council. However, the effectiveness of the Council was limited by the deadlock in parliament about the remaining appointments.

As regards *professionalism and competence*, steps have been taken to make the new academy of judges and prosecutors operational. The director and the executive director have been appointed, and continuous training has begun. The programme council of the academy was established. The managing board also adopted the implementing legislation for entry tests. The initial training programme finally started in September. Ensuring the functioning of the academy and promoting continuous training remain essential to improve the professionalism and competence of the judiciary.

Some efforts have been made to improve the *efficiency* of the judiciary. The budget of the Public Prosecutor's office was increased by 6% to € 3.9 million. Computerisation of the courts continued, which was funded mostly by foreign donors. The new centre designed to connect the IT systems of all judicial institutions was opened. Of the 12 employees on the establishment plan, 9 have already started working.

The new system of enforcement began to show results in its first six months: by the end of 2006, 8% of court decisions had been transferred to the "enforcement agents" introduced in 2006, and over 45% of these decisions have been implemented. The implementation of the law on litigation procedure has allowed the courts of first instance to increase the number of cases solved within a three-month period.

The 2006 law on misdemeanours entered into force in May. This should help alleviate the workload of the courts and allow them to focus on serious crimes. Preparations for its application to areas including in the fields of environment; tax collection; electronic

communications; customs; powers of the state market inspectorate for product safety; and industrial property rights are under way. The Commission for Protection of Competition, exercising its new rights, ordered three misdemeanour sanctions.

The 2006 law on mediation, which aims to lower the workload of courts by reaching via alternative dispute resolution, entered into force.

However, some measures were inconsistent with the objective of increasing efficiency. Thus the 2007 *budget* for the courts was decreased by 0.6% compared to 2006, to about € 21 million. This is not enough to cover the running costs of the judiciary and the debt of the courts.

Some basic courts still lack basic IT equipment. The number of judges and prosecutors has shown a further slight decrease (597 and 186 compared to 624 and 187 in 2006). The number of employees in the judicial administration has also declined, by 8%.

The courts of first instance and courts of appeal dealt with 1,698,871 cases during 2006. The Public Prosecutor's Office received 32,082 cases in 2006, i.e. 5% more than in 2005. The backlog of cases, mainly comprising enforcement and misdemeanour cases, as well as administrative cases dealt with by the Supreme Court, still seriously hinder the judiciary's ability to handle the workload.

Full implementation of the law on misdemeanours depends on currently pending amendments to a number of laws. In 2006 the Supreme Court received 3,439 new administrative appeal cases, corresponding to 3.7% more than in 2005. However, the new Administrative Court, which became legally competent for such cases as of May 2007, could not become operational as its judges are not yet appointed.

The 2006 report of the Ministry of Justice on cases filed with the European Court of Human Rights indicates that 60% of complaints relate to excessively lengthy procedures.

Steps taken since 2006, in line with the 2004 strategy for *judicial reform*, are gradually addressing the deficiencies of the judicial system. However, sustained efforts are needed to ensure progress in the reform. Failure to complete the Judicial Council, delayed establishment of an administrative court and the new court of appeal in Gostivar, and delayed implementation of the laws on misdemeanours and administrative disputes reduced the impact of judicial reform. Insufficient budgetary allocations still constrain the work of the judiciary.

The legal and institutional framework for **anti-corruption** policy and measures has been strengthened. The government has emphasized it strongly in its work programme and public statements.

The parliament ratified the United Nations Convention against Corruption. As regards the Council of Europe Group of States Against Corruption (GRECO) recommendations good progress has been made: the first set has been mostly implemented and implementation of the second set is ongoing.

The law on prevention of corruption was amended to prohibit political parties from collecting and spending funds from anonymous sources. The amendments also strengthen the obligation of all appointed civil servants and elected deputies to declare their assets, and make publication of these declarations on the State Anti-Corruption Commission website obligatory. A law on conflict of interest was adopted which sets out measures and activities

for establishing, preventing and sanctioning cases of conflict of interest when performing activities of public interest. The State Anti-Corruption Commission was given the responsibility of dealing with cases. The code of ethics for civil servants was amended to include an obligation for civil servants to report all illegal acts carried out by other civil servants in the performance of their duties. Amendments to the laws on healthcare and on health insurance aimed to reduce corruption in the health sector.

The mandate of the State Anti-Corruption Commission was renewed for 5 years and it began its work. A new programme for prevention and suppression of corruption was drafted with input from representatives from state administrative bodies, media and civil society was adopted. It was complemented by the government's action plan. The commission has continued to monitor the asset declarations of elected and appointed officials and has strengthened its cooperation with the Public Revenue Office. Misdemeanour procedures were brought against 86 current and former appointed and elected officials (including government ministers and MPs), directors of public companies and supervisory board members who failed to meet their legal obligations following the 2006 elections. 16 court decisions were issued.

Cooperation between the state commission and the Public Prosecutor's Office has continued to improve, and cooperation with the Public Procurement Bureau has been strengthened. As a result of improved coordination, several cases related to combating corruption and organised crime were pursued.

An increased number of police, customs officers, tax officials, judges and prosecutors have faced disciplinary measures for bribery and abuse of office. In some cases this has resulted in dismissals and prison sentences.

However, the approach to tackling corruption is not yet comprehensive and the Action Plan lacks a concrete allocation of resources. The OECD Convention on combating bribery of foreign public officials has not yet been signed. The GRECO guidelines on the lifting of the immunity of deputies still need to be introduced. Decisions made in the public administration are not sufficiently transparent and the anti-corruption legal framework is not being fully implemented.

Delivery and enforcement of court decisions, which involves strengthening of the judiciary and consistent efforts by all institutions to pursue a zero tolerance policy, are still deficient. There is still no system of collecting and sharing information and no mutual access to databases relating to the fight against corruption and organised crime. Limited follow-up has been given to the review of discretionary powers of ministers and other officials in the administration.

As regards **fundamental rights**, there has been some progress (*see also under political criteria*).

In the course of 2006, the *Ombudsman's office* received 3076 complaints. The highest number of them related to the efficiency of the judiciary. About a quarter of the complaints reviewed in 2006 were found to involve justified complaints. Of these, cases involving property rights and police actions together accounted for almost half. The responsiveness of the state bodies has increased: they implemented the instructions of the Ombudsman in 75% of the cases; the Ministry of Interior complied with the instructions of the Ombudsman in 83% of the cases.

As regards the *prohibition of torture and inhuman or degrading treatment or punishment*, the 2006 annual report of the Ombudsman's office indicates an improvement in police behaviour towards people held in detention. The use of informative talks by the Police was regulated by the Law on Police. The Ministry of Interior developed an action plan to implement the code of police ethics, which provided for adequate training and funding. The Parliament established an ad hoc oversight committee to assess the situation in the prisons. However, the country has still not implemented all the recommendations of the Council of Europe's Committee for the Prevention of Torture and Inhuman and Degrading Treatment or Punishment.

With regard to *respect for private and family life and communications*, a proper legal framework for telephone tapping is in place following the enactment of the 2006 law on the monitoring of communications.

Concerning personal data protection, the Directorate for Personal Data Protection has been granted observer status with the Article 29 Working Party on data protection⁵ in June 2007 and a representative of the Directorate for Personal Data Protection is now participating in the Article 29 Working Party. However, full alignment with the Data Protection Directive remains to be completed. The country has yet to sign the additional protocol to the Council of Europe Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data regarding supervisory authorities and trans-border data flow. The Directorate for personal data protection remains understaffed.

As regards *freedom of thought, conscience and religion* the Law on the Legal Status of Churches, Religious Communities and Religious Groups has been enacted thus providing more liberal procedures for the registration of religious institutions, as well as removing all impediments to the free practice of religious belief.

With regard to *freedom of expression including freedom and pluralism of the media*, economic and financial independence of the public service broadcaster and the regulatory body has not been sufficiently ensured.

There is still no specific criminal provision related to acts of xenophobia.

Concerning *freedom of assembly and association, including the right to form political parties, the right to establish trade unions*, amendments to the law on civic associations and foundations were adopted which provide for these bodies to be registered in the Central Registry.

As regards *the treatment of socially vulnerable and disabled persons and the principle of non-discrimination*, a comprehensive law in the area of non-discrimination has yet to be adopted.

With respect to the *right to education*, the amended Law on Secondary Education provides inter alia that from the 2008/2009 school year primary education will be extended from 8 to 9 years, covering ages from 6 to 15. The proportion of the budget allocated to education has been increased, but the amount remains insufficient.

The *right to property* is protected, but the process of restitution of property confiscated during the Yugoslav regime is still not completed. Final decisions have been taken on 10,306 of the 22,809 applications filed between 2000 and 2006. The new government, to make allowance

⁵ an independent European advisory body.

for delays in the process, postponed the deadline for initiating administrative procedures for restitution to December 2007. The issue of restitution of properties of the Orthodox Church and the Muslim community has again seen no improvement.

In the area of *gender equality and women's rights*, the Parliament adopted a declaration condemning all forms of violence against women and violence within the family and committed the Parliament to give these issues priority and to strive for greater gender balance. However, the definition of rape in criminal law remains very narrow thus making successful prosecutions highly unlikely. Implementation of gender equality policy should be stepped up, including stronger measures against sexual harassment, violence and trafficking in women (*see also Chapter 19: Social policy and employment*).

Implementation of the action plan for the protection of the *rights of the child* adopted by the government in 2006, is slow. Children with physical and mental disabilities are reported to be left out of the regular primary school system and thus deprived of their right to education.

As regards *liberty and security* as well as the *right to a fair trial*, the legal framework for witness protection continues to need further strengthening.

The Bar Association has actively engaged in providing legal aid which has been given in over 1200 criminal, civil and administrative cases since 2003. Beneficiaries are poor citizens; persons with special needs; self supporting parents; victims of family violence or human trafficking; abused children; as well as refugees and internally displaced persons.

The legal framework on *minority rights and cultural rights* provides for a high level of protection. Dialogue and confidence-building among communities is making progress slowly but integration of ethnic minorities is quite limited. Most minorities remain at a disadvantage with respect to education and employment. Sustained commitment to implementing the regulatory framework for the use of the minority languages is lacking.

There were no developments in relation to **EU citizens' rights**.

Conclusion

Progress has been made in the area of the judiciary, in fighting corruption and in fundamental rights. The authorities have demonstrated a stronger resolve to fight corruption, which has started to show results. However, improving the independence and the efficiency of the judiciary remains a major challenge and corruption is a deep-seated problem. In all three areas, further implementation of existing legislation is required. Persistent lack of budgetary resources limits administrative capacity.

4.24. Chapter 24: Justice, freedom and security

Good progress can be reported in the field of **migration**. The law on employment of foreigners has been enacted (*see also Chapter 2 – Freedom of movement of persons*). New readmission agreements were ratified with Denmark, Sweden and Norway. The country has ratified a total of 14 readmission agreements with 16 EU Member States and 6 agreements for readmission with non-member countries. The country signed an EC readmission agreement in September 2007 which should enter into force in the beginning of 2008. In the course of 2006 the border police detected 3,302 illegal migrants at border crossings and prevented 1,866 illegal attempts to cross the green border. (the numbers need to be compared with the numbers for 2005) Application of the law on aliens has been delayed. Proper implementation of the

migration policy, including an active return policy, is not yet fully achieved. Visa provisions are still not aligned with the EU negative list. The administrative capacity remains weak, as resources to recruit new staff and to buy proper equipment are lacking. In this area, the country is not yet sufficiently prepared.

Amendments to the law on **asylum** and temporary protection have been adopted. The amendments take account of the provisions of the qualification directive, which also regulates subsidiary protection. However, the provisions concerning subsidiary protection will not apply until 1 July 2008. Asylum procedures are not yet fully in line with European standards, and proper implementation of the law has still not been ensured, especially as regards issuing identity documents for people covered by the law, decision-making, and the appeals procedure. The handbook on reception centres for asylum-seekers has been published. The reception centre is not yet operational and the administrative capacity remains weak. A central database for aliens, covering asylum, migration and visas, has not yet been developed. There is still a lack of staff, proper equipment and budgetary support. In this area the country is not yet sufficiently prepared.

A **visa** facilitation agreement with the EU was signed in September. Visa requirements for citizens of Romania have been abolished. New biometric passports are being issued in line with international security standards. The new entry and exit stamps are in accordance with EU standards. A national IT visa management system and a visa centre should be established soon. The administrative capacity of the department for consular affairs needs to be strengthened, especially as regards its human and budgetary resources. Given the limited number of consular posts abroad and, in particular, the absence of any consular post in some regions, the necessary measures should be taken to avoid issuing visas at the borders. The preparations in this area are well advanced.

In the area of **external borders and Schengen** the integrated border management strategy and action plan are gradually being implemented. Secondary legislation to implement the law on state border surveillance has been adopted. A working group prepared several of the necessary handbooks in line with the Schengen manual. However, the data communication network for the border crossing points is only partially operational. The main database and software to connect the border crossing points to this database, which would permit effective border control in line with Schengen criteria, are lacking. Furthermore, the national border management coordination centre is not operational. Further training on how to implement the law on state border surveillance is needed. The premises and offices of the border crossing points and border police stations are in a dilapidated condition and not adequately equipped. Upgrading of the technical equipment for document analysis, training on how to use it and budgetary support are insufficient. In this area the country is not yet sufficiently prepared.

No progress can be reported in the area of **judicial cooperation in civil and criminal matters**. The former Yugoslav Republic of Macedonia should ratify the Convention of 19 October 1996 on Jurisdiction, Applicable Law, Recognition, Enforcement and Cooperation in respect of Parental Responsibility and Measures for the Protection of Children, the Convention of 29 May 1993 on Protection of Children and Cooperation in respect of Intercountry Adoption, the Convention of 15 November 1965 on the Service Abroad of Judicial and Extrajudicial Documents in Civil and Commercial Matters and the Convention of 18 March 1970 on the Taking of Evidence Abroad in Civil or Commercial Matters. In this area, the country is not prepared.

In the field of **police cooperation and the fight against organized crime** the decentralisation element of the police reform strategy continues to be implemented. The implementing legislation has largely been adopted and the necessary organisational arrangements have been made by the Ministry of Interior to prepare for the entry into force of the police law. Training and equipment needs continue to be met largely by international donors, owing to the budgetary constraints of the Ministry. Some limited improvements have been made in cooperation with EUROPOL relating to inputs to the European organised crime threat assessment.

The unit for witness protection has been brought under the Central Police Services and is staffed with six of the seven planned policemen. In 2006 the witness protection programme was activated in three cases. Despite some shortcomings in the logistics and funding, the system has been brought up to international standards.

The amended law on weapons has entered into force. All the implementing legislation has been adopted.

The national action plan to combat human trafficking, although complying with international standards, has not brought about the expected improvements in cooperation between the police, the public prosecutors and the courts. A Coordination Centre for Combating Human Trafficking and Illegal Migration opened in April 2006. Some common analysis work was done with FRONTEX to identify the main routes for illegal migration. Improvements in the planning and execution of police operations led to a small increase in the investigation and prosecution rates. There was nonetheless insufficient progress in this area. The conviction rate for human trafficking-related crime such as human trafficking, slavery and mediation in prostitution remained as low as in previous years.

A unit dealing with human resources and training was established within the Ministry of Interior's department for common affairs. The Police Academy has been little used, owing to problems with its legal status and budgetary constraints of the Ministry.

Further improvements have been made to equipment and infrastructure. The central forensic laboratory facilities have been renovated, and the police capacity for evidence management and forensic analysis has been enhanced with DNA and ballistic analysis equipment.

Limited improvements have been made in the fight against computer crime. Shortcomings remain in the legal framework, in staffing and in equipment, especially equipment for the eight regional headquarters. The number of investigations carried out has remained low, but their quality has improved.

Cooperation at central level between law enforcement agencies and the judiciary meets international best practice,. This is due to improvement in the cooperation between the organized crime department and the sector for internal control and professional standards within the Ministry of Interior and the special unit for the fight against organised crime and corruption in the public prosecutor's office. Both the number of investigations carried out and their quality are satisfactory; use of special investigative measures and techniques has become increasingly common. However, cooperation between the public prosecutors and criminal police of the regional headquarters is not satisfactory. Gaps remain in the law on criminal procedure, notably the provisions on special investigative measures, especially for the fight against corruption.

The sector for criminal analysis supports the department for organised crime efficiently and interacts well with the section for organised crime of the administration for security and counter-intelligence. However, it does not yet act as the national cooperation centre, because no liaison officers have been assigned from the customs service and no common database has been established. An integrated intelligence system for inter-agency use in combating organised crime is not yet in place. Significant shortcomings remain in the sharing of intelligence and mutual access to databases at inter-agency level. A sector for Criminal Intelligence Analyses, which will be in charge of collecting, examining, assessing and analysing information and data, is not yet established within the Central Police Department for Organised Crime. The strategic agreement with Europol has not been followed by an operational agreement.

In this area, the country is not sufficiently prepared.

Enactment of the law on monitoring of communications was an important step towards an appropriate legal framework for the **fight against terrorism**, organised crime and corruption. Its implementation needs to be carefully monitored. The 2005 Council of Europe Convention on Prevention of Terrorism has not yet been ratified. Inter-agency cooperation has improved at operational level but is not yet adequate. Deficiencies remain in judicial oversight of intelligence bodies. Gaps in the criminalisation of terrorism offences, especially in the field of financing, have not been addressed. In this area, the country is not sufficiently prepared.

The national **drugs** strategy has been adopted. It is in line with the EU drug strategy for 2005-12. Two action plans have been adopted. The law amending the law on precursors has been enacted. A new Inter-Ministerial Commission for Narcotic Drugs was established in November 2006. A number of police operations against medium- to high-level criminals led to the seizure of large quantities of drugs and demonstrated the capacity of the police to carry out joint operations, both with the customs service and in cooperation with other law enforcement agencies. Alignment in this area is well advanced.

Conclusion

Overall, there has been some progress as regards the operational capacity of the competent authorities, although mainly at central level. The basic legislation is in place, and the implementing legislation has been largely adopted. Administrative capacity remains particularly weak in the areas of migration, asylum and border management. Organised crime remains a serious concern. The former Yugoslav Republic of Macedonia is not yet sufficiently prepared to implement the *acquis* under this chapter.

4.25. Chapter 25: Science and research

Little progress can be reported in the area of **scientific research**, development of technology and development of a culture of technology, which received an allocation of € 4.3 million (less than 1% of GDP), which is the same as last year. Activities have been aimed at promoting scientific research, innovative projects and a culture of technology. There was no substantial change in comparison to the programmes of previous years. Budgetary constraints and weak institutional capacity continue to impede the development of research. The level of private investment in scientific activities is low.

Under the Sixth **Framework Programme**, national researchers were involved as third-country participants on a project basis and in total obtained about €2.7 million. The

Memorandum of Understanding for the association of the former Yugoslav Republic of Macedonia to the Seventh Framework Programme for research, technological development and demonstration activities (2007-13) was signed.

No developments can be reported with regard to the participation in the **European Research Area**. An integrated research policy has not been adopted.

Conclusion

With full participation in Seventh Framework Programme for research, technological development and demonstration activities, some progress has been made in the area of science and research. The capacity of the scientific institutions needs to be further strengthened. Overall, preparations are well advanced.

4.26. Chapter 26: Education and culture

There was good progress in the field of **education, training and youth**. The authorities have markedly increased budget provisions for education. A law establishing a national agency for the EU integrated Lifelong Learning programme and the Youth in Action programme has been adopted. A further progress has been made towards implementing EU life long-learning objectives through the amended law on secondary education provides that from the academic year 2008/9 onwards, secondary education, which includes Vocational Education and Training (VET) and general education for students aged 15 to 18, will become compulsory. At the same time, primary education was extended from 8 to 9 years, covering ages 6 to 15.

However, the law on adult education has not yet been enacted. New legislation on higher education has yet to be enacted as well. Slow progress has been made in implementing the Law on VET. Implementation of the national strategy for development of education 2006-15 is at an early stage. Insufficient human and financial resources have been allocated to provide for an effective implementation of the reforms of the education system and the VET law.

Further efforts are needed in order to complete the legislative and administrative framework, build up the capacity of the National Agency, train its staff and implement preparatory measures with a view to future participation of the country in the two programmes

In the area of **culture**, the Parliament ratified the UNESCO Convention on the protection and promotion of the diversity of cultural expression.

Conclusion

The former Yugoslav Republic of Macedonia made good progress in this area by adopting policy measures which provide for substantial reform at all levels of the educational system and by ratifying the UNESCO Convention on the protection and promotion of the diversity of cultural expression. However, the resources to implement the policy reforms are not sufficient. The country should continue its preparations with a view to future participation in the community programmes Lifelong Learning and Youth in Action.

4.27. Chapter 27: Environment

In the area of **horizontal legislation**, some progress has been made. The law on environment has been amended to bring the penalty provisions into line with the law on misdemeanours. The amendments empower the central and local environmental inspectorates to impose directly the penalties prescribed in the law on environment. The legislation on public access to environmental information and Environmental Impact Assessment (EIA) has been further aligned with the *acquis*. As regards climate change, a national strategy for implementing the clean development mechanisms under the Kyoto Protocol has been adopted and a draft inventory on greenhouse gas emissions for 2000 as baseline year has been prepared. A certain amount of legislation has still to be enacted in order fully to align the provisions with the

acquis, especially the Directives on Strategic Environmental Assessment (SEA) or public participation. Alignment in this area is well advanced, however further efforts are needed as regards implementation.

Limited progress has been made in the area of **air quality**. Implementing legislation on assessing ambient air quality has been adopted by the Ministry for the Environment and Physical Planning. Amendments to the law on ambient air quality have been enacted in order to bring the penalty provisions into line with the law on misdemeanours. Preparations in this area are moderately advanced.

In the area of **waste management**, some progress can be reported. Legislation implementing the law on waste management has been adopted, relating to handling of asbestos waste; waste management, treatment of polychlorinated biphenyl (PCB) waste and management of raw materials waste. The law on waste management was amended to bring the penalty provisions in line with the law on misdemeanours. The national strategy for waste management and the national waste management plan have still to be drafted. The Ministry has organised several awareness-raising campaigns to tackle the problem of illegal waste dumps but has not yet begun to issue integrated permits for operating waste dumps. Preparations in this area are still at an early stage.

As regards **water quality**, progress has been limited. However, the adoption by the government of a new law on waters which allocates clear responsibilities for water management to the Ministry for the Environment and Physical Planning should provide a good basis for further progress in this area. Preparations are moderately advanced.

No significant progress can be reported as concerns **nature protection**. Amendments to the laws on protection of nature and on hunting have been enacted in order to bring the penalty provisions in line with the law on misdemeanours.

Some progress has been made in the area of **industrial pollution control and risk management**. Transposition of the IPPC Directive has further advanced. Several major 'A' installations have been issued with IPPC adjustment permits, and the public has been given the opportunity to participate in the permit process. The State environmental inspectorate has listed 140 main polluters in a national register of air polluters. The inspectorate performs inspections once a month and has sanctioned several polluters in accordance with the "polluter pays" principle. A national strategy for protection and rescue has yet to be adopted. The law requires operators of industrial sites to prepare contingency plans, but this requirement has not been implemented in practice. Some provisions on the control of major accident hazards involving dangerous substances (Seveso II Directive) have still not been fully transposed. The capacity of the Ministry and municipalities to implement industrial pollution control and risk-management measures is still inadequate. Preparations in this area are moderately advanced.

Some progress can be reported in the area of **chemicals** and **GMOs**. A law on chemicals has been adopted. However, the preparations are at an early stage in this area.

The law on **noise** in the environment has been enacted plus amendments to the laws on **forests** and on forest reproductive materials. The strategy for sustainable development of forestry, with an Action Plan for the period 2007-2009, has been adopted. In these areas, the preparations are moderately advanced.

As regards **administrative capacity**, the Ministry for the Environment and Physical Planning has been restructured and now comprises 7 departments and 3 regulatory bodies. Its capacity needs to be strengthened. The Ministry continued cooperation with the European Environment Agency (EEA); however, the National Environmental Information System needs further development. The number of State environmental inspectors is insufficient to ensure proper enforcement of the environmental law. Administrative capacity is weak, particularly at municipal level, where there has been a lack of training.

An environmental investment strategy based on estimates of the cost of alignment has yet to be developed. Investments in infrastructure remain insufficient. Under the 2007 environmental investment programme, € 1.5 million has been allocated to environmental projects. Under the 2006 programme 58 projects have been launched in the fields of waste and water management; air quality; nature and forests; and environmental awareness-raising. Preparations in this area are moderately advanced. Environmental protection requirements are not yet integrated in the definition and implementation of the other policies.

Conclusion

Steady progress has been made on developing the legislative framework in the field of the environment, but implementation of the legislation remains limited, especially in areas that require major investment. A substantial amount of legislation has still to be enacted. Administrative capacity and financial resources remain inadequate, especially at local level. Very significant efforts are needed, including substantial investment and strengthened administrative capacity, for the implementation and enforcement of the legislation.

4.28. Chapter 28: Consumer and health protection

In the area of **consumer protection**, *horizontal aspects* were addressed with the adoption of a Programme for consumer protection, 2007–2008. The amended law on consumer protection sets deadlines for processing consumers' complaints and provides for increased financing to support consumer organisations. The administrative capacity of the Ministry of Economy and the Consumer Protection Council has increased and the role of the consumer protection NGO has become more significant. However, the capacity of the coordinating body for market surveillance is not satisfactory (*See also Chapter 1*).

As regards *product-safety related issues*, several pieces of implementing legislation for the law on product safety were adopted. Within the food safety directorate, a new unit for consumer protection was established, whose role is to act upon consumers' enquiries regarding food.

As regards *non-safety related issues*, a law on consumer credit was enacted and implementing legislation adopted. The law on mediation entered into force, and a Chamber of Mediators was established, which adopted a code of ethics and set up a centre for mediation. However, this new instrument has barely been utilised so far, mainly because of lack of interest among lawyers, who are not encouraging their clients to use mediation. No progress was made in aligning the legislation with the *acquis* on distance marketing of consumer financial services and injunctions. The competences of the various inspectorates have still not been clarified. Proper implementation and enforcement is not yet ensured. Preparations in this area are moderately advanced.

In the area of **public health**, there were developments in *horizontal aspects*. The laws on healthcare, patients' rights and health insurance have been amended in order to improve the quality of health services, and increase transparency and accountability. The national healthcare strategy and the strategy on non-communicable diseases have been adopted. The Ministry of Health initiated a major restructuring of the public health institutions. Some institutes and services were privatised, and some were put out to tender under public-private partnership management programmes. The Ministry of Health doubled the budgetary allocation for 13 public healthcare programmes. The allocation of resources to the hospital sector is still higher than the allocation for public health and primary healthcare. Lack of a proper operational structure and adequate finances are major obstacles to the implementation of the programmes.

An interdisciplinary and multi-sectoral *tobacco* control committee was established as a national forum for tobacco control. The action plan for tobacco control has been adopted. Proper enforcement and the imposition of dissuasive fines are not in place. The increase in taxes on tobacco products did not have the anticipated effects.

Legislation implementing the law on *communicable diseases* was issued. New strategies on combating HIV/AIDS and tuberculosis were adopted. An early warning system was launched. The Ministry of Health and the Republic Institute for health protection, with its 10 regional offices, are responsible for implementing the system. There is still no functioning IT system and no comprehensive healthcare database.

New legislation on *blood* safety and human *tissues and cells* was adopted; the alignment of this legislation has still to be confirmed. The provision of sufficient financial resources is the main obstacle to the enforcement of the new regulations. Preparations in this area are advancing well.

A mental health strategy, which defines and protects the rights of mental health patients, was adopted. Some progress has been made concerning the establishment of community mental health centres but adequately qualified and trained staff is lacking and a shortage in financial resources exists. Short term improvement is needed in institutional care for socially vulnerable and persons with disabilities.

Conclusion

Progress has been made in this area, regarding both legislative alignment and building institutional capacity for consumer protection and healthcare. Institutional capacity for implementing community-oriented public healthcare and consumer protection is appropriate. More human and financial resources are needed to allow full implementation of legislation, strategies and action plans. Overall, preparations in this chapter are moderately advanced.

4.29. Chapter 29: Customs union

There was significant progress with respect to **customs legislation**. The former Yugoslav Republic of Macedonia accepted the United Nations Resolution of 2 July 1993 on the applicability of '*Carnets de passage en douane*' / 'CPD carnets' to private road vehicles. The 2007 customs tariff was harmonised with the Combined Nomenclature. The € 40 customs fee for mandatory tariff information and the € 15 fee for TIR services were abolished, and a number of other authorisation fees, were reduced. Moreover, the implementing legislation to the Customs Code was amended to facilitate inward processing and bonded warehousing and

the customs administration published manuals on customs clearance and on preferential rules of origin. However, although the customs legislation is already well aligned, the *acquis* in the area of transit and tariff quotas has not yet been transposed. The law on technological and industrial development zones contains provisions which are incompatible with the EU Customs Code and with WTO obligations. Preparations in this area are advanced.

Administrative and operational capacity improved substantially, especially in terms of organisation. As of April 2007, the customs administration collected 37.31 % more customs duties, excise duties and VAT compared to the same period of last year. A new system for control of goods subject to dual use and of weapons is being introduced. A strategy for training and professional advancement was adopted. Manuals on transit have been prepared for both customs officers and businesses. The former Yugoslav Republic of Macedonia has requested to accede to the Common Transit Convention and has started preparations in this respect. However, much remains to be done to develop IT systems in order to allow interconnectivity with the Community IT systems.

A strategy on integrity and combating corruption was adopted and is being implemented consistently. 39 disciplinary procedures were initiated in the first four months of 2007 compared to 10 in the whole of 2006. Of these, 7 resulted in dismissal and 12 in suspension of customs officers. Since October 2006, almost 100 criminal cases were submitted to the public prosecutor. At the same time, procedures for recruiting new staff replacing dismissed customs officers have been initiated.

Significant results were achieved in seizing counterfeited and pirated goods. The number of items seized and the value of the goods increased significantly during the reporting period. The customs administration also seized substantial quantities of drugs. Customs action in combating illegal trade has been steady and consistent, leading to major improvements in the overall performance of the service compared to previous years. It is necessary to build on these results and continue the modernisation efforts. A memorandum of understanding was signed with Italy for facilitating trade along Corridor VIII. An agreement on cooperation and assistance in customs matters with Finland and Slovakia was signed and ratified. Progress was also made in strengthening inter-institutional cooperation with the ministries of interior, health, agriculture and environment. Improvement in IT and other equipment, including a comprehensive IT strategy addressing interconnectivity issues, is necessary in order to allow the customs administration properly to manage and enforce the implementation of the *acquis*. Despite substantial progress over the reporting period, further efforts are needed in order to be able to implement fully the customs *acquis*.

Conclusion

Progress has been substantial in the customs area. The legislative alignment is well advanced. As regards administrative and operational capacity, the former Yugoslav Republic of Macedonia has made significant progress and achieved important results in fighting illegal trade and collecting revenues. Efforts to combat corruption and misconduct have been very positive and need to be pursued. Overall, the customs needs to continue to its modernisation efforts in order to be able to effectively implement customs rules and the EU *acquis*.

4.30. Chapter 30: External relations

In the field of the **common commercial policy**, the country continued gradually to reduce customs duties, in line with its WTO commitments and the Stabilisation and Association

Agreement with the EU. Since early 2007, the average duty on industrial goods has been 7%, and the average duty on agricultural goods and fishery products has been 16.5%. The country continues to coordinate closely with the Commission in international trade negotiations.

As regards *export credits*, the state-owned *Macedonian Bank for Development Promotion* introduced a new instrument for export promotion and export credit guarantees, in addition to the short-term export credits that are being offered.

The country ratified the agreement on the enlargement and amendment of the Central European Free Trade Area (CEFTA). The Parliament ratified the protocol to the free trade agreement with Turkey aimed at improving the functioning of the agreement and allowing for possible changes to the protocol on rules of origin.

Implementation of a system for control of *dual-use goods* and weapons has begun, giving all seven relevant institutions access to the tracing system.

No particular development took place in the area of **bilateral agreements with third countries**

Some staff in the Ministry of Foreign Affairs have become responsible for coordinating **development policy** and **humanitarian aid**. The country is starting its first preparations in this area.

Conclusion

There has been some progress in the area of external relations. The institutional capacity is not yet sufficient to enable the country to participate fully in the EU policies in this area. In most areas, preparations in this area are on track.

4.31. Chapter 31: Foreign, security and defence policy

The regular **political dialogue** between the EU and the former Yugoslav Republic of Macedonia has continued to cover foreign policy issues. *Concerning neighbourly relations with other enlargement countries and member states, see section under Political Criteria.*

As regards the **Common Foreign and Security Policy (CFSP)**, the country has continued to align itself with a number of EU common positions and statements towards third countries and regions. There has been some progress with regard to the legal framework. The Law on Foreign Affairs, which regulates the duties, competencies and the organisation of the Ministry of Foreign Affairs, entered into force. With regard to administrative capacity, there has been limited progress. The unit for CFSP in the Ministry of Foreign Affairs, which is responsible for coordination, needs to be strengthened.

The law on international **restrictive measures** was enacted and entered into force.

With regard to the area of **non-proliferation**, the additional protocols to the Convention on Prohibition or Restrictions on the Use of Certain Conventional Weapons as well as Additional Protocols to the Agreement with the International Atomic Energy Agency concerning Non-Proliferation of Nuclear Weapons were ratified. The unit for arms control was established.

As regards the International Criminal Court, see Political Criteria – Regional Cooperation and International Obligations.

As regards the **security measures (classified information)**, the installation of the Certified Computer Unit for Access to the EU network for Electronic Exchange of Classified CFSP Information (ACN) is under way. The Law on Classified Information was amended to upgrade the security conditions for working with classified information.

The former Yugoslav Republic of Macedonia is showing continued commitment to participation in military and civilian crisis management operations in the framework of the **European Security and Defence Policy (ESDP)**. The country continued to participate in the EU military operation ALTHEA. A law on posting personnel to international missions and international organisations has still to be enacted. The former Yugoslav Republic of Macedonia continued to participate in NATO missions in Afghanistan and in Iraq. Parliament approved a decision to send two army officers to the UN-led peacekeeping mission in Lebanon (UNIFIL). A unit for ESDP was established in the Ministry of Defence.

Conclusion

There has been progress in some aspects of foreign security and defence policy. The legal framework is largely in place, but further efforts are required for its implementation. Further progress is needed, notably as regards administrative capacity.

4.32. Chapter 32: Financial control

Progress can be reported in the area of **public internal financial control and external audit**. In February 2007, a law on *Public Internal Financial Control* as well as amendments to the existing Internal Audit Law were enacted. The existing Central Internal Audit Department of the Ministry of Finance was transformed in early 2007 into a Public Internal Financial Control Department including a central harmonization unit (CHU) for financial management control systems and a CHU for internal audit. In February, a plan was adopted to establish decentralised internal audit units in 33 central-level budget institutions by the end of 2007. However, the laws on PIFC and on Internal Audit, while laying down some basic principles of public internal financial control (PIFC), are not fully in compliance with PIFC standards. Furthermore, the staffing of the CHUs is so far inadequate. Thus, preparations in this area are at an early stage, but advancing.

As regards **external audit**, activities have been initiated, albeit on a very limited scale, to strengthen the operational and financial independence of the State Audit Office (SAO). The audit coverage of public expenditure increased from 55% in 2005 to 65% in 2006. However, audited institutions still do not adequately follow up recommendations made in audit reports. The cooperation between the SAO and the other relevant institutions, in particular Parliament, remains limited. Preparations in this field are at an early stage.

There are limited developments to report as regards the **protection of EU financial interests**. The financial police, which is a body within the Ministry of Finance, has been appointed as central contact point for the protection of the Community's financial interests in August 2007. There have been no developments related to the **protection of the euro against counterfeiting**. Preparations thus still need to be launched.

Conclusion:

Progress in this area has been limited to PIFC. However, the PIFC policy paper together with the laws on PIFC and Internal Audit should be reviewed. The administrative capacity of the

responsible institutions remains inadequate to meet the obligations arising from the *acquis*. Preparations in the area of PIFC and external audit are on track; preparations in the areas of the protection of EU financial interests and of the Euro against counterfeiting have yet to commence.

4.33. Chapter 33: Financial and budgetary provisions

There have been no particular developments in this chapter.

There continue to remain no significant divergences with the EU system concerning the basic principles and institutions in the underlying policy areas linked to the application of the own resources system. Efforts to align with the relevant *acquis* chapters need to be continued, in particular customs, taxation, statistics and financial control. This includes setting up effective instruments to combat customs duty and VAT fraud so that the financial interests of the EU can be protected.

Although the *acquis* in this area does not require transposition, it is important to establish in due course coordination structures and implementing rules so as to ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules. The capacity within the relevant authorities to apply the rules under this chapter correctly are not yet sufficient.

Conclusion

There has been no particular progress in this chapter. Appropriate coordination structures, implementing rules and administrative strengthening will need to be established in due course. Overall, preparations for alignment with the *acquis* are under way.

STATISTICAL ANNEX

STATISTICAL DATA (as of 5 October 2007) The former Yugoslav Republic of Macedonia

Basic data	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population (thousand)	1)	1 991	2 002	2 013	2 022	2 031	2 039	2 024	2 030	2 035	2 039
Total area of the country (km ²)		25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713	25 713

National accounts	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross domestic product (GDP) (million national currency)		186 019	194 979	209 010	236 389	233 841	243 970	251 486	265 257	286 619	303 305e
GDP (million euro)		3 310	3 193	3 448	3 893	3 839	4 001	4 105	4 325	4 676	4 957
GDP (euro per capita)		1 662	1 595	1 713	1 925	1 890	1 962	2 028	2 130	2 298	2 431
GDP (in Purchasing Power Standards (PPS) per capita)	2)	4 300	4 500	4 800	5 100	5 000	5 100	5 300	5 600	6 000f	6 400f
SI: GDP (in PPS per capita, EU-25=100)	2)	25.5	25.5	25.7	25.8	24.1	24.0	24.6	25.0	25.8f	26.3f
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)		1.4	3.4	4.3	4.5	-4.5	0.9	2.8	4.1	4.1	3.1e
SI: Employment growth (national accounts, % change on previous year)		:	3.0	-1.0	0.0	-2.0	-1.0	-2.0	-2.0	2.1	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		:	0.0	-6.1	-6.6	-4.8	-4.8	-7.8	-6.2	-3.2	:
SI: Unit labour cost growth (national accounts, % change on previous year)		:	0.3	2.0	-8.6	0.7	-4.5	0.6	-7.3	-2.5	:
SI: Labour productivity (GDP in PPS per person employed, EU-25=100)		:	:	:	:	:	:	:	:	:	:
Gross value added by main sectors (%)											
Agriculture		12.8	13.2	12.9	12.0	11.8	12.4	13.4	13.2	12.8	:
Industry		28.4	27.1	26.5	26.9	26.1	24.2	24.4	22.7	23.1	:
Construction		6.2	6.7	6.1	6.8	6.0	6.0	6.3	6.5	6.6	:
Services		52.7	52.9	54.5	54.2	56.1	57.5	56.0	57.7	57.6	:
Final consumption expenditure, as a share of GDP (%)		92.6	92.6	90.3	92.6	94.8	99.5	97.0	98.9	96.5	:
Households and NPISH, as a share of GDP (%)		72.8	72.4	69.7	74.4	70.0	77.1	76.3	78.8	77.7	:
General government, as a share of GDP (%)		19.7	20.3	20.6	18.2	24.8	22.4	20.7	20.0	18.8	:
Gross fixed capital formation, as a share of GDP (%)		17.3	17.4	16.6	16.2	14.8	16.6	16.7	17.8	17.0	:
Changes in inventories, as a share of GDP (%)		3.6	4.8	3.1	6.0	4.2	4.0	3.2	3.6	3.7	:
Exports of goods and services, relative to GDP (%)		37.3	41.2	42.2	48.6	42.7	38.0	37.9	40.2	44.7	:
Imports of goods and services, relative to GDP (%)		50.8	56.1	52.2	63.5	56.6	58.2	54.8	60.5	62.0	:

Industry	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Industrial production volume index (2000=100)		94.9	99.2	96.6	100.0	96.9	91.8	96.1	94.0	100.6	104.2

Inflation rate	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Consumer price index (CPI), (total, % change on previous year)		2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	:

Balance of payments	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Balance of payments: current account total (million euro)	3)	- 254	- 240	- 30	- 79	- 272	- 380	- 137	- 334	- 62	- 19
Balance of payments current account: trade balance (million euro)	3)	- 342	- 459	- 465	- 749	- 588	- 854	- 750	- 894	- 853	-1 021
Balance of payments current account: exports of goods (million euro)	3)	1 097	1 152	1 117	1 433	1 291	1 181	1 203	1 343	1 642	1 903
Balance of payments current account: imports of goods (million euro)	3)	1 439	1 611	1 582	2 182	1 879	2 035	1 953	2 237	2 496	2 923
Balance of payments current account: net services (million euro)	3)	- 122	- 53	39	53	- 21	- 24	- 9	- 43	- 27	20

Balance of payments current account: net income (million euro)	3)	- 49	- 40	- 40	- 50	- 45	- 32	- 28	- 33	- 44	- 2
Balance of payments current account: net current transfers (million euro)	3)	259	312	435	667	383	529	650	637	863	984
of which government transfers (million euro)	3)	7	33	68	144	55	107	89	55	52	59
Foreign Direct Investment (FDI) in the reporting economy (million euro)	3)	27	114	31	189	493	83	81	127	79	286

Public finance	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government deficit/surplus, relative to GDP (%)		:	:	0.3	2.3	-2.5	-0.5	0.1	:	:	:
SI: General government debt, relative to GDP (%)		:	:	32.0	48.1	48.8	43.0	39.1	37.6	:	:

Financial indicators	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross foreign debt of the whole economy, relative to GDP (%)	4)	:	:	43.4	42.7	44.2	39.3	35.9	35.3	41.6	36.9
Gross foreign debt of the whole economy, relative to total exports (%)	5)	:	:	108.4	93.6	108.4	109.2	98.8	91.5	95.3	76.9
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		229	249	325	368	415	432	445	450	485	568
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		372	427	556	690	1 145	1 052	1 240	1 450	1 686	2 100
Money supply: M3 (M2 plus marketable instruments, million euro)		437	497	647	786	1 267	1 141	1 318	1 532	1 768	2 208
Total credit by monetary financial institutions to residents (consolidated) (million euro)	6)	428	517	527	624	620	657	747	931	1 124	1 467
Interest rates: day-to-day money rate, per annum (%)		19.7	18.1	11.6	7.2	11.9	14.4	5.8	8.3	9.2	:
Lending interest rate (one year), per annum (%)	6)	:	:	:	17.5	23.0	23.0	14.0	13.0	13.0	9.5
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:	:	:	:	:
Euro exchange rates: average of period - 1 euro = ... national currency		56.200	61.070	60.620	60.725	60.913	60.978	61.264	61.338	61.296	61.189
Effective exchange rate index (2000=100)	7)	91.8	92.9	96.9	100.6	136.1	139.2	143.2	147.1	150.6	151.8
Value of reserve assets (including gold) (million euro)		229	289	422	759	844	770	715	717	1 123	1 417

External trade	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Trade balance: all goods, all partners (million euro)		:	:	:	:	:	- 927	- 828	-1 008	- 957	-1 082
Value of exports: all goods, all partners (million euro)		:	:	:	:	:	1 178	1 203	1 346	1 644	1 906
Value of imports: all goods, all partners (million euro)		:	:	:	:	:	2 105	2 031	2 354	2 601	2 988
Terms of trade (export price index / import price index, % change on previous year)		:	100.0	97.1	95.4	97.1	106.4	94.5	82.9	95.6	88.4
Share of exports to EU-27 countries in value of total exports (%)		:	:	:	:	:	55.9	58.9	60.3	56.9	61.2
Share of imports from EU-27 countries in value of total imports (%)		:	:	:	:	:	61.7	60.3	60.8	54.7	52.9

Demography	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)	2)	6.5	6.2	5.2	5.9	5.0	4.8	4.4	2.7	2.0	1.9
Net migration rate: immigrants minus emigrants (per 1000 inhabitants)		0.5	0.4	0.5	0.5	0.3	0.6	0.5	0.4	0.1	:
Infant mortality rate: deaths of children under one year of age per 1000 live births	2)	15.7	16.3	14.8	11.8	11.9	10.2	11.3	13.2	12.8	11.5
Life expectancy at birth: male (years)	2)	70.6	70.6	70.7	70.9	70.9	71.0	71.1	71.4	71.4	71.5
Life expectancy at birth: female (years)	2)	74.7	74.9	75.0	75.6	75.6	75.8	75.7	75.9	76.2	76.4

Labour market	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)		:	60.9	59.7	59.7	61.8	59.8	61.3	58.8	60.7	62.2
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)		:	39.6	40.2	40.3	42.6	40.4	38.5	36.8	37.9	39.6
Share of male population aged 15-64 that is in employment (%)		:	49.8	49.4	49.7	50.6	48.6	45.6	44.4	45.4	48.3
Share of female population aged 15-64 that is in employment (%)		:	29.3	30.9	30.9	34.5	32.0	31.3	28.9	30.1	30.7
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)		:	26.0	26.3	26.2	27.7	25.8	28.5	24.5	26.2	27.9

Employment by main sectors (%)		:	:	:	:	24.9	23.9	22.0	16.8	19.5	20.1
Agriculture		:	:	:	:	29.2	27.5	27.3	25.8	25.8	25.0
Industry		:	:	:	:	5.9	5.8	6.6	7.0	6.5	7.6
Construction		:	:	:	:	39.7	42.6	43.8	50.1	48.0	47.1
Services		:	34.5	32.4	32.2	30.5	31.9	36.7	37.2	37.3	36.0
SI: Unemployment rate: share of labour force that is unemployed (%)		:	32.5	31.9	30.5	29.5	31.7	37.0	36.7	36.5	35.3
Share of male labour force that is unemployed (%)		:	37.6	33.3	34.9	32.0	32.3	36.3	37.8	38.4	37.2
Share of female labour force that is unemployed (%)		:	70.9	62.9	59.9	56.1	58.4	65.7	64.8	62.6	59.8
Unemployment rate of persons <25 years: share of labour force aged <25 that is unemployed (%)		:	28.6	27.2	26.9	26.5	27.0	31.2	31.7	32.3	31.1
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)		:									

Social cohesion	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Average nominal monthly wages and salaries (national currency)		9 063.0	9 394.0	9 664.0	10 193.0	10 552.0	11 279.0	11 824.3	12 293.3	12 597.0	13 517.0
Index of real wages and salaries: index of nominal wages and salaries divided by CPI (2000=100)		93.3	96.8	100.3	100.0	98.1	103.0	106.7	111.4	113.6	118.1
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)	8)	:	:	:	:	:	32.2	:	:	:	:

Standard of living	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Number of passenger cars per 1000 population	9)	145.2	144.4	144.1	147.9	152.1	151.1	148.2	122.7	124.3	118.7
Number of subscriptions to cellular mobile telephone services per 1000 population		6.2	15.0	23.7	49.4	109.0	179.6	300.4	491.5	597.7	695.0

Infrastructure	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Density of railway network (lines in operation, per 1000 km ²)		27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	27.2	:
Length of motorways (thousand km)		0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2

Innovation and research	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Spending on human resources (public expenditure on education) relative to GDP (%)		:	:	:	:	:	3.4	3.4	:	:	:
SI: Gross domestic expenditure on research & development, relative to GDP (%)		0.4	0.4	0.3	0.4	0.3	0.3	0.2	0.3	0.3	:
SI: Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	11.0	13.9	14.0

Environment	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		:	:	:	:	:	:	:	:	:	:
SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)	10)	:	754.8	707.0	659.3	668.5	715.6	659.6	635.6	638.0	:
SI: Share of renewable energy in electricity consumption (%)	11)	:	15.4	20.5	16.9	9.2	11.0	17.9	18.9	:	:
SI: Road freight transport as a share of total inland freight transport (modal split) (%)		:	:	:	:	:	:	:	:	:	:

Energy	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Primary production of all energy products (thousand TOE)	12)	1 727	1 744	1 698	1 595	1 642	1 577	1 666	1 598	1 578	:
Primary production of crude oil (thousand TOE)	12)	0	0	0	0	0	0	0	0	0	:
Primary production of hard coal and lignite (thousand TOE)	12)	1 409	1 480	1 389	1 273	1 419	1 356	1 353	1 293	1 288	:
Primary production of natural gas (thousand TOE)	12)	0	0	0	0	0	0	0	0	0	:
Net imports of all energy products (thousand TOE)	12)	:	1 247	1 009	1 104	1 011	1 486	1 029	1 152	1 256	:
Gross inland energy consumption (thousand TOE)	13)	:	2 904	2 837	2 765	2 677	2 892	2 740	2 749	2 872	:

Electricity generation (thousand GWh)	12)	6.7	7.0	6.9	6.8	6.4	6.1	6.7	6.7	6.9	:
---------------------------------------	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	---

Agriculture	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agricultural production volume index of goods and services (producer prices, previous year=100)		:	:	101.1	101.0	90.2	97.5	104.5	107.0	100.3	104.8
Total utilised agricultural area (thousand hectare)		1 285	1 293	1 284	1 236	1 244	1 316	1 303	1 265	1 229	1 225
Livestock: cattle (thousand heads, end of period)		289	268	270	265	265	259	260	255	248	255
Livestock: pigs (thousand heads, end of period)		184	197	226	204	189	196	179	158	158	167
Livestock: sheep and goats (thousand heads, end of period)		1 631	1 315	1 289	1 251	1 286	1 234	1 239	1 432	1 244	1 249
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		183	213	240	260	248	250	244	261	246	291
Crop production: cereals (including rice) (thousand tonnes, harvested production)		610	660	637	565	476	556	466	677	645	595
Crop production: sugar beet (thousand tonnes, harvested production)		72	58	67	56	38	44	40	47	58	0
Crop production: vegetables (thousand tonnes, harvested production)		581	540	688	680	696	:	:	:	:	:

SI: Structural Indicator

e: estimate

f: forecast

p: provisional

1. Source: Eurostat; break in series in 2003.
2. Source: Eurostat.
3. For 1995-2002, the values in euro are calculated using the annual average exchange rate; from 2003 the values in euro are calculated on the basis of the current exchange rate.
4. Excluding short-term trade credits.
5. Excluding short-term trade credits; total exports refers to exports of goods.
6. End of year.
7. Nominal effective exchange rate.
8. Source: 2002 census.
9. Break in series in 2004.
10. Eurostat estimates.
11. Data of the publication "*Energy Balances of the Republic of Macedonia*".
12. For 1998-2004 data of the publication "*Energy balances of the Republic of Macedonia*"; for 2005, data of "*Energy balances of Republic of Macedonia*" - 2005 (not published).
13. For 1998-2004 data of the publication "*Energy balances of the Republic of Macedonia*"; for 2005, data of "*Energy balances of Republic of Macedonia*" - 2005 (not published); including value of stock change.