



Republic of Macedonia

ECONOMIC REFORM PROGRAMME

2019-2021

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**РЕПУБЛИКА МАКЕДОНИЈА
МИНИСТЕРСТВО ЗА ФИНАНСИИ**



**REPUBLIC OF MACEDONIA
MINISTRY OF FINANCE**

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Abbreviations

BDE	Bureau for Development of Education
CACM	Capacity Allocation and Congestion Management
CEFTA	Central European Free Agreement
CPI	Consumer Price Index
EUD	Delegation of the European Union
EARM	Employment Agency of the Republic of Macedonia
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECS	Energy Community Secretariat
EE	Energy efficiency
EGP	Economic Growth Plan
EIB	European Investment Bank
ENER	National Electronic Registry of Regulations
ERP	Economic Reform Program
ESA	European System of Accounts
ETF	European Training Foundation
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FITD	Fund for Innovations and Technology Development
GDP	Gross Domestic Product
GS	Government Securities
ha	hectare
HS	Hydro Systems
IEP	Individual Employment Plan
IIP	International Investment Position
IMF	International Monetary Fund
IPA	Instrument for pre-accession assistance
IT	Information Technology
ITS	Intelligent Transport System
JRBS	Joint Railway Border Station
AD ELEM	Macedonian Power Plants
km	Kilometer
MAFWE	Ministry of Agriculture, Forestry and Water Economy
AD MEPSO	Electricity Transmission System Operator
MES	Ministry of Education and Science
MF	Ministry of Finance
MISA	Ministry of Information Society and Administration
MLSP	Ministry of Labor and Social Policy
MW	Megawatt
NBRM	National Bank of Republic of Macedonia
NEER	Nominal Effective Exchange Rate
NQF	National Qualifications Framework
OECD	Organisation for Economic Co-operation and Development
OTC	Over the counter
PFM	Public Finance Management
PISA	Program for International Student Assessment
pp	percentage point
PPL	Law on Public Procurement
RDI	Research, development and innovation and digital economy
REER	Real Effective Exchange Rate
RES	Renewable energy sources
RM	Republic of Macedonia
ROAA	Return on average assets
ROAE	Return on average equity
SAA	Stabilization and Association Agreement
SEE	Southeast Europe
SFA	Social Financial Assistance
SIGMA	Support for Improvement in Governance and Management

SMEs	Small and medium-sized enterprises
SSO	State Statistical Office
STP	Science and Technology Park
TAIEX	Technical Assistance and Information Exchange Instrument
TFP	Total factor productivity
TSO	Transmission System Operator
UNESCO	United Nations Educational Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
VAT	Value Added Tax
VET	Vocational Education and Training
WB6	Western Balkans Six
WBIF	Western Balkans Investment Framework
WTO	World Trade Organization
WTTC	World Travel and Tourism Council
ZELS	Association of the units of local self-government of the Republic of Macedonia

Introduction

As a candidate country, Republic of Macedonia has prepared eleven programs so far, seven Pre-Accession Economic Programmes and four Economic Reform Programmes (ERP).

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

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

Economic Reform Programme 2019 - 2021 is the fifth document of this type prepared in line with the instructions given by the European Commission (EC). The Programme presents the medium-term macroeconomic and fiscal framework, as well as the sectoral structural reforms for promoting both competitiveness and growth.

The programme is prepared in line with the Government Programme 2017-2020, the Revised Fiscal Strategy for the period 2019-2021, and the annual 2019 Budget of the Republic of Macedonia, as well as other national strategic documents, such as the National Programme for Adoption of the Acquis Communautaire, the Stabilisation and Association Agreement and the national sectoral strategies: Public Finance Management Reform Programme 2018-2021, Industrial strategy for the period 2018-2027, Strategy for formalisation of the informal economy 2018-2022, Innovation Strategy 2012-2020, Competitiveness Strategy 2016-2020 etc.

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

EC recommendations indicated in the 2018 Progress Report on the Republic of Macedonia, as well as the specific recommendations of the Ministerial Dialogue as of May 25th 2018, based upon the EC's assessment of the Economic Reform Programme 2018-2020, were also taken into consideration during the Programme preparation.

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

1. Overall policy framework and objectives

Macroeconomic policy in the period 2019-2021 is aimed at developing the economy and raising the living standard of citizens, by supporting domestic enterprises, above all small- and medium-sized enterprises (SMEs), increasing employment through the active employment measures, increasing the level of wages, as well as by strengthening the social protection system.

The positive developments of economic activity in the second and third quarter of 2018 are within the expectations. In the next quarter intensification of economic growth is expected, resulting in growth of around 2.8% for the whole year, in conditions of intensified realization of public capital expenditures and retaining the positive signals for private investments, as well as maintaining the high export growth and positive contribution of consumption to growth.

Wage and employment growth in the private sector, supported by government measures, accompanied by expectations of low and stable inflation in the country, will contribute to an increase in private consumption. Continuing solid exports from new production facilities, as well as the recovery of traditional export sectors as a result of the strengthened economic activity of the countries trading partners, will contribute to an increase of Macedonian export and greater utilization of industrial capacities. The planned increase in public investment and the improved investment climate are expected to contribute to growth of investment demand in the next medium-

term period. Hence, real GDP growth is expected to rise to 3.2% in 2019, and continue to increase with a stronger intensity in the next two years, reaching 4% in 2020 and 5% in 2021.

The Medium-Term Fiscal Strategy is the key document in determining the medium-term fiscal goals of the Government of the Republic of Macedonia and their connection with the strategic priorities of the Government, as well as a tool to monitor the dynamics of revenues and expenditures in relation to the fiscal goals. The medium-term expenditure framework, as part of the Fiscal Strategy, is aimed at integrating the policies with the decisions on allocation of resources, in a multi-year context, thus contributing to better efficiency when using the public finances and adopting better policy decisions. In short, the Medium-term expenditure framework is a strategic allocation of resources towards the achievement of the government priorities.

Further, the public debt management policy sets the framework for the Government of the Republic of Macedonia to act towards prudent public debt management in the medium term. The main principles taken into account when managing the public debt portfolio, i.e. when preparing and implementing the public debt management policy, are the following:

- Determining the optimal structure of debt portfolio and its harmonisation with the national macroeconomic policy;
- Aligning the debt portfolio-related costs with the costs set in the budget for each year separately and in the medium term, and
- Limiting and eliminating the effect of the risks on public debt sustainability in both the medium and the long run.

Related to this, the annual growth rate of total budget expenditures of Budget of the Republic of Macedonia is expected to gradually slow-down. Combined with the expected revenue collection, this will result a gradual narrowing of the overall budget deficit from 2.5% in 2019 to 2.3% in 2020 and 2% of GDP in 2021. The primary budget deficit will also drop from 1.2% in 2019, to 1% and 0.7% respectively in 2020 and 2021. The disciplined fiscal policy will ensure a stable public debt path, reaching, in the medium run, 54.5% of GDP in 2020 as a result of the intensified capital projects, and then dropping to 53.2% of GDP in 2021. Consequently, the public debt will be significantly below the medium- and long-run limit set at 60% of GDP.

In the upcoming mid-term period Republic of Macedonia will remain committed to creating a functional and competitive market economy. Structural reforms will be aimed at strengthening human capital, stimulating innovation and creativity, improving competitiveness of the service and agriculture sectors, further improving transport and energy infrastructure and facilitating trade. Implementation of these measures complemented by active labour market measures, should contribute to increase of the competitiveness of the economy, creating jobs and reducing unemployment.

1.1. Measures taken to implement the targeted policy guidelines adopted at the Economic and Financial Dialogue in May 2018

G 1: Develop a proper medium-term fiscal consolidation strategy. Stabilise the public debt ratio by pursuing a sufficiently tight fiscal stance while protecting capital spending.

The medium-term fiscal consolidation strategy is included in the 2019-2021 Fiscal Strategy of the Republic of Macedonia. The strategy is prepared in line with the legal regulations, the practice and the methodology of the developed countries, and it is a necessary tool when determining the initial framework for conducting fiscal policy in the following medium-term period. It was adopted by the Government of the Republic of Macedonia within the legally prescribed timeframe.

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In order to strengthen fiscal discipline, the Medium-Term Fiscal Strategy introduces budget expenditure ceilings, i.e. both total ceilings and ceilings by budget user.

The part on Macro-fiscal risks and Sensitivity of the Deficit and the General Government Debt of the Fiscal Strategy provides a review, for the first time, of the results from the sensitivity analysis of the budget deficit and the level of general government debt to the possible effects of the four main identified risks to fiscal policy in the medium term. All risks are analysed separately and all scenarios assume absence of other deviations from the baseline projection and the effects only of certain risks:

- Scenario 1 - lower economic growth,
- Scenario 2 - lower tax revenues by 5%,
- Scenario 3 - lower execution of capital expenditures by 25% and
- Scenario 4 - servicing the liabilities on the basis of issued guarantees from the central government budget.

G 2: Streamline and better target social spending and agricultural subsidies. Reduce public sector payment arrears and develop an arrears prevention strategy. Take the necessary organisational steps in view of improving tax collection. Adopt the organic budget law with a set of fiscal rules and establish an independent fiscal council to assist in their enforcement.

a) Rationalization and better targeting of social expenditures will be achieved through the new Law on Social Protection, aimed at a thorough reform of the social system and child protection. With this reform, social assistance is increased and efficient and long-term solutions for lifting people out of poverty are provided, through activation on the labour market. Children's and educational allowance is introduced - a payment that, besides the recipients of the guaranteed minimum income, households with a minimum wage will be able to use it as well. The new Law on Social Protection was adopted by the Government on 20 December 2018 and is in parliamentary procedure. It is expected to be adopted by the Parliament in the first quarter of 2019.

As regards the rationalization and better targeting of agricultural subsidies, the first step was preparation of the Evaluation of the direct payments (subsidies) and their impact on agricultural sector reforms, with recommendations/guidelines for alignment with the EU Common Agricultural Policy. The document is available on the website of the Ministry of Agriculture, Forestry and Water Economy (MAFWE)¹. Recommendations from the Assessment are:

- consolidate agricultural data through an integrated system.
- The alignment process should develop evidence-based allocation of the budget on a direct payment scheme (area support and product support targeting the country's strategic sector)
- increasing the agricultural area in the Integrated Administration and Control System (IASC):
 - mapping unregistered areas in the Land Parcel Identification System (LPIS), especially pastures
 - mapping LPIS mountain areas, areas with limited opportunities for agricultural production and landscapes taking part in Natura 2000 (Article 5, paragraph 2 of EU Regulation 640/2014),
 - introduction of attractive schemes for direct payments related to pastures and livestock,
 - facilitating informal agreements between land owners and tenants,
 - improvement of the procedures for allocation of state-owned agricultural land, according to priority criteria (young farmers, cooperatives, etc.)
 - consolidation of agricultural land.

Based on the recommendations from the Evaluation, the measures for direct payments in the Republic of Macedonia will be harmonized with the measures foreseen in the EU Common Agricultural Policy. This is a step-by-step process so that MAFWE will gradually begin to align in the new programs. This process is the subject of negotiations with the EC regarding harmonization of rural development policies. Such an example is the abolition of the measure of financial support for fish sold on the market. This measure, which was implemented in previous years, was abolished in 2018 and the funds earmarked for it were respectively reallocated to other measures of the program.

b) To the end of reducing public sector payment arrears and developing an arrears prevention strategy, several activities were undertaken in 2018. Taking into account that no unified mechanism on recording liabilities exists as regards the liabilities of the entities using the public funds, a need has arisen for a systemic solution for recording liabilities by creating an electronic system to provide for a single recording of all liabilities. Therefore, Law on Reporting and Recording Liabilities was adopted in 2018, regulating the reporting and the recording of undertaken liabilities not yet due for payment and unpaid liabilities that are due for payment, in order to ensure and maintain transparency and accountability and strengthen the responsibility when managing public funds.

This legal solution establishes a legal obligation for reporting the liabilities in the electronic system on monthly basis by:

- government bodies,
- local government units,
- institutions performing activities in the field of culture, education, health, child care and social protection, as well as other activities of public interest determined by law, established by the Republic of Macedonia or the local government units,
- public enterprises, state-owned companies and
- other legal entities established by the Republic of Macedonia or the local government unit.

On the basis of the recorded data on reported liabilities, and in order to inform the public and improve transparency, the Ministry of Finance, in October 2018, published summary reports on its website, which fully reflect the undertaken liabilities not yet due for payment and unpaid liabilities that are due for payment, as of September 2018 inclusive. It can be concluded that the liabilities in 2018 were reduced in relation to data published in 2017.

On the basis of the data from the Electronic System for Reporting and Recording Liabilities, as well as the fiscal space provided under the amendments to the 2018 Budget of the Republic of Macedonia, Law on Financial Support to Local Government and Spending Units Established by Local Government was adopted, for servicing arrears. The Law is aimed at providing one-off financial support in the amount of Denar 3,032 million (around EUR 49 million) for the purpose of servicing part of the reported

¹ <http://www.mzsv.gov.mk/cms/Upload/docs/2017-389748%20Revised%20Final%20Report%2031102018.pdf>

arrears of the local government and the spending units established by the local government.

In addition, under the amendments to the Law on Financing Local Government Units, fiscal rule has been set out for planning the own revenues of the core budget of local government units, i.e. for limiting the planning of own revenues, thus preventing future incurring of significant amount of liabilities and improving the fiscal discipline.

c) In the direction of improving the tax collection in 2018, several activities were worked out.

- Draft Strategy for reform of the tax system was prepared. Comments from the EU Delegation, the World Bank and the IMF were received. Their implementation is underway, after which a new version of the Draft Strategy will be submitted to the European Commission, through the Secretariat for European Affairs, and will be published at the beginning of 2019.

- An Action Plan for improving fiscalization has been developed and implementation of certain measures therefrom is underway.

- Amendments to the Law on registering cash payments have been prepared in order to reduce the possibility of abuse of fiscal receipts. The legal provisions are published on ENER and are expected to be adopted at the beginning of 2019.

- A new Law on Prevention of Money Laundering and Financing of Terrorism was adopted, which limits the payment in cash. In 2018 payment in cash was reduced from EUR 15,000 to EUR 2,000, from 01.01.2019 it was further reduced to EUR 1,000, and starting from 01.06.2019 it will be further reduced to EUR 500.

- Amendments to the Law on Tax Procedure are being prepared, aimed at improving the collection of taxes by the Public Revenue Office. The amendments are expected to be publicly available early in 2019 and to be adopted during the year.

- On 26 December 2018, a new Law on Personal Income was adopted, which introduced a progressive tax. Thus, a rate of 18% is introduced which will refer to the tax base that exceeds 1,080,000 denars annually, i.e. 90,000 denars per month. For the tax base up to 90,000 denars per month, or 1,080,000 denars per year, the tax rate of 10% will remain to be applicable. The Law also prescribes an increase in the amount of tax relief applied to salaries and pensions.

- Amendments to the Law on Profit Tax were adopted, aimed at better regulation of transfer pricing, as well as certain other amendments, aimed at better collection of corporate income tax.

- A new Law on excise is being prepared in order to include new excise products and improve the collection of excise duties. The Law has been finalized and is expected to be adopted in the first quarter of 2019, with the application being from 01.07.2019.

- New software for customs operations is being developed (without paper documents). The software would be put into operation in mid-2019 and would lead to faster services for companies, fewer abuses and better collection by the Customs Administration.

- Since 01.01.2018, electronic submission of the calculation for all payments of personal income has been introduced through <https://e-pdd.ujp.gov.mk>, except for the payment of salary, which is also performed electronically. Integration of all payments involving income tax in one system is underway. The system is expected to become operational in the first half of 2019

d) According to the Public Finance Management Reform Program 2018-2021, within Priority - Planning and budgeting and Priority - Improved fiscal framework, the focus will be on the adoption of the new Budget Law, where fiscal rules and establishment of the fiscal council will be envisaged. The new Budget Law will be adopted in 2019.

G 3: Conduct monetary policy consistent with the exchange rate peg, using available scope within this framework in line with safeguarding price stability. Adopt and implement a comprehensive NPL resolution strategy, addressing all underlying obstacles also outside the remit of the central bank, with the involvement of all relevant stakeholders. Adopt and implement a comprehensive strategy for fostering the use of the local currency, with the participation of all relevant stakeholders.

a) Non-performing loans in the banking system of the Republic of Macedonia rose since the beginning of the global crisis, although preserved at a moderate and stable level of about 11% in the period 2013-2015. The NBRM monitors the movement of non-performing loans on an ongoing basis, takes activities to identify the reasons behind the high persistence of the existing non-performing loans, but also the reason for the emergence of new ones (banks' analyses and surveys). Thus, in 2013, regulatory amendments were made to support loan restructuring by banks.

The NBRM analyses from previous years indicated a high concentration of non-performing loan portfolio of legal entities, where the 50 largest non-performing loans accounted for nearly 60% of the total non-performing loans of legal entities. More than half of the non-performing loans were fully provisioned. Under such circumstances, in December 2015, the NBRM amended the Decision on credit risk management, requiring from banks, by 30 June 2016, to write-off all claims that were fully provisioned for more than two years. In addition, banks are still allowed and required to collect these claims, although they are written off. Consequently, at the end of 2016, mainly as a result of this measure, the share of non-performing loans was reduced to 6.6% (6.3% at the end of 2017). As a result of the collection of non-performing claims on companies, this share was additionally reduced to 5.1% in the first quarter of 2018, where it stood in the next two quarters.

During 2016, the NBRM took further actions aimed to explore possibilities and obstacles to efficient settlement of banks' bad claims, including a comprehensive questionnaire that was sent to banks. As a result, in order to further reduce non-performing loans, in 2017, the National Bank developed a draft-strategy with draft measures and actions for improving non-performing loan management, including their alienation, whose implementation requires an interinstitutional coordination. In the first half of 2018, the NBRM and the Ministry of Finance finalized the consultation process with all stakeholders. The Government of the Republic of Macedonia on its meeting on 20 December 2018, has adopted this Strategy.

The NBRM has already taken specific actions to implement some of the proposed measures including the development of a registry of assets foreclosed by banks for sale, clarification of the definition of write-off, greater focus of the on-site supervision on the banks' internal policies on lending, non-performing loans, etc. Also, starting from July 2019, banks will be required to transfer all non-performing loans that are fully booked for more than 1 year (opposite to the current 2-year requirement) to the off-balance sheet evidence.

b) In the period from mid-2009 to 2015, there was a trend of intensive denarisation on both sides of the banks' balance sheet, which was mainly driven by the denarization on the liabilities side, followed by the denarization on the assets side. During this period, the share of deposits with foreign currency component in total deposits declined by about 18 p.p., while the share of loans with foreign currency component in total loans decreased by about 11 p.p.. The switch in the currency preferences of entities towards savings in denars can be explained by several factors. Besides credible macroeconomic policies oriented towards maintaining macroeconomic stability and safe and sound banking sector, there are also other factors such as strengthened fundamentals of the domestic economy, higher yield on domestic currency instruments, crisis in the euro area, efforts made to develop domestic financial markets, and wide range of macro-prudential measures taken by the NBRM in this period aimed at promoting domestic currency.

The NBRM significantly supported the process of denarization mainly through changes in reserve requirement, which in this period has been actively used as a macroprudential tool and instrument to support denarization. Uncertainty about the political situation and speculations about the exchange rate and the banking system stability during the second quarter of 2016 interrupted the positive trend. Yet, the share of deposits with foreign currency component slightly increased (by around 1.5 p.p. in the second quarter of 2016), then stabilized, and reversed to the pre-crisis level, which was broadly maintained during 2017-18. In this context, it is worth mentioning that the benefits of the multiyear process of deeuroisation were maintained despite the external and internal shocks.

In 2016, the NBRM prepared a list of draft measures to further support the deeuroization process of the economy, and in 2017, the NBRM drafted a deeuroisation strategy aimed at further strengthening of the confidence in the domestic currency, which is aimed at supporting the monetary strategy of targeting the denar exchange rate and further maintaining of the financial stability. The draft strategy specifies several measures, as well as involvement of other competent institutions. In the first half of 2018, the NBRM and Ministry of Finance have finalized the process of inter-institutional review of the draft Strategy. The Government of the Republic of Macedonia on its meeting on 20 December 2018, has adopted this Strategy.

c) Monetary policy in 2018 has been focused on preserving price stability by maintaining a stable exchange rate of the denar against the euro. Against the backdrop of low inflation, favorable balance of payments position, stable foreign exchange market developments, positive movements of banks' deposits, the policy rate was reduced three times - in March, August and December. The NBRM will continue to carefully monitor the developments, internal and external risks, and will remain ready to adequately respond and maintain price stability in the economy.

G 4: Prepare risk assessments focusing on sectors and branches most vulnerable to informalities and identify and apply appropriate corrective measures.

As of 2018, progress has been made with regard to activities related to the informal economy.

In March 2018, the first medium-term Strategy for Formalization of the Informal Economy 2018–2022 was adopted. It aims to reduce the number of informally employed (both in informal and formal businesses, as well as within households), and to reduce the share of unregistered business entities and informal activities within the formal economy. Due to the complexity of the informal economy, the Strategy unites all relevant aspects of many sectoral policies, such as improving regulatory and business environment, enhancement of the institutions in the labour market, increasing the inspection of informal economy flows and raising the awareness of citizens and businesses about the importance of formalization of informal activities. The Strategy is aimed at:

- Improving the process of measuring, monitoring and detection of the informal economy;
- Better business environment for establishment, growth and development of companies;
- Stimulating and supporting the formalization of the informal economic activities; and
- Strengthening the tax morale and lowering the tolerance towards the informal economy.

For implementation of the strategy, the Action Plan for Formalization of the Informal Economy 2018–2020 was adopted in August 2018 containing 29 measures. Also, in September 2018, a Coordinative Body was established to monitor the implementation of the Action Plan. The first information on the implementation of the Action Plan for Formalization of the Informal Economy will be submitted to the Government in April 2019.

G 5: Clarify the mandate of each inspectorate to avoid overlap and put in place and apply transparent and consistent procedures. Create a register of para-fiscal charges on central and local levels that clearly states the purpose of each charge and make it publically available. Strengthen the institutional capacity of civil courts to uphold contracts and handle commercial disputes within a reasonable time and at reasonable costs.

In November 2018, the draft new Law on Inspection Supervision was published on ENER. It will specify the mandate of each inspectorate to avoid overlap and to establish and apply transparent and consistent policies.

Within the Modernizing the Inspection Authorities Project, a horizontal functional analysis of the inspection authorities was carried out. The report of this analysis contains findings on the position of the inspection authorities in the system of state

regulation, their interconnection and competences, as well as recommendations for improvement (optimization) of the institutional capacities, efficiency and effectiveness of the inspection services, in order to perform distinct, transparent and consistent procedures. These findings and recommendations will be incorporated in the Proposal for a new classification and organizational setup of the state administration bodies, agencies and inspection authorities from the central government. An Action Plan was prepared for this activity.

The process of preparing a parafiscal charges registry began with the development of a Catalogue of Services. At the beginning, the Catalogue will cover about 340 services resulting from 52 laws (charges and administrative fees will be included for each service). These are laws that describe administrative procedures. The process consists of three stages: data entry, verification and approval. As of October 2018 inclusive, the data entry phase has been completed. The verification phase is underway, when the required data (fees and charges) is entered, which is expected to end in the first quarter of 2019.

In order to prepare a complete Catalogue of services, technical assistance is provided for entering data from other laws that are related to services for citizens, but also for businesses. The catalogue is expected to be prepared in the first half of 2019.

The strengthening of the institutional capacity of the civil courts began with the Analysis of the Judicial Network. During this activity, it has been noted that for optimization of courts, there is a need for additional analyses, as well as assistance from experts. The preliminary draft version of the Judicial Network Analysis has been prepared and submitted to the foreign experts for comments. Preparation of a draft Human Resources Strategy for the Judiciary is envisaged by the end of 2019. After receiving comments from foreign experts, the recommendations from the analysis will be discussed on public debates.

G 6: Modernise the education system at all levels by further improving the infrastructure, curricula and teacher qualification. Pursue the reform of the VET system to facilitate school-to-work transition. Facilitate women's access to the labour market and ensure sufficient capacity of the Employment Service Agency for implementing the Youth Guarantee. Adopt the law on social protection to better target those at risk of social exclusion. Increase enrolment in pre-school education.

A. Below is an overview of activities to modernize the education system presented separately for each level of education.

In PRESCHOOL EDUCATION:

a) In September 2018, Programme for Training of Educational Staff in Pre-School Education was developed by the Bureau for Development of Education (BDE).

b) In the period October 2018 - June 2019, BDE, in cooperation with MLSP, conducts trainings for education staff in pre-school education, to the end of uninterrupted continuation or renewal of working licenses of the staff in kindergartens.

c) Based on the Annual Work Program of the Sector for Professional Development, BDE monitors the quality of implementation of the Early Learning and Development Program and conducts expert insights and expert and advisory visits to kindergartens in order to provide appropriate advisory support to the educational staff in pre-school education. In the period April-December 2018, 40 kindergartens were visited.

IN PRIMARY AND SECONDARY EDUCATION:

d) the preparation of a document - National standard for achievements of pupils in elementary education is in progress. A working group has been established that works on the National Standard, which is based on the key competences for lifelong learning defined by the European Commission (language literacy, communication in foreign language, mathematical, scientific and technological competences, digital literacy, learning how to learn, personal, social and civic competences, entrepreneurial competences, cultural and intercultural competences). Based on the national competence-based standard, new primary education curricula will be further developed.

e) a second version of the draft text of the new Law on Primary Education was prepared, based on the comments received from teachers, civil society, international partners, etc. through ENER and the Ministry of Education and Science website.

f) a Working Group was established to prepare a new text of the Law on Secondary Education.

g) BDE has developed new curricula for the subject Civic Education for VIII and IX grade primary education and for 1 year vocational secondary education. The curriculum for VIII grade² started to apply from September 2018, while the one for IX grade will begin to apply from September 2019. The civic education curriculum for 1 year secondary vocational education is applied in 6 pilot schools since September 2018. The programs were based on a Civil competences document prepared by an expert team comprised of representatives from the Ministry of Education and Science, BDE, the Centre for Vocational Education and Training, Civic Education teachers, university professors and representatives of the civil sector.

h) In the period November-December 2018, 15 trainings were held for all Civic Education teachers (353) in primary schools, in order to strengthen their competences for realization of the new curriculum in VIII grade, as well as to introduce them to the new approach to teaching with active involvement of students.

i) Through 44 visits in 2018, BDE monitored the implementation of the Curriculum for Civic Education and provided advise consultations to teaching staff from primary and secondary schools.

j) in accordance with the Annual Program for Training of Elementary and Secondary School Teachers for 2018 and the Analysis of Teacher Needs (conducted by BDE), in 2018 training was provided for all teachers in secondary education (about 7000) by

² http://bro.gov.mk/docs/osnovno-obrazovanie/nastavni_programi/VIII-IX/Nastavna_programa-Gragjansko_obrazovanie-VIII.pdf

three accredited providers, on the topic "Teaching and learning in the 21st century, creating innovative schools: preparing students for the 21st century".

k) In 2018, an Inclusive Education Survey was conducted covering 367 primary schools, 293 of which teach in Macedonian and 74 in Albanian language. The report is completed and is being technically edited and printed.

IMPROVEMENT OF INFRASTRUCTURE CONDITIONS:

l) construction of three new primary schools: "Cyril and Methodius" in Falishe, Tetovo, "Vera Jovic" in Skopje and "Miladinov Brothers" in Mogila has been completed. The construction of two new schools, "Dimitar Makedonski" in Skopje and a school in the municipality of Studenichani is under way.

m) The construction of five school gyms ("Pero Nakov", Kumanovo, "Mustafa Kemal Atatürk", Gostivar, "Tode Hadzi-Tefov", Kavadarci, "Straso Pindzur", Valandovo and "Sabedin Bajrami" in the municipality of Bogovinje) has been completed. 11 school gyms are under construction, in: Vinica, Kumanovo, Chashka, v. Labunista - Struga, Sipkovic, Lipkovo, two in Saraj, Dojran, Ohrid and Struga.

n) reconstruction of 16 schools has commenced ("Bajram Shabani" - v. Kondovo, "Toso Arsov" - Stip, "Nikola Karev" - Probistip, "Bajram Shabani" - Kumanovo, "Jeronim de Rada" - Kumanovo, "Miladinov brothers" - Probistip, "Krste P. Misirkov" - Orizari, "Lazo Angelovski" - Skopje, "Naum N. Borce" - Madzari, "Perparimi" - village Cegrane, "Panajot Ginovski" - Butel, "Vasil Glavinov" Chair, Kuzman Shapkarev Primary School - Drachevo, "Dimka Angelov Gaberot" - Demir Kapija, "Josip Broz Tito" - Radozhda, Struga, "Vasil Glavinov" - Skopje and SOU Gostivar).

REFORM OF THE VOCATIONAL EDUCATION SYSTEM

a) all 152 occupational standards have been adopted, while all 52 standards for qualifications for technical education have been developed and are being reviewed by sectoral qualification committees, after which they will be adopted by the National Board for the National Qualifications Framework (NQF).

b) curriculum has been adopted for all 52 qualifications for technical education. According to the requirements of the labour market, a Methodology for preparation of modular curricula based on competences was adopted. For three pilot qualifications: construction technician, hotel and catering technician and electrical technician for computer technology and automation, new modularly designed curricula were developed based on the competences expressed with EQVET credits and points for subjects from the first to the fourth year. Currently, new modular curricula are under preparation for the remaining 49 qualifications for technical education.

c) new modularly designed curricula based on competences have been adopted for the first-year secondary school subjects in secondary education, which are piloted in six schools from the school year 2018/2019 in the three profiles: construction technician, hotel and catering technician and electrical technician for computer technology and automation.

d) 63 workshops for 1,870 participants (directors, teachers and professional associates) from all secondary vocational schools were held, about the manner of implementation of the reform process of technical education and for realization of modular curricula based on competences in 2018. In addition, BDE conducted training for teachers who teach general education subjects at the six pilot schools.

f) curricula have been adopted for the dual system of vocational education that have been applied in two pilot schools since September 2018.

g) the preparation of special standards for equipment and spatial conditions at employers for selected priority qualifications is at its final stage.

h) Focus group meetings were held for strengthening the cooperation between vocational schools and employers for greater involvement of students in practical training in companies.

i) The finalization of the Concept for Learning through Work, in cooperation with the European Training Foundation (ETF), is its final stage.

B. In order to facilitate women's access to the labour market and to provide sufficient capacity of the Employment Agency of the Republic of Macedonia (EARM) for the implementation of the Youth Guarantee, the following activities have been realized:

a) The National Action Plan for Employment 2018-2020 has been adopted. Activities that directly affect the facilitation of women's access are active labour market programs and measures, including the youth guarantee, as well as the activity to strengthen the mechanisms for protection against gender discrimination in access to and at the workplace, in accordance with international norms. Also, some of the other measures from the Action Plan will have a positive indirect impact on the activation of women in the labour market, although they are not targeted solely at women.

b) In the past period, training for 188 employees from 30 employment centres of EARM was held on the following topics:

- integrated case management,
- Implementation of the Labor Market Skills Survey for the period 2018-2019 and
- implementation of the Youth Guarantee Project.

c) to establish a separate Unit for support and employment of youth, within the Sector for Active Measures and Employment Services, the existing Rulebooks for internal organization and systematization of the working positions in EARM have been amended. Namely, amendments were made to the Rulebook on Internal Organization of the EARM and to the Rulebook on Systematization of Employment Agencies in EARM, which should be adopted by the Management Board of EARM in the

forthcoming period, and then adopted by the Government.

C. Regarding the adoption of the Law on Social Protection in order to better target those at risk of social exclusion, the following activities have been realized:

- a) the new Law on Social Protection was adopted at the 111th Government session held on 20 December 2018 and is in parliamentary procedure. It is expected to be adopted by the Parliament in the first quarter of 2019.
- b) a report on "The current situation and challenges in pre-school education" has been prepared.

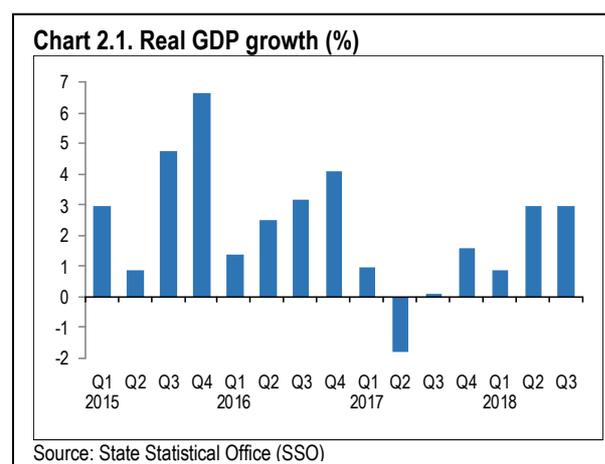
2. Macroeconomic framework

2.1. Recent economic developments

International Economic Environment³. Growth of the global economy is expected to be 3.7% in 2018, and it is expected to slow down to 3.5% in 2019 and 2020. Related to the previous Programme, the 2018 projection is unchanged, while the one for 2019 is downwardly revised by 0.2 pp, largely due to deterioration of the growth outlook for a number of emerging market economies, which have been hit by tightening financial conditions, geopolitical tensions and domestic policy uncertainty. Rising oil prices cast an additional shadow on the outlook for oil importers but imply an improvement for several oil-exporting countries. Recent US tariff measures are expected to dent China's GDP growth, although their impact should be partly offset by domestic economic policies. However, global economic growth is expected to remain stable due to the pro-cyclical fiscal stimulus and the strong labour market of the US economy. Over the next two years, GDP growth in advanced economies (excluding the EU) is expected to moderate, as the economic cycle matures and less support comes from monetary and fiscal policies. The positive effect of fiscal policy in the US in 2019 is expected to be offset by the negative effect of higher tariffs, and GDP growth is now expected to be moderately weaker than the previous forecast.

The EU economy is expected to grow by 2.1% in 2018 and to slowdown to 1.9% in 2019 and 1.8% in 2020. Amid growth deceleration of the global economy, domestic growth drivers in the EU are expected to be sufficient for economic activity to continue to grow and unemployment to decline. Labor market improvements and higher wage growth, as well as expansionary fiscal policy measures in some member states, should help maintain consumption growth over the next year. Investments are expected to be supported by favorable financial conditions despite the gradual normalization of monetary policy. However, growth prospects are generally exacerbated by the presence of a number of interconnected downward risks, such as rising trade tensions and the uncertainty of future EU and Great Britain relations after Brexit.

Recent economic developments in the Republic of Macedonia.

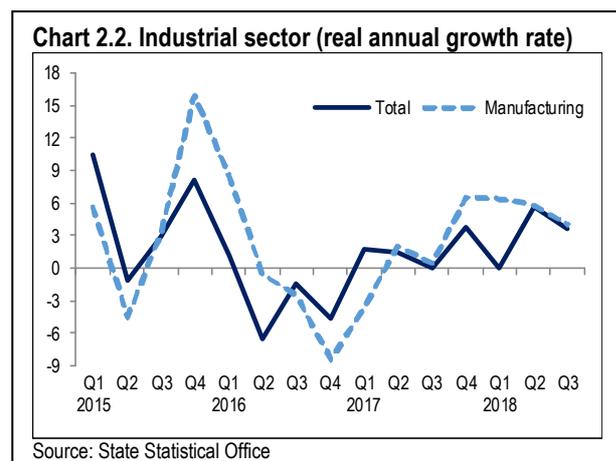


Gross domestic product. Following the sluggish growth at the beginning of the year, reflecting the trends in the construction sector, in particular the weaker realization of public investment, positive movements were recorded at the key sectors of the economy in the second and the third quarter. Hence, activity in the industrial sector continued to grow with a stronger intensity, whereby traditional industries had a positive contribution too. Growth in the services sector also intensified, with a more significant contribution of trade, transportation and food and accommodation services, while the decrease in the construction sector significantly slowed down.

Economic activity in the second and the third quarter in 2018 grew by 3.0% on annual basis, following the 0.9% growth in the first quarter (Chart 2.1), hence average growth was 2.3% in the first three quarters in 2018.

³ European Commission's autumn report "European Economic Forecast", November 2018.

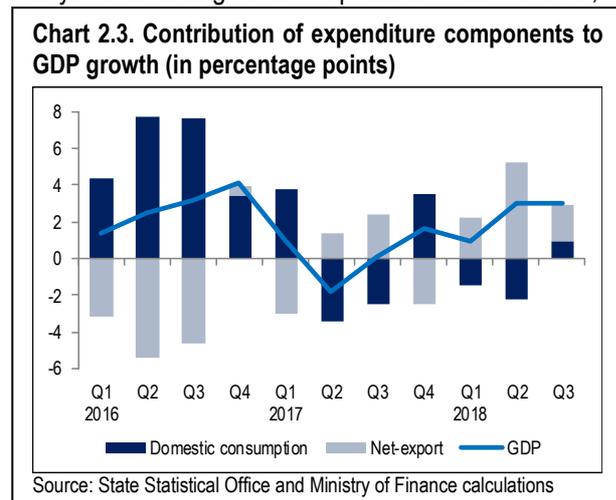
Analysed by sectors, economic growth in the first three quarters in 2018 was a result of the positive performance in the services and industrial sectors, while construction and agricultural sectors had negative contribution to growth. Services sector registered real growth of 4.0%, mostly as a result of intensified activity in trade, transportation and food and accommodation services by 9.7%. Industrial sector experienced real growth of 3.1%, as a result of growth in Manufacturing of 5.4% (Chart 2.2). According to high-frequency data, following had more significant contribution to growth in Manufacturing: Manufacture of machinery and equipment (16.3%), Manufacture of motor vehicles (29.1%), Manufacture of electrical equipment (20.6%), Manufacture of fabricated metal products (27.6%), Manufacture of furniture (25.3%), Manufacture of food products (2.9%), etc. The decline in Agricultural sector continued with weaker dynamics compared to the previous year, amounting to 7.4%. During this period, activity in the Construction sector experienced 7.6% decline in real terms, mostly as a result of the dropped construction activity as regards civil engineering structures.



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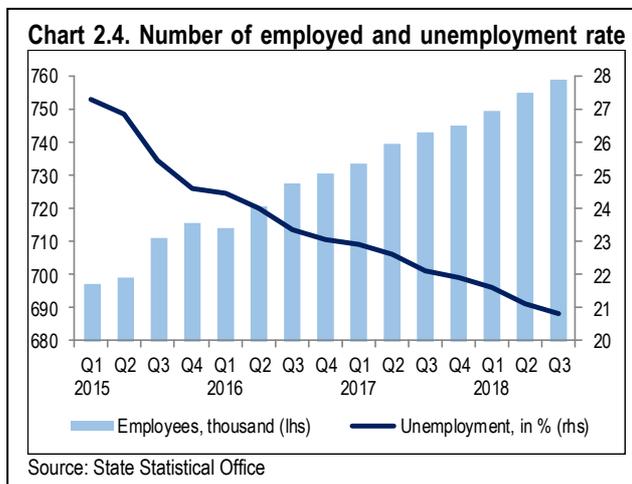
Analysed according to the expenditure side of GDP, economic activity growth in this period was a result of consumption growth, as well as the positive contribution of net export to economic growth. Export of goods and service grew by almost 13.0% in real terms, amid favourable trends in foreign demand, mainly as a result of new export capacities, also underpinned by solid performance of part of the traditional export segments, such as metal and food industry. Import of goods and services experienced significantly lower growth compared to export, i.e. 5.7% growth in real terms, hence net export significantly contributed to the economic growth (Chart 2.3).

Domestic demand, following the negative contribution in the first two quarters, had positive effect on economic growth in the third quarter, amid stronger growth of consumption and more moderate decline of investment demand (Chart 2.3). Consumption experienced 3.1% real growth in the first three quarters of 2018, with private consumption growing by 2.3% and public consumption increasing by 6.7%. Increase of private consumption was a result of increased wages and newly created jobs in the economy, underpinned by the increased credits to households. Gross investments in this period dropped by 11.3% in real terms, due to the decline of investments in construction works, in conditions of lower execution of public capital expenditures, while the strong inflow of FDIs and increased production and import of capital goods suggest favourable trends in private investments.

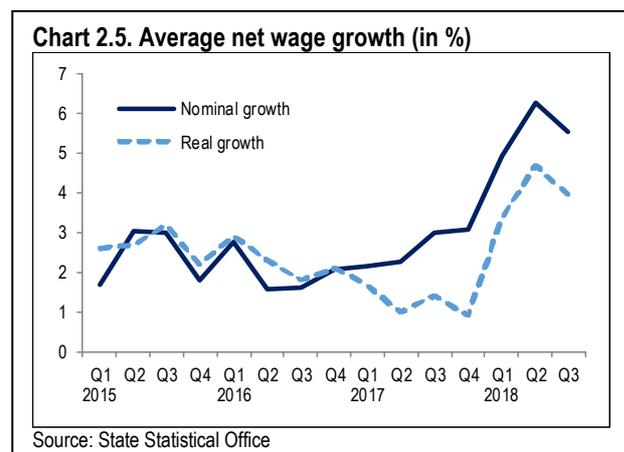


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Forecast for 2018. Positive movements in the second and the third quarter in 2018 were within the expectations. In the coming quarter, in conditions of intensified execution of public capital expenditures and keeping the positive signals related to private investments, as well as keeping



the high growth of export and the positive contribution of consumption to growth, certain intensification of economic growth is expected, therefore reaching the projected growth of 2.8% throughout the year.



Labour market. Positive trends on the labour market continued in 2018 (Chart 2.4.). In the third quarter of 2018 the unemployment rate decreased to 20.8% or by 1.3 p.p.(pp) compared to the same quarter in 2017, with unemployment registering a decrease for young people and females. The employment rate reached 45.1%, which is an increase of 0.9 pp. compared to the same quarter of 2017. The number of employed in the first three quarters increased by 2.1%, or by 15.7 thousand people compared to the same period of 2017, with employment increasing in all sectors, mostly in industry, especially in the manufacturing industry.

Average net wage in the period January-September 2018 grew by 5.6% in nominal terms and by 4.0% in real terms, which is an acceleration compared to previous years (Chart 2.5). The increase is due to increased wages in almost all sectors, with highest/double digit growth in the industrial sector (mining and manufacturing), ICT sector and food and accommodation services.

External Sector. The movements in the current account of the balance of payments in the first three quarters of 2018 are in line with the positive effects of the new production facilities on total exports, with simultaneous positive developments in some activities of the traditional manufacturing and services sector as well as with the

Table 2.1. Balance of payments

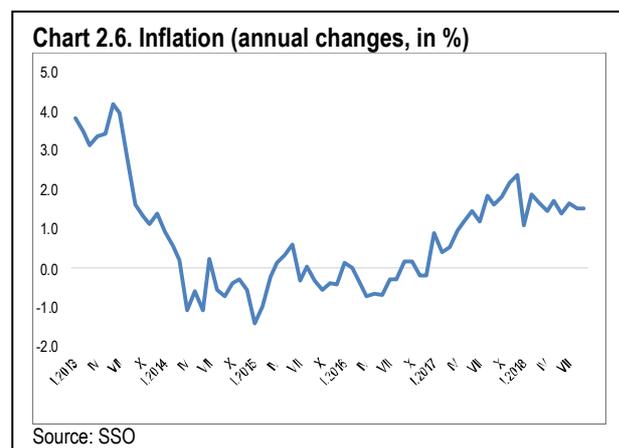
(% of GDP)	2014	2015	2016	2017	I-IX.2018
Current account deficit	-0.5	-2	-2.8	-1	0.9
Goods, net	-21.7	-20.1	-18.6	-17.8	-12.0
Services, net	4.5	3.8	3.5	3.7	3.9
Primary income, net	-1.9	-3.2	-3.9	-3.9	-3.1
Secondary income, net	18.6	17.4	16.3	16.9	12.1
Financial account, net (without foreign reserves)	5.1	-0.1	6.3	-0.5	3.0
FDI, net	2.3	2.2	3.3	1.8	2.9
Portfolio investments, net	5.6	0.7	4.4	-0.2	3.2

Source: NBRM, SSO, NBRM forecast for GDP in 2018.

movement of global prices of primary commodities. In the period January-September 2018, the current account registered a surplus of Euro 91 million (Euro 37 million deficit in the same period last year). The significant balance improvement stems from the improvement in the balance in trade of goods and services (especially services), as well as the increased net inflows in secondary income, while only primary income deficit expanded. Within the secondary income, the net purchased cash on the currency exchange market (through which the private transfers are approximated) was

higher by 8.4% compared to the same period last year.

In the first nine months of 2018, the financial account registered inflows mainly from portfolio investment i.e. the issue of new government bond early this year, as well as foreign direct investment (FDI). In the period January-September 2018, FDI, net, amounted to Euro 310 million, exceeding the amount in 2017 by about 72%. The high net inflows in FDI result from the favourable performance of all three components, primarily reinvested profit, intercompany debt and, to a lesser extent, equity capital.



At the end of September 2018, the gross foreign reserves were Euro 2,709 million, up 16% compared to the end of 2017, mainly due to the high NBRM purchase on the foreign exchange market and transactions on behalf of the government (issue of the new government Eurobond). Foreign reserves are maintained at an adequate level, providing an average import coverage of about four months in the next year.

Inflation. In the period January-September 2018, the average annual inflation equalled 1.5%. The

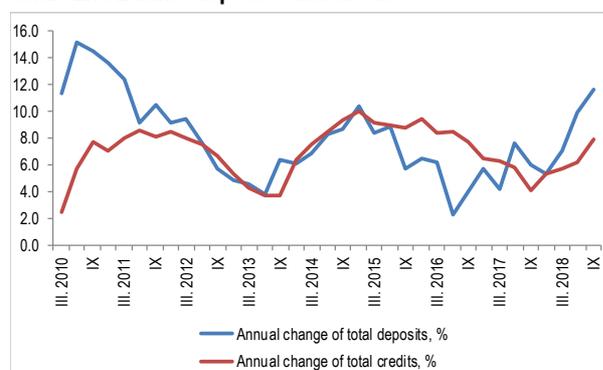
inflation is influenced by fuel prices, in line with their movements in world markets, as well as higher prices in food, alcoholic beverages, and tobacco. The average core inflation, which excludes variable categories (food and energy), equals 1.6% per annum (NBRM calculations). Analysing the structure, within the inflation index, the contribution of core inflation was 0.8 p.p., while the contribution of food and energy was 0.4 and 0.3 p.p., respectively. Transport services, as well as prices of alcoholic beverages and tobacco, have a significant contribution to the core inflation, herewith including the effects of one-off non-market price changes (higher tobacco excise duties). Thus, the average core inflation, excluding categories of unprocessed food, energy, liquid fuels and lubricants, and tobacco and alcoholic beverages is 0.9% (SSO).

Monetary Developments and Exchange Rate. In 2018, the monetary policy continued to be focused on preserving price stability by maintaining a stable exchange rate of the denar against the euro. In 2018, the monetary policy was eased by cutting the policy rate three times by 0.25 p.p., from 3.25% to 3% in March, to 2.75% in August and to 2.5% in December, which is a record low. This relaxation was done against the backdrop of moderate inflation, solid external position, favourable foreign exchange market movements and further stabilization of the expectations of the economic agents.

The annual growth of broad money M4 at the end of September 2018 was 11.7%, which is a significant acceleration compared to the growth at the end of 2017 (5.1%). Total private sector deposits significantly accelerated, in September they were higher by 11.6% on an annual basis (growth of 5.4% at the end of 2017). Analysing by sector, household deposits also accelerated by 8.4% (by 6.1% at the end of 2017), with simultaneous significant acceleration in corporate deposits which were higher by 16.8 % (by 2.1% at the end of 2017). In September, about half of the annual growth of total deposits resulted from the growth of household deposits.

From the currency viewpoint, at the end of September 2018, denar deposits (including demand deposits) registered a faster annual growth (13%), as opposed to the growth in foreign currency deposits (including deposits with currency clause) of 9.6%. At the end of September 2018, the growth in denar deposits (including demand deposits), constituted roughly two thirds of the annual growth of total deposits. Consequently, the share of deposits with foreign currency component (foreign currency and foreign currency clause) in total deposits at the end of the third quarter of 2018 was 40.6%, which is slightly below the level at the end of 2017 (40.9%), and it is still significantly lower compared to the level at the onset of the global crisis (of about 60%).

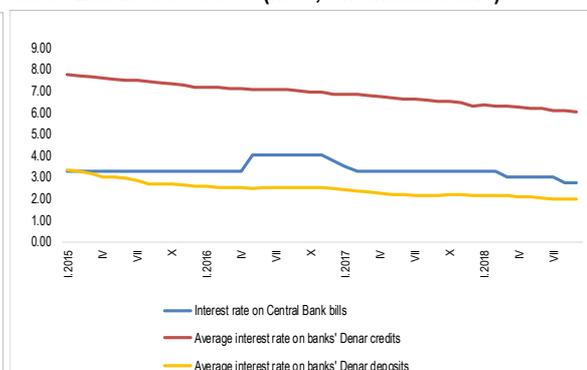
Chart 2.7. Banks' deposits and credits



Source: NBRM

* In the period VI.2016-VI.2017 corrected for the write-offs.

Chart 2.8. Interest rates (in %, on annual basis)



Source: NBRM

Bank loans to the private sector in the first three quarters of 2018 continued to grow and at the end of September 2018 they were by 7.9% higher annually, which is a moderate acceleration compared to the end of 2017 (growth of 5.4%). Household lending registered more intensive growth (10.1%) compared to corporate lending (growth of 5.7%), with significant acceleration of lending to companies in the third quarter.

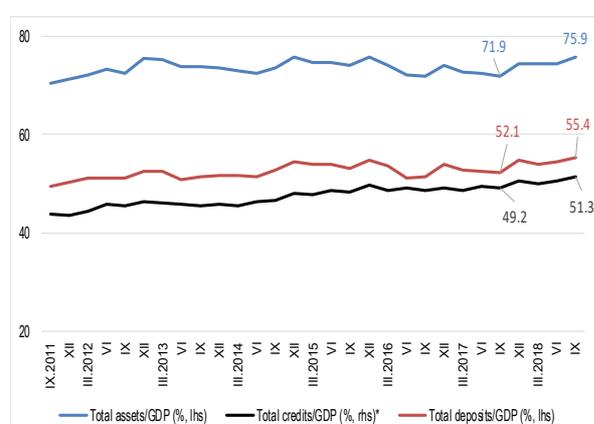
Interest rates in the banking sector were moderately decreased. The average weighted interest rates on denar loans and denar deposits were 6% and 2% per annum in September 2018, which compared to the end of 2017, is a decrease of 0.3 p.p. and 0.2 p.p., respectively. Consequently, interest rate spread was 4 p.p. and it was narrower compared to the end of 2017. In September 2018, the average interest rates on foreign currency loans and deposits equalled 4.8% and 0.8%, respectively, which is a decrease of 0.2 p.p. of the interest rates on foreign currency loans compared to the end of 2017, whereas the interest rates on foreign currency deposits remained almost unchanged, thus narrowing the interest rate spread (by 0.2 p.p.) to 4 p.p.. Interest rate

differential between denar and foreign currency deposit interest rate narrowed by 0.1 p.p. compared to December 2017, and in September 2018 it equalled 1.2 p.p..

Banking System. In 2017, banks retained their leading position in the financial system, making up 83% of the total assets of the financial system. Fifteen banks operate in the Republic of Macedonia, of which eleven are predominantly owned by foreign shareholders, and six are foreign bank subsidiaries. Foreign capital prevails (mainly from the EU), with share of about three-quarters of the total equity capital of the banking system.

In the first nine months of 2018, the banking system operated smoothly, despite the uncertainties surrounding the domestic and broader environment. The growth of banks' deposit base and lending activity continued, signalling stable expectations and increased confidence. The growth of bank assets accelerated to 10.1% (end-September 2018). The accelerated growth of activities mainly relies upon the deposit growth. At the end of September 2018, bank assets to GDP ratio was 75.9%, which is by 4 p.p. higher on an annual basis. On the backdrop of accelerated deposit growth, their share in GDP reached 55.4% and grew annually by 3.3 p.p., while total loans to GDP equalled 51.3%, which is an increase of 2.1 p.p. relative to the third quarter of 2017.

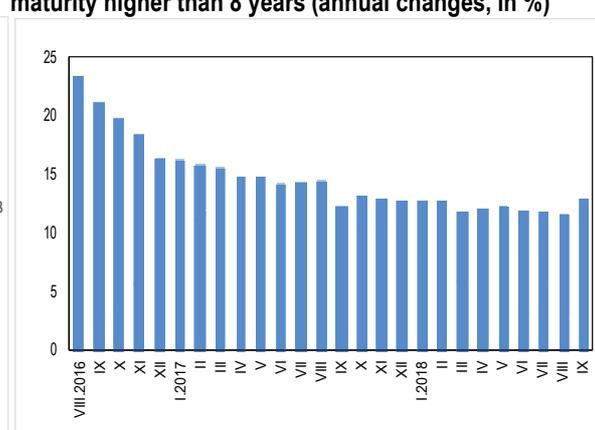
Chart 2.9. Financial intermediation (in %)



Source: NBRM

*Corrected for the write-offs in credits since mid-2016.

Chart 2.10. Consumers credits with contractual maturity higher than 8 years (annual changes, in %)



Source: NBRM

The results of the NBRM Bank Lending Survey in the first three quarters of 2018 indicate a net decrease in the demand for household loans, with a moderate, but slower growth in the demand for corporate loans, in conditions of further net-easing of the total credit standards in both sectors. The survey indicates continuation of the net easing of the credit standards for the approval of corporate loans in the interest rate and the non-interest income. Also, there is continued net easing of standards for approving households loans, mainly in terms of interest rate and to a certain extent, in the consumer loan maturity as well as non-interest expenses for housing and consumer loans. With these changes, banks continue to facilitate private sector access to finance. Banks indicated the competition from other banks as an important factor in the easing of credit standards, while factors that act in the opposite direction, although with moderate influence, include capital costs and risk of non-realization of the collateral.

Credit risk. In 2018, the credit risk indicators in the banking system improved. As of end-September 2018, non-performing to total loans ratio was 5%, which is by 1.6 p.p. lower compared to end-September 2017. Analysing by sector, the ratio of non-performing loans in households is low and stable (2.4%), while in the corporate sector, this ratio registered a downtrend to 7.7% as of end-September 2018. The decrease in the non-performing loans ratio in the corporate sector (by 2.7 p.p. compared to September 2017) was mostly due to the collection of non-performing claims. The majority of non-performing loans are corporate loans. The high coverage of non-performing loans with impairment, amid satisfactory volume and quality of the banks' own funds, limits the risks of default of these loans to the banks' solvency. Assuming full default of non-performing loans, the capital adequacy ratio would be reduced by only 0.9 p.p.. Regarding the draft Non-Performing Loans Resolution and Reduction Strategy in the first half of 2018 all stakeholders were consulted and at the end of the year the Strategy was adopted. The NBRM has already taken specific actions to implement some of the proposed measures.

The Macedonian banking system mainly operates on the domestic market, whereby the performance and the level of corporate and household debt are crucial for its stability, as well as for the other segments of the financial

system. In 2017, the corporate sector debt was increasing slowly, whereby its net external debt reduced for the first time in the last seven years, due to the growth of the loans granted by domestic corporate clients to non-residents. The annual growth rate of corporate debt of 4.2%, amid stalled economy, increased its share in GDP by 0.4 p.p.(to 67.2%) at the end of 2017 compared with the end of last year⁴. The absolute growth of corporate debt in 2017 was equally distributed among the external and the domestic component represented by the debt to banks. There is absence of domestic corporate financing by debt financial instruments in the financial markets. Also, in 2017, the household debt also increased to 24.4% of GDP (from 23.3% in 2016), but it is still at a relatively modest level. Household debt growth reflects the higher consumption of this sector, fuelled by the conducive labour market developments. Banks are the most significant lender to households, traditionally accounting for nearly 95% of the debt.

Profitability and efficiency of the banking system have been improving, whereby the earnings in the first nine months of 2018 were nearly 70% higher compared to the same period last year. ROAA and ROAE reached 2.2% and 19.5%, respectively. The largest contributors to the increase in earnings include the events of the first quarter of 2018, namely, the collection of larger amounts of non-performing claims and the capital gains from the sale of capital investment, as well as further collection and sale of foreclosed assets in the second and the third quarter of the year.

Table 1.2. Basic bank risks indicators (in %)

	2014Q4	2015Q4	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3
Capital adequacy										
Capital adequacy ratio	15.7	15.5	15.2	15.4	15.8	16.2	15.7	16.4	16.5	16.3
Asset quality										
Non-Performing Loans / gross loans (non-financial entities)	11.3	10.8	6.6	6.4	6.8	6.6	6.3	5.1	5.1	5
Total provisions to Non-Performing Loans (non-financial entities)	104.7	108.4	114.9	114.3	109.2	112	110.7	124	124.1	123.9
Profitability										
ROAA	0.8	1.1	1.5	1.5	1.4	1.4	1.4	3.1	2.4	2.2
ROAE	7.4	10.4	13.6	13.8	12.7	12.6	13.5	28	21.3	19.5
Operational costs / total income	55.5	51.6	49.8	50	50.8	50	48.7	42.2	44.6	45.7
Liquidity										
Liquid assets/total assets	33.2	31.4	30.9	30.4	29.7	29.5	29.8	30.4	30.1	30.6
Liquid assets to total short-term liabilities	59.2	54.9	53.5	53.4	51.5	51.6	51.7	53.5	52.7	53.7
Sensitivity to market risk										
Net foreign exchange position / owned funds	17.5	11.1	14.5	9.6	7.8	7.3	6.2	6.6	6.4	8.1

Source: NBRM.

The bank **solvency** is high and stable, with a capital adequacy ratio of 16.3% (September 2018). The Tier 1 is 14.9%, which is very close to the capital adequacy ratio, and indicates a satisfactory quality of the capital positions of the banking system. Aggregately, the banking system has capital available above the regulatory and supervisory requirement of 7.5% of the total own funds.

The **liquidity of the banking system** is satisfactory. The bank liquidity ratios remained stable, whereby liquid assets make up roughly one third of the banks' total assets, covering more than half of the short-term liabilities and nearly 60% of the total household deposits. Positive trends in the deposits of the banking system provide stable sources for financing the credit growth, which is better reflected by the movements of the loan to total deposit ratio, which aggregately moves around 87%.

The banking system maintained and strengthened its stability, as confirmed by the regular quarterly sensitivity tests, as well as the annual macro stress test conducted by the NBRM. The stress testing of the resilience of the banking system and individual banks in the Republic of Macedonia to simulated shocks in the third quarter of 2018 shows that the bank capital adequacy does not fall below 8% in any of the simulations. Hypothetical shocks regarding credit risk had the greatest impact on the stability of the banking system. Stress testing shows that the capital adequacy of the banking system would drop at 8% only if the non-performing credit exposure to non-financial entities rises by 229.6%, i.e. in case of migration of 15% from regular to non-performing credit exposure. This assumption is extreme, considering that in the third quarter, the growth of nonperforming exposure was 0.3%. Also, the analyses show that only 1.3% of regular credit exposure has received a non-performing status for a period of one year.

As part of the regular annual macro stress test for 2017⁵, besides the so-called top-down macro stress test (the NBRM performs this stress test completely and independently), a bottom-up stress test was also performed (six

⁴ Source: Financial Stability Report for the Republic of Macedonia in 2017, latest available data.

⁵ The regular annual macro stress test for 2017 was conducted within the FSAP mission of the IMF and the World Bank.

of the major banks in the system carry out stress test independently⁶). The stress scenario was rather extreme and assumed deterioration, of both the global and the domestic macroeconomic environment. The unfavourable developments are assumed to cause a GDP decline, which corresponds to a negative deviation of 2.5 standard deviations from the 3-year cumulative GDP growth in the last 15 years. The results of the stress test indicate a relatively high stability of the banking system, with some weaknesses when analysed on a bank basis. The necessary recapitalization of banks, amid any materialization of the assumed stress scenarios is 1.2% of GDP, which is considered⁷ fairly limited (small).

2.2. Medium-term macroeconomic scenario

Macroeconomic policy of the Republic of Macedonia is aimed at developing the economy and raising the living standard of citizens, by creating favourable business environment, supporting domestic enterprises, above all SMEs, stimulating investments, increasing employment through the active labour market measures, increasing the level of wages, as well as by strengthening the social protection system.

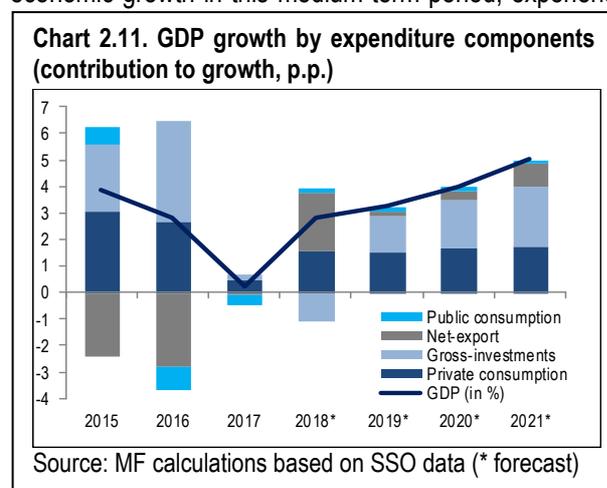
Gross Domestic Product. Increase of wages and employment in the private sector, underpinned by the government measures, accompanied by the expectations for low and stable inflation in the country, will contribute to increased private consumption. Continuous solid export by the new production capacities, as well as recovery of the traditional exporting sectors as a result of the strengthened economic activity in the trading partner countries, will contribute to increased export from Macedonia and greater utilization of the industrial capacities. Restoring the investors' confidence, better investment climate, opening of Euro-Atlantic perspectives, as well as acceleration of larger public infrastructure projects, will all provide for increased investment demand in the coming medium-term period.

Table 2.3. Comparison of GDP growth and inflation projections for Macedonia

Institution	Real GDP growth (%)				Inflation rate (%)			
	2018	2019	2020	2021	2018	2019	2020	2021
IMF	2,0	2,8	/	/	1,8	2,0	2,0	2,0
World bank	2,5	2,9	3,2	/	1,6	2,0	2,0	/
European Commission	2,1	2,8	3,1	/	1,6	2,0	2,1	/
EBRD	2,0	3,0	/	/	/	/	/	/
Vienna Institute	2,9	2,8	3,1	/	1,5	2,0	2,0	/
NBRM	2,3	3,5	3,8	4,0	1,6	2,0	2,0	2,0
Ministry of Finance	2,8	3,2	4,0	5,0	1,7	2,0	2,0	2,2

Source: IMF (Article IV Consultation, November 2018 and World Economic Outlook Database, October 2018), World Bank (Western Balkans Regular Economic Report No.14, October 2018), European Commission (European Economic Forecast, November 2018), EBRD (Regional Economic Prospects, November 2018), Vienna Institute (Forecast Report, November 2018) and NBRM (November 2018).

Hence, real GDP growth is expected to surge to 3.2% in 2019, and in the following two years to intensify further, reaching 4% in 2020 and 5% in 2021 (Table 2.3). Private consumption is envisaged to significantly contribute to economic growth in this medium-term period, experiencing average annual growth of 2.6% in real terms (Chart 2.11). Growth of private consumption is related to the expected growth of employment in the private sector, the gradual increase of wages, as well as the measures aimed at strengthening the social protection, which are to result in increase of the household disposable income. Private consumption is expected to be also underpinned by the envisaged increase of credits to households. Real growth of public consumption in this period is projected at 1.0% in average.



Growth of private consumption is related to the expected growth of employment in the private sector, the gradual increase of wages, as well as the measures aimed at strengthening the social protection, which are to result in increase of the household disposable income. Private consumption is expected to be also underpinned by the envisaged increase of credits to households. Real growth of public consumption in this period is projected at 1.0% in average.

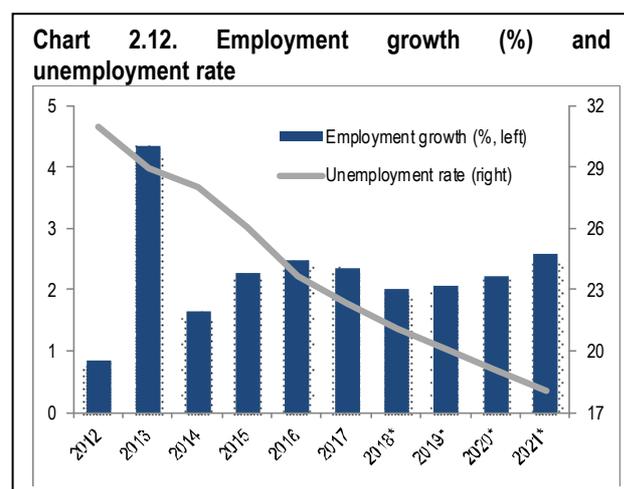
Growth of gross investments in the period 2019-2021 is projected at 5.5% in real terms in average. Planned investments in the public sector, as well as the support to investment activity of the domestic and the

⁶ Banks made the tests applying stress scenarios created by the FSAP staff.

⁷ By the FSAP staff.

foreign companies, are expected to have positive contribution to investment growth. Restoring the confidence of the economic agents, improving the business climate and the government measures for stimulating investments are significant factors to attaining the projected growth of gross-investments (Chart 2.11).

Net export in the coming medium term is expected to have a positive contribution to economic activity growth. Export of goods and services is projected to experience real growth of almost 9.0% in average, as a result of the projections for increased export potential of the country, with expected increase of the export capacities, recovery of the traditional export sectors, amid expected growth of foreign demand and favourable trends of prices of metals on the medium run. Projected growth of domestic demand and export activity provides for growth of import of goods and services which, in this period, is expected to experience almost 7.0% real growth in average.



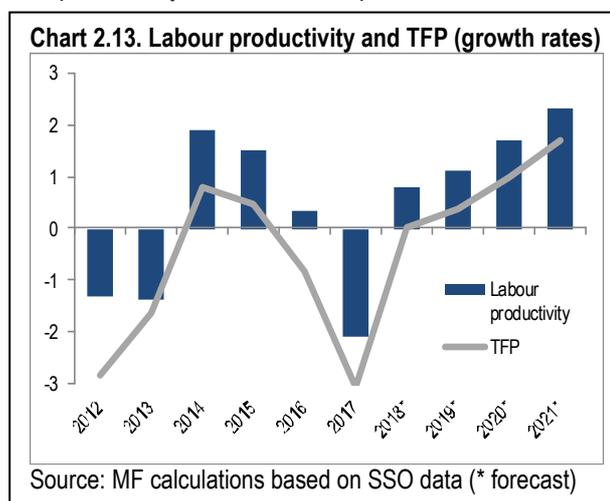
Labour market. Envisaged increase of the economic activity in the coming medium-term period is expected to be accompanied by employment increase, boosted by the active employment measures and programs, support to the domestic and the foreign companies for job creation, as well as other measures aimed at unemployment reduction.

According to the projections, number of employed persons is expected to increase by 2.3% in average annually in the period 2019 - 2021. Increase of demand in this period is expected to also reflect on the labour supply, projected to increase by 1.0% annually in average. Such trends on the labour

market will provide for the average unemployment rate to drop to around 18% in 2021 (Chart 2.12). Increase of average net wage in this period is expected to be 4.2% annually in nominal terms.

Sources of Growth. Total Factor Productivity (TFP)⁸ is envisaged to have neutral contribution to the economic growth in 2018, in conditions of expected decline of investments in fixed assets and strong growth in the number of employees. Chart 2.13. shows the growth of both labour productivity and TFP in the period 2012-2021. In the period 2019 - 2021, growth of productivity of production factors is expected to move to the positive zone. TFP contribution to growth in this period has an average share of 25.4%. Labour is expected to contribute to economic growth with 36.2%. Physical capital, according to the projections on investment growth, in the analysed period, is expected to grow by 4.4% in average, contributing with 38.4% to total economic growth.

Potential Growth. Calculation of potential output is a basis for estimating the cyclical position of the economy. Two methods are used to calculate the potential output. The first group of methods, called statistical methods (a-theoretical), is based on historical data on real GDP, whereby Hodrick-Prescott (HP) filter and Christiano-Fitzgerald (CF) filter are applied. Potential GDP growth, according to HP filter, is estimated at 3.1%, while according to CF filter, it is estimated at 3.3%. According to the Production Function Approach (PFA), applied by the European Commission⁹, potential GDP growth is estimated at 3.0% in the analysed period. Results from the calculation of potential output are presented in the charts below, as well as in Table 5 in Annex 3.

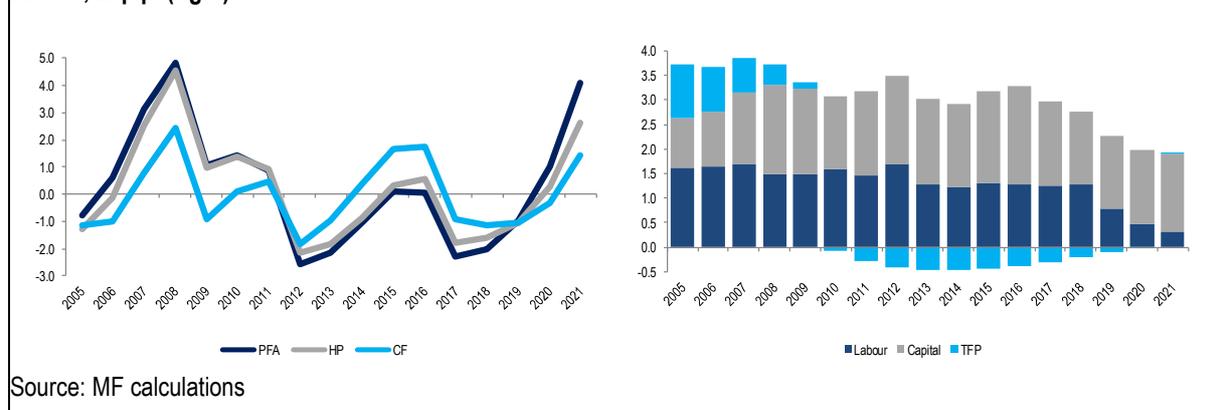


⁸ TFP is residual of growth of other factors to economic growth, labour and capital. As regards the calculation of physical capital, the so-called perpetual inventory method has been applied (see Berlemann and Wesselhöft, Estimating Aggregate Capital Stocks Using the Perpetual Inventory Method, 2014), by applying 4% depreciation rate to the accumulated capital. Average value of the share of income from capital is estimated at 36%, while the remainder of the income is from labour.

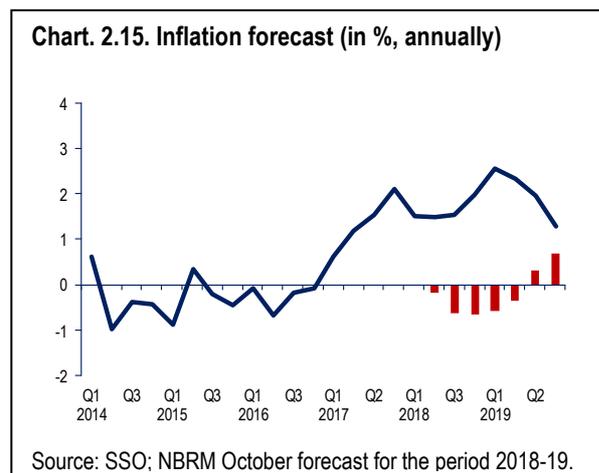
⁹ Based on the study of Havik et al, The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps, 2014.

According to the projections on GDP growth in the coming medium-term period and the estimations of the potential output developments, cyclical component of output is in the negative zone in 2018. In 2019, output gap remains negative according to both methods, however, it is narrowed compared to 2018. As for 2020, output gap is expected to move to the positive zone¹⁰ and to remain positive in 2021 as well, whereby the calculations based on the Production Function Approach suggest a higher gap compared to the statistical methods.

Chart 2.14. Output gap, in % of potential output (left) and contribution to potential output growth of production factors, in p.p. (right)



Inflation. Global and domestic inflation factors in the medium term point to stable inflation trends. Foreign effective inflation¹¹ for 2018 is estimated at 2.1% (which is higher compared to last year's scenario of 1.4%, and partially reflects the higher oil prices on the world markets). In 2019, foreign inflation is expected to decelerate moderately to 1.8%, and to equal 1.9% in 2020.



In the last quarter of 2018, the average annual inflation rate in the Macedonian economy is expected to remain low. Consequently, the average inflation rate in 2018 is expected to be around 1.6%. Analysing the components, the slightly higher average price level compared to the previous year is a reflection of the upward changes in energy prices (in line with the increased world fuel prices) as well as the higher core inflation (which in one part was driven by one-time non-market factors). Compared to last year's scenario (around 2% inflation), the inflation expectations for 2018 in this scenario are slightly lower.

For 2019, there are expectations for moderate increase in the price level and inflation of about 2%.

The increase in consumer prices is expected to come largely from the intensification of food inflation, in line with the forecast growth in world prices of some primary food commodities. Also, the core inflation will make positive contribution, amid improved domestic demand. Energy inflation is expected to make a small positive contribution, in line with the expectations for a somewhat slower rise in energy prices compared to 2018 (expectations for stabilization of the rise in oil prices on world markets, after its significant growth in 2018). In the next two years, the rate of inflation is expected to stabilize to the historical average of around 2%. Risks to the forecasted inflation trajectory are mainly attributable to the uncertainty about the movements in the prices of global primary commodities and their potential effect on the global supply.

Monetary and exchange rate policies. Monetary policy is oriented towards preserving price stability by maintaining a stable exchange rate of the denar against the euro. In 2018, the policy rate was cut three times by 0.25 p.p., from 3.25% to 3% in March, to 2.75% in August and to 2.5% in December. This relaxation came in conditions of low and stable inflation (as expected), solid external position and stable foreign exchange market

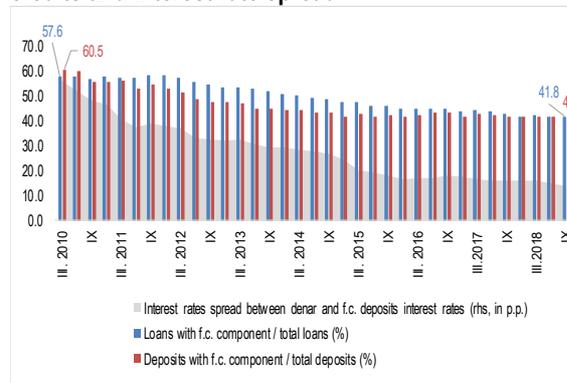
¹⁰ Except the gap calculated on the basis of the CF filter.

¹¹ The calculation of effective foreign inflation is derived from a weighted sum of the consumer price indices of nine countries - major exporters of products for personal consumption in the Republic of Macedonia. Weighted structure is based on normalized shares of nominal imports from each country in the total nominal imports in the period 2010-2012.

movements, as well as positive movements with banks' deposits. In March 2018, the cut in the policy rate was followed by a corresponding decrease in the interest rates on the NBRM deposit facilities for banks (seven-day deposits and overnight deposits from 0.5% and 0.25% to 0.30% and 0.15%, respectively), thus further emphasizing their role of instruments for managing excess liquidity in the short run.

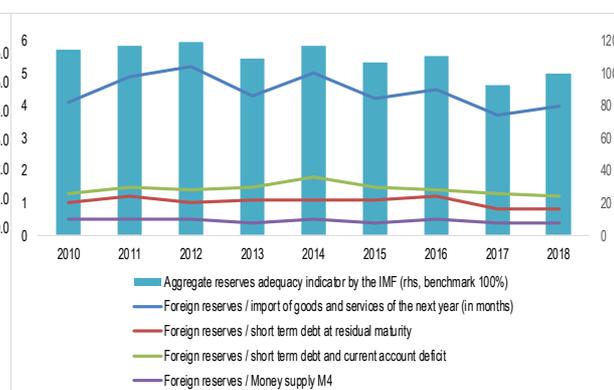
The NBRM continuously monitors the movements in the currency structure of deposits and loans, as well as in the interest differential for instruments in domestic and foreign currency. In this light, multiple changes have been made in reserve requirement rates in recent years, generally aimed towards cutting reserve requirement rates on denar liabilities (and in a longer term) which, through cost reductions, would affect the dynamics and share of denar deposits, accordingly. Political instability and speculative attacks in the period April - May 2016 were assessed to have short-term adverse effects on the currency structure of deposits (small increase in the share of deposits with foreign currency component of 1.5 p.p. in the second quarter of 2016 and thereafter, their restoration to the pre crisis level), although the trend of denarization ceased, which was also evident in the period 2017-2018. Maintaining the benefits from deeuroization in recent years in turn increases the credibility of the monetary policy that aims towards stability of the exchange rate of the denar against the euro. Additionally, in 2017, a Draft deeuroization strategy was developed including draft measures for a comprehensive treatment of this issue, while during first half of 2018, consultations with the stakeholders were made and at the end of the year the Strategy has been adopted.

Chart 2.16 Currency structure of banks' deposits and credits and interest rate spread



Source: NBRM.

Chart 2.17. Foreign reserves adequacy indicators



Source: NBRM calculations, estimation for 2018.

Observing the set of monetary policy instruments, the measure that released banks from reserve requirements on loans to export and energy sector, which has been in effect since early 2013 and supported credit growth, continued in 2018. Due to the positive effects on the banks' lending activity, at the end of 2015, the application of this non-standard measure was extended until the end of 2017, when, given the moderately decelerated lending activity, it was extended once again, until 2019. In the last six years, the sector-by-sector analysis shows predominance of loans to net-exporters, while loans for electricity production started to be approved more intensively in 2016. Besides the support for the credit growth, favourable effects for the clients of this measure include other aspects related to lending to these sectors, such as banks' active orientation towards increasing the credit support, availability of loans for a larger number of businesses, and easing of some credit standards.

In the next three years, the monetary policy will remain oriented towards preserving price stability by maintaining a stable exchange rate of the denar against the euro. The results of the evaluation models of equilibrium denar real effective exchange rate¹² as of the last quarter of 2017, did not indicate major deviations from the equilibrium, and were maintained within acceptable limits of +/-3% in the period 2003-2017, suggesting moderate exchange rate undervaluation during 2017¹³. Regarding the conduct of monetary policy, it is important to mention the results of the monetary transmission models that, with the latest update as of 2017, indicate continuous

¹² According to the BEER (behavioural equilibrium exchange rate) approach for assessment of the equilibrium denar exchange rate, which is based on a narrower definition of the real effective exchange rate and is designed on the basis of the five EU major trading partners of the Republic of Macedonia. Models (set by different specification and evaluated by various techniques), include differential in productivity, trade openness, public consumption and total net foreign assets, as independent variables.

¹³ The IMF analyses denies any significant deviation of the real exchange rate (IMF Staff Report 2017, Article IV, Consultation, November 2017, p.38). According to the IMF methodology, deviation from the equilibrium of +/- 5% indicates that generally, the external position is consistent with the fundamentals and there is an adequate policy setup.

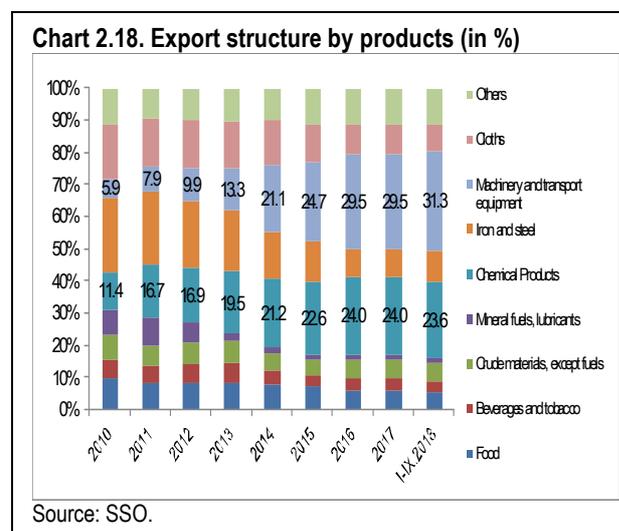
improvement in the interest rate transmission channel from the policy rate to banks' interest rates (improvement in the transmission on lending and deposit interest rates amid higher transmission effect on deposit rates).

Against the backdrop of turbulent external setup in recent period, the monetary policy has confirmed its flexibility and appropriately adjusted its monetary instruments towards promoting credit growth, strengthening deposits in denar and on a long term, while achieving its primary and intermediary monetary objective. In this context, the monetary policy provided sufficient stimulus, that supported credit growth recovery, and some of the measures, particularly those related to the currency structure and savings maturity, are expected to produce effects in the next period. In 2016, the monetary policy showed readiness to deal with the aftermath of the domestic political shock whose effects were short-lived. In 2017-2018, inflation remained low, under the dominant influence of global factors on the supply side and moderate growth in core inflation. Foreign exchange reserves have been maintained at an adequate level, as measured by different indicators, indicating readiness for absorption of any shock. According to the forecasts of other economic segments, in the next three years, we can expect low and stable inflation and generally favourable movements in the foreign exchange market, yet accompanied by risks. Fiscal policy, and in particular the way of financing budget deficit and the implementation of the announced fiscal consolidation in the period ahead remain a significant factor for the monetary policy environment. External sector developments, import structure and effects on the foreign exchange market and foreign reserves, will remain as crucial factors for the monetary setup in future. In addition, there will be regular monitoring of the pace and structure of credit growth in terms of consumer lending vis-a-vis investment lending, and of the movement of deposits and interest rate spreads. Monetary authorities remain ready to take appropriate measures, if necessary, to maintain price stability in the economy.

Banks' deposits and credits forecast. There are assessments for significant acceleration of the banks' deposit growth for 2018 amid stabilized expectations of economic agents, with deposit growth estimated at 10.2% per annum (about 6% in the last year's scenario). According to the expected economic growth, the balance of payments' inflows forecast, and improved expectations of economic agents, in the next two years, there are assumptions for increase in the potential and propensity for saving in banks, and hence, deposit growth of about 7.7% in 2019 (amid high base effect) and acceleration to 8.6% on average for 2020-2021.

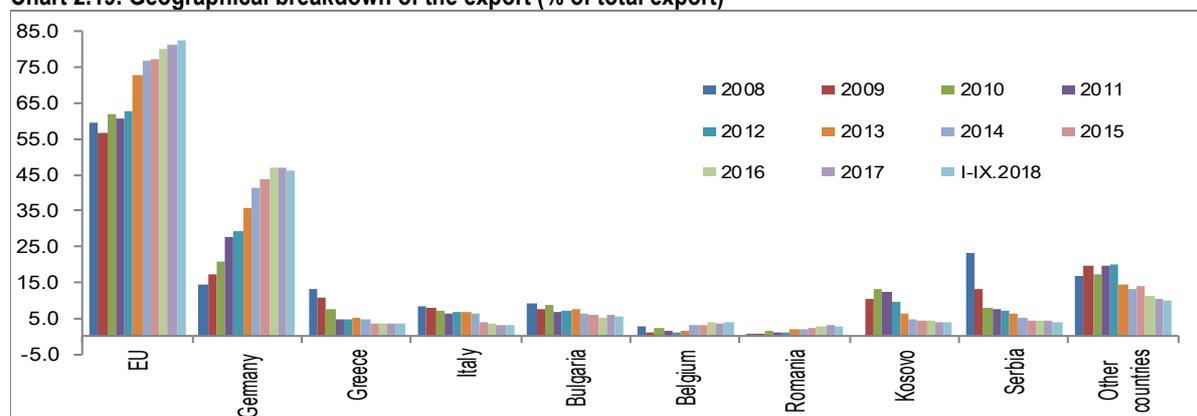
In 2018, there was moderate acceleration of credit growth, with expected credit growth of 8.4% at the end of the year (around 7% in the last year's scenario). The credit activity of the banking sector in the next three-year period is expected to be an important factor supporting the growth of private consumption and investment. Further credit growth of about 8.5% is expected for 2019-2021, as a reflection of the increased credit supply and the increased readiness of the private sector for additional borrowing. Thus, amid solid solvency and liquidity, stable environment and sufficiently available sources of financing, banks are expected to provide greater credit support for both the households and the corporate sector. Higher disposable income and favourable expectations are estimated to further support the credit demand and the credit ability of economic agents. The measures undertaken by the NBRM are further expected to produce favourable effects on the savings and credit activity.

External sector and sustainability in the medium term. Movements in the current account of the balance of payments of the Republic of Macedonia still follow the structural changes in the economy in recent years, thus strengthening the export sector and improving the current account balance. The current account deficit in the period 2010-2017 averaged 2% of GDP (despite the previous multiyear average of about 6%). According to the trends and estimates for the last quarter of 2018, the current account deficit for 2018 is estimated at 0.5% of GDP, which is narrower compared to the previous year (1% of GDP). The estimated deficit for 2018 is lower than the expectations in the last year's macroeconomic scenario presented in the last year's ERP (1.8% of GDP). Stable current account performance points to strengthened economic fundamentals and greater external sector resilience to domestic and external shocks.



In the period January-September 2018, the total trade deficit¹⁴ slightly expanded (by 1.3%), amid faster annual export growth of 14.9% relative to the import growth of 11.4% (yet amid slightly higher absolute import growth). Exports increased mainly due to the higher export of machinery and transport equipment, and chemicals, which mainly reflects the effect of the new foreign-owned export facilities. Positive contribution was also made by some traditional sectors (iron and steel exports, in particular). Imports increased mainly due to the higher import of raw materials, equipment and energy (amid unfavourable oil price effect). The highest trade deficit in goods in the period under observation was registered in the trade with the Great Britain, whereas the highest surplus was registered in the trade with Germany.

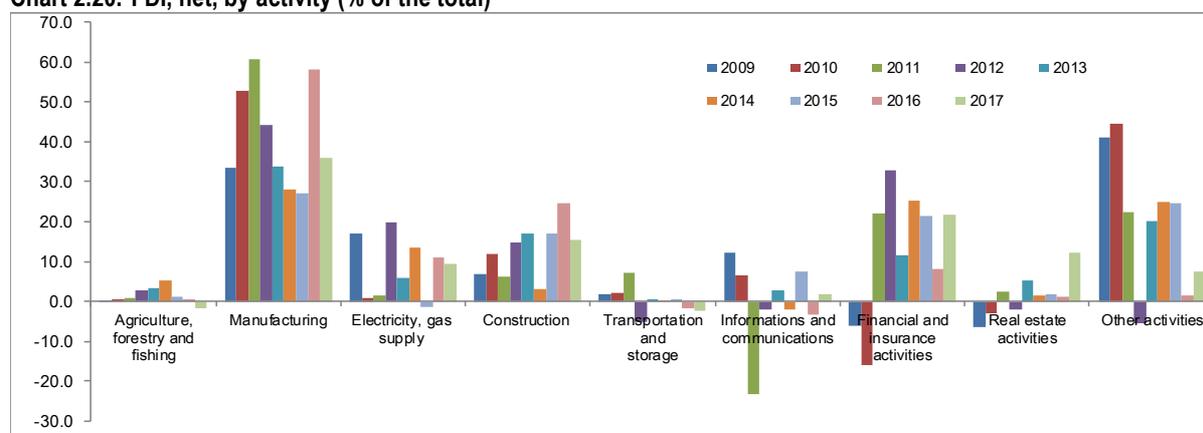
Chart 2.19. Geographical breakdown of the export (% of total export)



Source: SSO.

Analysing the structure, as a result of the new capacities in the economy, the export structure significantly improved. It is due to the gradual increase in the share of products with higher value added in exports, mainly chemicals, and machinery and transport equipment, which reached 55% at the end of September 2018. Changes in export structure correspond with foreign direct investment, which in recent years, were mainly concentrated in these sectors. In the period 2009-2017, around 43%, on average, of the new foreign capital was invested in the tradable sector (manufacture and agriculture). On the other hand, there was a decrease in the share of traditional export products - iron and steel, and textile products (with smaller reduction in textiles versus more pronounced decline in iron and steel), thus their share from the dominant 40% in 2010 declined to 17.4% at the end of September 2018, which confirms the larger production dispersion and modernization of the export structure¹⁵. It should be considered that the unfavourable trends in the export of iron and steel in times of global crisis have been largely influenced by the unfavourable constellation in the international metals market, which resulted in its fall. In 2017, given the more conducive world market price movements and the global recovery, the share of export of iron and steel in total exports stabilized, when in 2018, it slightly increased (given the restart of a larger facility).

Chart 2.20. FDI, net, by activity (% of the total)



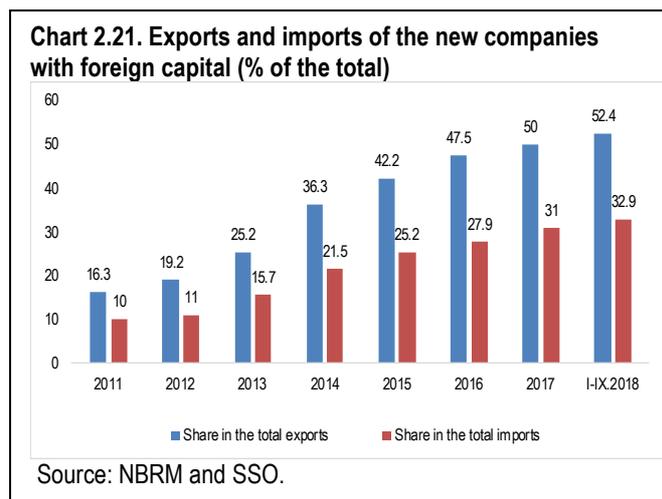
Source: NBRM.

¹⁴ According to the foreign trade statistics, where the imports are presented on c.i.f. basis.

¹⁵ Export of mineral fuels and lubricants has reduced their share in total exports in recent years, which mainly reflects the change in the business orientation of the oil refinery (that had an effect on both sides of the trade).

Trade activity of new companies in foreign ownership has been intensifying. The share of exports of these companies in total exports of goods in the economy has grown steadily, reaching about 52% of total exports in the first nine months of 2018. Given that these companies import raw materials and equipment, the share of imports of these facilities in total import of goods also continued growing, but at a slower pace than the growth of exports (nearly 33% share in total imports in the first nine months of 2018).¹⁶ The new foreign-owned companies noted a positive net balance in the foreign trade, which averaged 0.4% of GDP in the period 2011-2013, while in the next four years, it intensified and reached 3.8% of GDP in 2017.

Besides the direct effects on exports and employment, FDIs in the tradeable sector have multiple positive effects on the economy. It mainly implies possibilities of transfer of new technologies, modernization of production structure, and increased demand for raw materials from local companies that improves the quality of local



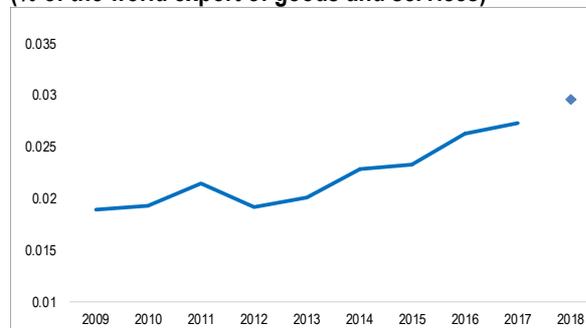
suppliers (particularly by forcing implementation of standards in their businesses). It is estimated that there is still room for strengthening the links between foreign companies and local suppliers, which would additionally increase the secondary effects of FDI on the economy.

The analysis of geographic distribution of Macedonian exports confirms the EU dominance as a major export destination, which in the period January-September 2018 imported around 82% of the Macedonian exports, which is a significant increase compared to 2008 when nearly 60% of the Macedonian exports was oriented towards the EU. Analysing the EU, in recent years, the share of exports to Germany have seen a significant growth, with positive trends in the

exports to Belgium and Romania (as well as Spain), amid low initial shares, and decreased share in exports to Greece, Italy and Bulgaria. Total trade between the Republic of Macedonia and the EU in the period January-September 2018 constituted about 71% of the total trade of the Republic of Macedonia, while the faster growth of exports than imports resulted in slight trade surplus with the EU (moderate deficit in the same period last year).

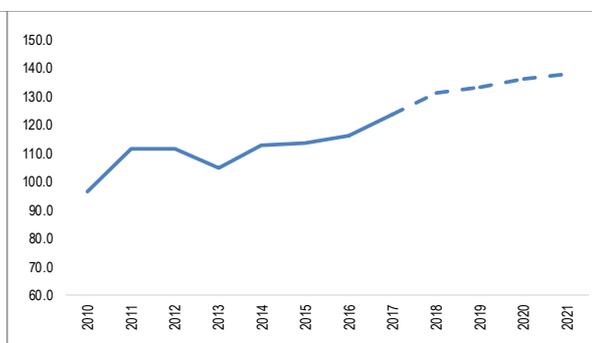
In the period January - September 2018, the real effective exchange rate (REER)¹⁷ of the denar deflated by CPI registered an annual appreciation of 1.8%, while excluding primary commodities, the denar REER deflated by the same price index registered a lower appreciation of 1.1%, compared to the same period last year. Such movements in the two indices reflected the favourable effect of the relative prices and the moderate appreciation of the nominal effective exchange rate of the denar against the currencies of some of the trading partners. Nominal unit labour cost increased by 5,9% in the first three quarters of 2018, which amid wage growth, reflects a slight productivity fall (due to the developments only in the first quarter).

Chart 2.22. Export market share (% of the world export of goods and services)



Source: IMF, SSO, NBRM forecast for 2018.

Chart 2.23. Export and import / GDP (in %)



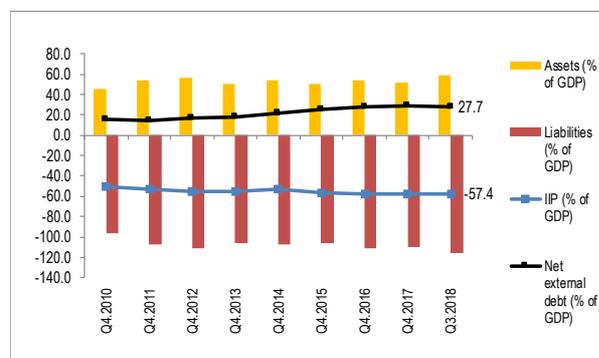
Source: SSO, NBRM forecast for the period 2018-2021.

¹⁶ Source: NBRM. According to the foreign trade statistics (customs declarations), where export of goods is presented on f.o.b. basis, while import of goods is on c.i.f. basis.

¹⁷ Within the REER, the calculation of the nominal effective exchange rate and relative prices includes 15 major trade partners of the Republic of Macedonia by their share in foreign trade in the period 2010-2012 and a base period 2010.

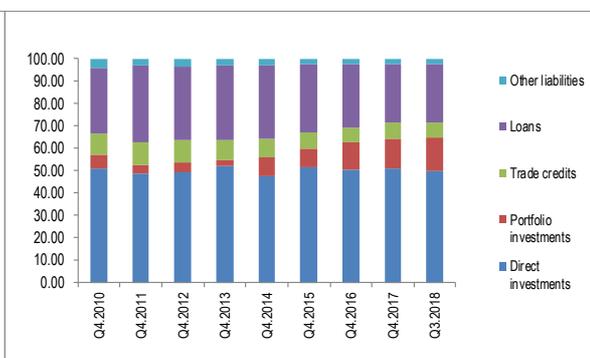
The export market share of the economy in the world exports increased in 2017 as a continuation of the growth in the previous period, from 2013 onwards. In 2018, the export market share in the world export of goods and services is expected to continue moderately accelerating, given the larger acceleration of the Macedonian export of goods and services compared to the growth of the world export of goods and services. The trade openness of the Macedonian economy is generally high, and in the period 2014-2016, it was maintained at a relatively sound level, averaging around 114%, when in 2017, it moderately accelerated to about 124%. In the period ahead, the trade openness of the economy is expected to register gradual moderate increase to about 130%.

Chart 2.24. IIP and net external debt



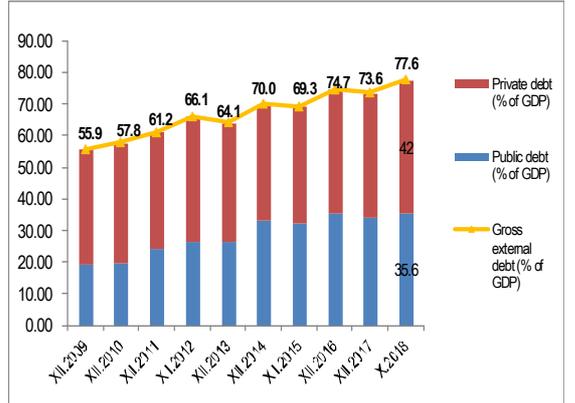
Source: NBRM, SSO.

Chart 2.25. Structure of liabilities to abroad (in %)



Source: NBRM.

Chart 2.26. Gross external debt



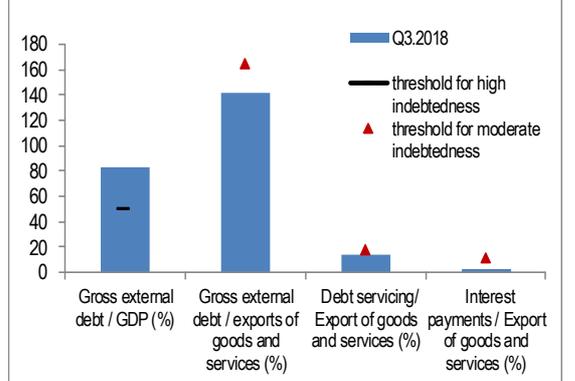
Source: NBRM.

International investment position and external debt.

At the end of the third quarter of 2018, the net negative international investment position (IIP) increased by 3.6% compared to the end of 2017, amid faster increase in external liabilities compared to the increase in assets. The negative IIP expanded given the increased negative net position of the other sectors and the government¹⁸, which was partially offset by the increase in the positive IIP of the monetary authority (reflecting the growth in foreign reserves), as well as the lower negative net position of deposit-taking institutions. In September 2018, the negative IIP was 57.4% of the estimated GDP, and compared to the end of 2017, it narrowed by 0.7 p.p. of GDP.

Given the significant share of foreign direct investment as external liabilities (about 50% in recent years), typical for the converging countries, the analysis of external position also needs to consider other variables, such as net external debt, which includes only net debt instruments. At the end of the third quarter of 2018, the net external debt of the Republic of Macedonia was 27.7% of the estimated GDP, which is lower by 0.8 p.p. of GDP compared to the end of 2017 (amid decreased net debt of the public sector by 1.6 p.p. and increased net debt of the private sector by 0.8 p.p. of GDP).

Chart 2.27. Indebtedness indicators



Source: NBRM calculations

At the end of the third quarter of 2018, the gross external debt was Euro 8,158 million (without the NBRM repo transactions, which appear in almost the same amount on both the side of the liabilities to and the claims on non-residents). The gross debt equalled 77.6% of GDP and compared to the end of 2017, it is higher by 4 p.p. of GDP. This increase was due to the private sector debt, which increased by 2.9 p.p. of GDP, amid growth in the public sector debt, which

¹⁸ Government sector includes central government, local government and social security funds.

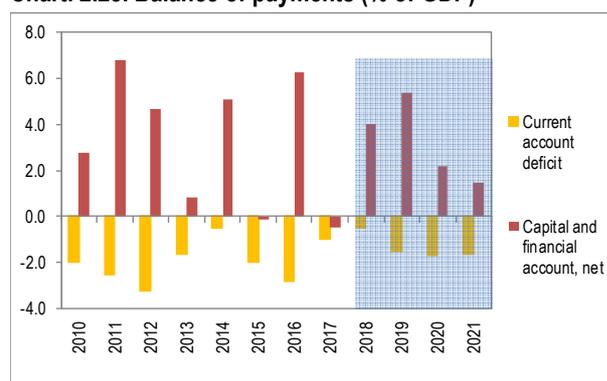
increased by 1.1 p.p. of GDP. The long-term debt, occupying approximately 75%, is still predominant in the debt structure. For more information about the external debt sustainability analysis see Annex 2.

At the end of the third quarter of 2018, the coverage of short-term debt by residual maturity with foreign reserves was nearly 1, which indicates solid liquidity in terms of external payments and improvement compared to end 2017, amid moderately higher short-term debt by residual maturity and faster increase in foreign reserves. The analysis of foreign indebtedness¹⁹ of the Republic of Macedonia indicates a low level of indebtedness based on three indicators (gross external debt, debt servicing and repayment of interest, each relative to export of goods and services), whereas only gross debt-to-GDP ratio indicates high indebtedness. According to the financial account forecast for the period 2018-2021 compared to 2017, all indebtedness indicators are expected to improve or remain relatively stable in the coming period (given the expected exports growth), with the exception of the debt servicing indicator relative to exports in the period 2020-2021, which is expected to increase (given the maturity of larger amount of external debt). Also, gross debt to GDP ratio would increase until 2019, and then moderately slow down. Observing the maturity structure, long-term debt is expected to remain prevalent.

Forecasts of the Balance of Payments. Favourable movements in the global economy are expected to continue in the coming years, though at a slightly slower pace. It was estimated that the annual foreign effective demand for Macedonian products²⁰ increased by 2.2% in 2018, which is similar to the expectations in last year's scenario (2.1%). The growth of economic activity of the trading partners for 2019 is expected to decelerate to 2%, and for 2020, the growth of foreign demand would further slow down to 1.8%.

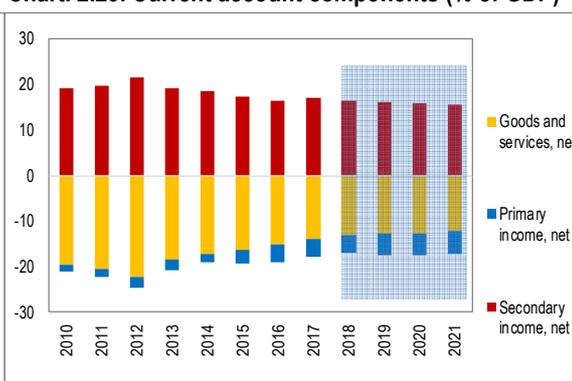
The latest external sector estimates for the next three years suggest moderate current account deficit below 2% of GDP. In the next three years, the needs for external funding are expected to be covered by borrowing and direct investments. It is expected that capital inflows will ensure maintenance of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

Chart. 2.28. Balance of payments (% of GDP)



Source: NBRM. Estimate for 2018 and forecast for 2019-2021.

Chart. 2.29. Current account components (% of GDP)



Source: NBRM. Estimate for 2018 and forecast for 2019-2021.

Along with the increase in foreign demand (at a slower pace though), with further positive effect of the existing foreign-owned companies and larger utilization of their facilities, as well as those pending to be established, in the next three years, the exports of goods and services are expected to continue increasing. In the next three years, imports would be driven by the increased imports for the needs of export production, as well as from imports for the needs of the strengthened investment consumption. For 2018, trade deficit in goods and services is expected to moderately narrow to 13% of GDP (14% of GDP in 2017). This assessment is mainly based on a higher expected surplus in the trade in services. The balance in the trade of goods is considered almost unchanged, with further moderate narrowing of the non-energy balance (especially due to the contribution of new industrial facilities, as well as some of the traditional sectors), despite the moderate expansion of the energy trade balance (according to the movement of world fuel prices). The trade deficit in goods and services estimated for 2018 is slightly lower than expected in the last year's scenario (13.4% of GDP) given the stronger improvement in services surplus, contrary to the expectations. In the period 2019-2020, the deficit in the trade of goods is expected to be relatively stable at 12.9% of GDP, and to reduce to 12.3% of GDP in 2021. Within this framework, there are expectations for narrowing the energy trade deficit in line with the expected trends in world

¹⁹ Tailored use of the World Bank method, where the calculation of the indicators is based on three-year moving averages of GDP and exports of goods and services, as denominators. The methodology also defines criteria of indebtedness, as reference values for indebtedness level.

²⁰ The calculation of external demand takes into account the growth rates of GDP (Consensus Forecast) of the ten major trading partners, according to their share in the Macedonian exports in the period 2010-2012.

crude oil prices, as well as further small narrowing of the non-energy deficit, accompanied by moderate positive movements in the balance of services with strengthened export perspectives of the services sector (particularly in the area of services on physical inputs owned by others, transport and travel services, IT services).

A significant part of the trade deficit will continue to be financed by inflows of secondary income (which primarily reflects the net purchase on the currency exchange market as the main component of private transfers). Net inflows of secondary income in 2018 are estimated at 16.5% of GDP, which is similar to 2017 (16.9% of GDP). In the next three years, net inflows in the secondary income are expected to register a mild declining tendency (to 15.6% of GDP in 2021). The primary income deficit for 2018 is estimated at 4% of GDP, while in the next three years, it is expected to increase moderately and to be maintained at nearly 5% of GDP, in line with the forecasts for growth in the foreign investors' capital income.

Amid such forecasted movements in the current account items, the current account deficit is estimated at 0.5% of GDP for 2018, and would remain relatively stable at about 1.6% of GDP in the next three years. In addition, the moderate narrowing of trade deficit in goods and services amid improved trade of both components is expected to be partially offset by the moderate expansion of the primary income deficit and the expectations for further slight slowdown in inflows of private transfers. The reduction of deficit in goods and services to around 12-13% of GDP is in line with the expected medium-term effects of FDI inflows in recent years in the tradeable sector (as well as expectations for further inflows) that have already changed the structure of the economy, contributed to greater dispersion and modernization of the production structure, and consequently, given the strengthened export potential and conducive external environment, narrowed and stabilized trade deficit (as a comparison, the trade deficit in goods and services in 2009 was 22.7% of GDP).

In 2018 and the next three years, capital inflows will mainly result from the expected FDI and the expected external public and private borrowing. FDI in 2018 is estimated at 3.8% of GDP, which is a solid acceleration compared to 2017 (1.8% of GDP), which partially reflects the improved perceptions of investors. The domestic economy growth and the stabilization of the domestic political situation, along with the further growth of global economy are expected to create stable perceptions among investors and FDI are estimated at about 3% of GDP in the next three years. This forecast is similar to last year's scenario and is due to the continuity of FDI inflows (including in 2016 and 2017 which were marked by internal political crisis) as well as to expectations for reinvesting part of the earnings of the existing foreign companies. In addition, such a forecast is supported by the ongoing policies to attract new FDI. Given the inflow of the new government Eurobond and higher net FDI, for 2018, the financial account is expected to register net inflows of 4% of GDP; they would be higher in 2019 (around 5% of GDP) in line with the expected government borrowing, and in the next two years, they would be maintained at a lower level (about 2% of GDP). Cumulatively, forecasted trends in the current and financial account are expected to ensure additional accumulation of foreign reserves in the next three years and maintenance of adequate coverage of the average imports of each coming year.

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

- In 2019 new Banking Law will be adopted, by which, banking regulations will be further aligned with the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment companies and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment companies. The new law will strengthen the banks' capacity to adequately manage the risks associated with their activities, as well as absorb losses that may arise in business.
- In 2019, Law on Bank Recovery and Resolution will be adopted, implementing 2014/59/EU Bank Recovery and Resolution Directive, defining the bodies and instruments that will be available for prompt reaction in case of risks and problems in the operations of a particular bank.
- In 2019, Law on Payment Services and Payment Systems will be adopted, transposing provisions of: Payment Services in the internal market Directive (2015/2366/EC), Directive on the taking up, pursuit and prudential supervision of the business of electronic money institutions (2009/110/EC), Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (2014/92/EC), Regulation on substitute fees for card-based payment transactions (2015/751/EC), Regulation on the establishment of technical and business requirements for credit transfers and direct debit in euros (260/2012/EC) and Settlement Finality Directive (98/26/EC). The adoption of the Law on Payment Services and Payment Systems will enable: opening the payment services market for payment services providers other than

banks, as well as for new issuers of e-money and increasing competition in this segment; establishing aligned prudent regime for giving authorisations to payment services providers other than banks, as well as for new issuers of e-money; improving transparency and comparability of fees charged for payment services; effective and smooth financial mobility of consumers through the service for transferring payment accounts from one to another payment service provider and access to payment accounts of a wider range of consumers.

- The two new laws in the field of capital market (Law on Financial Instruments and Law on Securities Prospectus and Issuers' Transparency Requirements) will be adopted in 2019. Laws will be prepared within the Project „Further Harmonisation with the EU Acquis in the Field of Movement of Capital and Payments and Financial Services - Securities Markets and Investment Services“, financed from IPA 2010. The new legal framework will create conditions for development of new products and services on the financial market in the Republic of Macedonia, new trading markets will be introduced, a higher level of market stability will be ensured, the powers of supervisory authorities will be strengthened, transparency will be strengthened by providing high quality information, and protection of investors and all market participants will be improved.

- New Insurance Law will be adopted in 2019, fully harmonised with the Solvency II Directive (2009/138/EC) on the taking-up and pursuit of the business of Insurance and Reinsurance, providing for compatibility and competitiveness of the domestic insurance industry with the one in EU Member States. The Law will contribute to increasing reliability and stability of the insurance sector and strengthening the insurers' protection. Capital requirements as regards establishment of insurance undertaking will be strengthened and supervisory measures adequate to the detected irregularities in the undertakings' operations will be prescribed, and effective mechanisms for protection the rights of consumers of insurance services will be established.

2.3. Alternative Scenarios and risks

Alternative Scenarios. Two alternative scenarios will be elaborated below. The first alternative macroeconomic scenario is based on the assumption for lower economic growth in the EU, i.e. lower foreign demand, in the forecasting period. According to this scenario, real GDP growth in 2019 is projected at 2.4%, at 3.0% in 2020 and at 3.8% in 2021.

Such scenario implies lower growth of export activity and respectively of industrial production. According to this scenario, real export growth is projected at 6.7% in average annually in the forecasting period, as opposed to the projected growth of almost 9% according to the baseline scenario.

Such scenario also assumes unfavourable effects on the inflow of capital in the country in the form of direct investments, implying slower growth of gross investments in the medium term, as a result of the lower growth of investments in the construction sector and of import of investment goods. As a result, projection of real growth of gross investments is lower by 1.4 p.p. compared to the baseline scenario, i.e. it is 4.1% in average annually in the forecasting period. Lower growth of gross investments is mainly due to the slower growth of private investments, and to a lesser extent to the growth of public investments.

Effects on the consumption are expected to be smaller in relation to the other components. Hence, real growth of public consumption is projected at 0.8%, while real growth of private consumption is projected at 2% in average annually in the forecasting period. Lower growth of both export and domestic demand implies slower growth of import which, in the analysed period, is envisaged to increase by 5.2% in average annually, as opposed to the projected growth of almost 7% according to the baseline scenario.

The second alternative macroeconomic scenario is related to the risk of weaker contribution of domestic demand to the economic growth, amid lower realization of infrastructure projects and execution of capital expenditures, as well as weaker impact from the support to the enterprises' investment activity. Under such conditions, real growth of gross investments is projected at 2.7% in average annually in the forecasting period, as opposed to the projected growth of 5.5% according to the baseline scenario, whereby it is estimated that 3/4 of this effect is due to public investments, while the remainder is due to private investments. Thereby, weaker growth of investments implies lower real growth of import which, under this scenario, is 6.4% in average annually in the forecasting period, being by 0.6 p.p. lower compared to the baseline scenario. Effects on the export in this period are expected to be somewhat lower, whereby net export has more significant contribution to the economic growth compared to the baseline scenario, however only partially off-setting the negative effect of the weaker growth of investments on domestic demand and economic growth. Thus, under this scenario, growth of economic activity is projected at 2.8% in 2019, 3.4% in 2020 and 4.2% in 2021.

As regards labour market, sluggish economic growth implies slower growth of the number of employed and slower pace of reduction of unemployment rate compared to the baseline scenario. Hence, according to the first alternative scenario, average annual increase of the number of employed is projected to be 1.7% in the forecasting period, while unemployment rate is projected to decline to 18.8% in 2021. According to the second alternative scenario, growth of employment in the forecasting period is projected to be 2% in average annually, resulting in decline of unemployment rate to 18.5% in 2021.

As regards inflation rate, it is assumed that trends of commodity prices on the global markets remain unchanged in relation to the baseline scenario, i.e. we assume similar projections as regards the developments on the supply side and the level of foreign prices. Slower economic growth, according to the first alternative scenario, implies that no inflationary pressures from the demand side are expected, taking into account that output gap is projected to move to the positive zone in 2021, while lower positive output gap is estimated thereby.

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

Risks. Baseline macroeconomic forecast is accompanied by certain risks, which are related to both the international and the domestic environment. As regards the risks related to the international environment, they are mainly associated with the economic trends and the growth pace of the EU economy, as the main trading partner of Macedonia, as well as the worsened prospects for growth of the global trade and the higher oil prices. Additional risk is also the weaker growth than the expected or the possible decline of prices of base metals on the global market.

As regards the domestic environment, risks are significantly reduced in conditions of stabilization of the political situation in the country and prospects for increased growth of the domestic economy. In fact, projected growth of the domestic demand in the medium term, which is expected to significantly contribute to boosting the economic activity, is related to risks, which are assessed as balanced and refer primarily to the increase of gross investments, i.e. realization of infrastructure projects, as well as the effects from the support to the investment activity of both the domestic and the foreign companies on the economy. On the other hand, improved Euroatlantic perspectives point to potential upside risks to the baseline macroeconomic forecast.

The main risks to the given external sector scenario in the period ahead partly still arise from the global surrounding, particularly the growth pace of the major trading partners. Any weaker external demand may have adverse effects on the presence of domestic exporters in foreign markets. Any financial market instability and exacerbation of geopolitical risks could bring about increased investors' risk aversion and consequently, risks of lower capital inflows of non-debt financing or possible capital outflows for funding parent companies. It is estimated that the direct effects of Brexit on the Macedonian economy would be small, while potential risk is the second-round effect through the EU, as our major trading partner. In addition, the movement of world prices is accompanied by uncertainty, with possible effects on domestic inflation and export prices. Despite the favourable movements in world metal prices in the period 2017-2018, the expected future developments indicate less favourable price movements which is relevant for the growth and export outlook of the domestic metal industry as a traditional export sector, although with significantly reduced share in recent years (in the context of structural changes in the economy and already dominant share of higher value-added industries). In this context, the potential risks arising from the global trade tensions and the possible consequences for small open economies should be mentioned.

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

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

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

In recent years, the domestic political risks have been more pronounced, yet with limited impact on the economy. Their presence in the period ahead, if any, may increase the restraint of economic agents, even though the economy has already shown some vitality in this regard. On the other hand, the internal political stabilization, coupled with the improved Euro-Atlantic perspectives points to potential upward risks to the scenario. The fore mentioned risks to the macroeconomic scenario for the next three years²¹ require constant monitoring of any changes in the external and domestic economic setup in the period ahead and timely taking of adequate measures by policy makers.

3. Fiscal framework

3.1. Fiscal strategy²² and medium-term objectives

Fiscal policy in the period 2019 - 2021 will reflect further strengthening of Budget management and fiscal discipline, that will result in maintaining macroeconomic stability, gradual fiscal consolidation, maintaining low budget deficit and further improvement of public debt management.

The focus will be placed on creating a favourable business climate, supporting domestic companies and innovative activity, as well as supporting the economy with significant investments in infrastructure projects. Further modernisation and strengthening of revenue collection, by strengthening the institutional capacity of the tax administration, as well as enhancing the control and efficient budget spending, are also one of the priorities in the period to come.

Related to this, the annual growth rate of total expenditures of the Budget of the Republic of Macedonia is expected to slow-down gradually. In conditions of prudent public financial management as per the planned policies, fiscal policy in the coming period will provide for a gradual decline of the level of overall budget deficit from 2.5% of GDP in 2019 to 2.3% of GDP in 2020 and 2% of GDP in 2021. Furthermore, the primary budget deficit (total budget deficit without the interest-related costs) will also fall from 1.2% of GDP in 2019 to 1% and 0.7% respectively in 2020 and 2021.

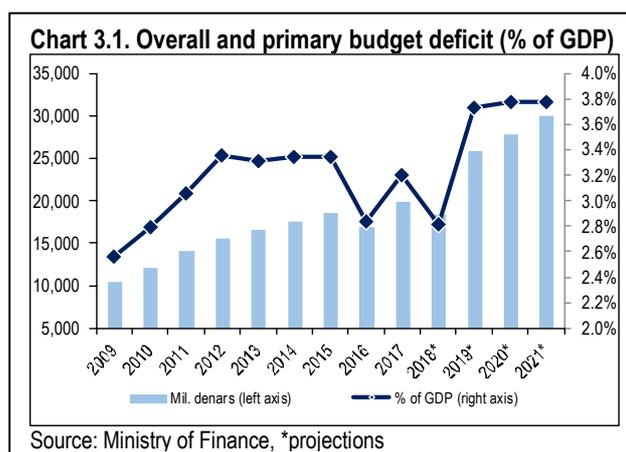


Table 3.1. Consolidated General Government Budget (Denar million)

	2019	2020	2021
Consolidated general government budget - Revenues	223.968	232.846	242.396
% of GDP	32,2	31,4	30,4
Consolidated general government budget - Expenditures	244.700	250.008	258.501
% of GDP	35,2	33,7	32,4
Consolidated general government budget - Deficit	-20.732	-17.162	-16.105
% of GDP	-3,0	-2,3	-2,0
Central Budget - Revenues	125.156	129.695	133.885
% of GDP	18,0	17,5	16,8

²¹ The external and monetary sectors forecasts relies on the 2018 Budget and the 2019-2021 Fiscal Strategy.

²² The Revised Fiscal Strategy 2019-2021 is published on the website of the Ministry of Finance https://finance.gov.mk/files/u3/Fiskalna%20Strategija%20na%20RM%202019_2021_Revidirana.pdf

Central Budget - Expenditures	142.477	146.605	149.833
% of GDP	20,5	19,8	18,8
Central Budget - Deficit	-17.321	-16.910	-15.948
% of GDP	-2,5	-2,3	-2,0
Budget Funds - Revenues	64.773	67.880	71.884
% of GDP	9,3	9,2	9,0
Budget Funds - Expenditures	65.152	68.132	72.041
% of GDP	9,4	9,2	9,0
Budget Funds - Deficit	-379	-252	-157
% of GDP	-0,1	0,0	0,0
Local Government Budget - Revenues	34.039	35.271	36.627
% of GDP	4,9	4,8	4,6
Local Government Budget - Expenditures	37.071	35.271	36.627
% of GDP	5,3	4,8	4,6
Local Government Budget - Deficit	-3.032	0	0
% of GDP	-0,4	0,0	0,0

Source: Ministry of Finance

3.2. Budget implementation in 2018

In the period January-October 2018, total budget revenues were realized in the amount of Denar 153,628 million (79.8% of the planned for 2018)²³, being 5% higher than the same period in 2017. Tax revenues and contributions were collected in the amount of Denar 139,295 million and account for 90.7% of total budget revenues. Tax revenues were realized in the amount of Denar 93,423 million and were by 7.4% higher compared to the same period last year. Social contributions were collected in the amount of Denar 45,872 million, which is 6,9% higher than the same period in 2017.

Total expenditures in the period January-October 2018 were executed in the amount of Denar 159,591 million (75.8% of the annual plan) and were higher by 1.2% than the same period in 2017. Out of the total, Denar 151,991 million was spent on current expenditures (4.9% higher than the same period last year), while capital expenditures were realized in the amount of Denar 7,600 million, being lower by Denar 5,168 million than the same period in 2017.

Thus, in the period January-October 2018, the deficit of the Budget of the Republic of Macedonia amounted to Denar 5,963 million or 0.91% of the GDP projected for 2018.

Table 3.2. Budget of the Republic of Macedonia 2018

(Denar million)	Budget 2018	Realisation in the period January-October 2018
1. Total revenues	192,484	153,628
1.1. Tax revenues and contributions	170,781	139,295
1.1.1 Tax revenues	114,566	93,423
1.1.2 Contributions	56,215	45,872
1. 2. Non-tax revenues	14,929	10,044
1.3. Capital revenues	1,881	1,989
1.4. Donations and other revenues	4,893	2,300
2. Total expenditures	210,536	159,591
2.1. Current expenditures	192,017	151,991
2.1.1 Salaries and allowances	26,827	21,849
2.1.2 Goods and services	17,627	11,087
2.1.3 Transfers	139,775	112,522
2.1.4 Interest	7,787	6,533
2.2. Capital expenditures	18,519	7,600
3. Deficit	-18,052	-5,963
4. Deficit financing	18,052	5,963
4.1 Inflow	46,487	31,711
4.1.1 Other inflows	152	279
4.1.2 External sources	32,956	31,813

²³ In accordance with the 2018 Supplementary Budget

4.1.3 Domestic sources	17,671	14,146
4.1.4 Deposits/Additional sources	-4,297	-14,544
4.1.5 Revenues on the basis of sale of shares	5	17
4.2 Outflow	28,435	25,748
4.2.1 Repayment upon foreign borrowing	16,218	15,213
4.2.2 Repayment upon domestic borrowing	12,217	10,535

Source: Ministry of Finance

3.3. Medium-term budgetary outlook

Total revenues of the Budget of the Republic of Macedonia (central government) for the period 2019-2021 are projected to around 29.6% of GDP. Revenue projections are based upon the anticipated tax reforms as regards personal income tax and social contributions, as well as the existing legal solutions regarding the other public duties. Tax reform, started to be implemented in 2019, as per the medium-term projections is expected to provide for a fiscal effect of around Denar 1.5 billion per year. This reform envisages introduction of a moderate progressive taxation as regards the personal income tax, i.e. an additional marginal tax rate for persons with the highest income, in line with the developed European tax systems. The goal of the reform is, above all, to reduce inequality in the society, as well as to ensure additional budget funds to be used for higher public investments and to improve the quality of the services in education, health and social protection sectors.

Tax revenues account for 58.2% of the projected revenues, followed by revenues on the basis of social contributions accounting for 30%, non-tax revenues and capital revenues accounting for 9.1%, while the rest of the revenues are expected to be generated from IPA Funds and other donations. With respect to tax revenues, most revenues will be generated on the basis of VAT, personal income tax and excises.

In the next medium-term period, projections for social contributions, which are genuine revenues of the Pension and Disability Insurance Fund, Health Insurance Fund and the Employment Agency, are based on a moderate increase of the mandatory social insurance rates, as well as the expected positive economic trends, which will accordingly reflect on the growth rates of both employment and wages.

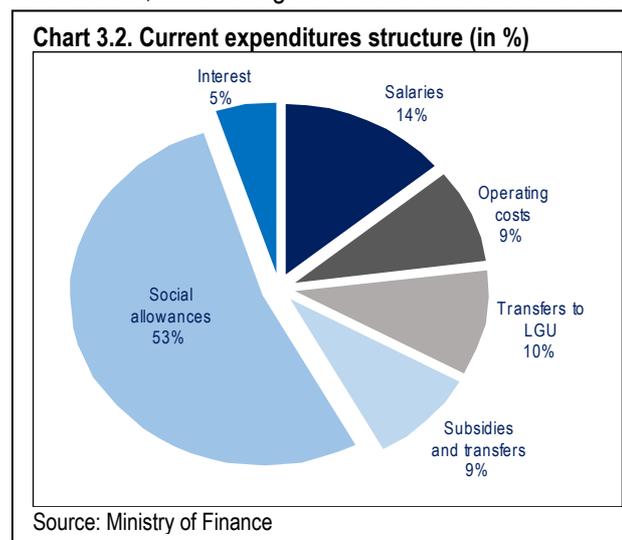
To the end of gradually stabilising the pension system and ensuring its sustainability, increase of the social contributions rates is planned, i.e. increase of the pension and disability insurance contribution rate by 0.4 pp. and increase of the health insurance contribution by 0.1 pp. in the period 2019-2020. The positive effects of the increased contributions amount to about Denar 1.1 billion annually in the budgets of the respective funds.

Non-tax revenues in the next medium-term period account for around 8.2% of the total revenues, wherein revenues on the basis of administrative fees and other non-tax revenues, which the budget users generate on their own accounts, account for the highest share.

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

The expenditure side of the Budget of the Republic of Macedonia in the next period is fully created in the function of achieving the strategic priorities of the Government of the Republic of Macedonia, i.e. accelerating the economic growth and the EU and NATO integration processes. The average share of expenditures in the central government budget in the period 2019-2021 is 31.9% of GDP. Expenditure projections in the budget for the next medium-term period are prepared on the basis of three key foundations:

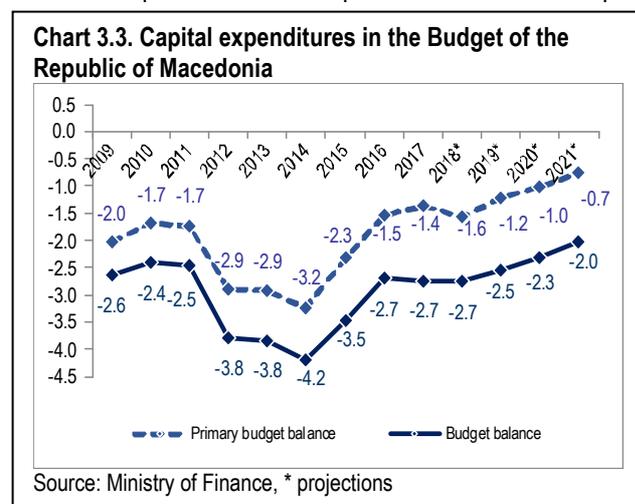
- Harmonisation of the revenue projections with the planned economic activities;
- Total budget expenditure projections ensure continuous fiscal consolidation, and
- Projected expenditures provide for regular and smooth fulfilment of all legal obligations.



When projecting the current expenditures for the next period (Chart 3.2), following assumptions were taken into account:

- As regards expenditures related to wages and allowances, continuation of strict control over new employments and gradual increase of wages in certain sectors in line with the fiscal possibilities. Within these funds, in 2019, wage increase of 5% in the last quarter of the year is foreseen for the employees in the budget beneficiaries, starting with the payment of the September salary in 2019. This increase is proposed in order to improve the living standard of the employees and increase the motive for professional, quality and complete fulfilment of their work tasks, especially during the negotiations for EU and NATO integration;
- Timely payment of pensions and social benefits, for the purpose of improving the well-being of the beneficiaries of these rights. Within this framework, the entire reform of the social protection system is covered, by introducing a guaranteed minimum income. The social protection reform is aimed at redesigning the types, adequacy and targeting of social assistance in order to support the most vulnerable categories, as well as to provide social security to the elderly. This reform is explained in detail in Chapter 4. Structural Reform Measures as Measure 18: Enhancement of financial benefits in the field of social protection;
- Ensuring substantial amounts of agricultural subsidies, aimed at strengthening and supporting this sector, boosting the exports of Macedonian agricultural products and conquering new markets;
- Boosting the economic growth and development in the Republic of Macedonia, by supporting investments in order to enhance the competitiveness of the Macedonian economy and employment, by providing substantial support to the domestic companies, export support, measures for new greenfield investments and enhancing the innovation capacities of the companies by better access to skills, knowledge and technology.

In the coming medium-term period, fiscal policy remains focused on ensuring substantial public investments, which are a precondition for improvement of economic perspectives, as well as better life of the citizens. Related



to this, a significant amount of capital investments is projected (Chart 3.3), intended for intensification of the infrastructure projects, i.e. investments in railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environment protection and judiciary.

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

In addition to the Budget, substantial investments in road infrastructure, i.e. projects for construction, rehabilitation, upgrade and development of several road sections, financed with World Bank, Export - Import Bank of China and EBRD loans, are ongoing through the Public Enterprise for State Roads. The project for electronic system for toll collection along Corridor X is being finalised, and preparations are being made for construction of new road tolls Phase 2 along Corridor VIII. As for the railway infrastructure, focus will be placed on completion of the implementation of the Project for Improvement of the Railway Corridor X, as well as intensification of the activities within the Project for Completion of Rail Corridor VIII, being aimed at connecting the Black Sea with the Adriatic Sea, which speaks about the huge strategic and economic significance of this Project.

Republic of Macedonia expressed interest in participating at the World Bank regional initiative "Western Balkans Trade and Transport Facilitation Project". Significant project activities related to road and railway infrastructure, as well as activities aimed at improving cross-border cooperation with the countries in the region, will be realised within this initiative.

By implementing the “Project for Construction of Gas Pipeline System in the Republic of Macedonia”, business sector, public sector and households will be supplied with cheap and environmentally friendly energy, at the same time reducing the emission of harmful gases. The Government will focus on preparation and realisation of a new Municipal Gas Distribution Network Project in the Republic of Macedonia, to be financed with loans from the international financial institutions. The project for construction of an interconnection pipeline between the Republic of Macedonia and the Republic of Greece is under preparation.

Construction of the Regional Clinical Hospital in Stip will continue in the coming period, while the Government of the Republic of Macedonia undertakes activities for preparation and creation of conditions for construction of a new Clinical Centre “Mother Theresa” at a new location in Skopje.

As regards education, implementation of the “Project for Building Physical Education Facilities in Secondary Schools” is expected to be completed in the coming period. Implementation of the “Project for Building Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools in the Republic of Macedonia”, will continue, aimed at improving the physical education, as well as the overall learning conditions in the primary and the secondary schools.

Implementation of the second and the third phases of the “Zletovica Water Basin Utilisation Improvement Project” is planned to commence in the coming period. Second phase of the “Irrigation Programme Southern Vardar Valley”, will continue in 2019 as well. These projects are also covered in Chapter 4: Structural reforms in Measure 5: Improvement of irrigation systems.

An important priority the Government of the Republic of Macedonia will focus on is the preparation and implementation of the Project for Construction of Waste Water Treatment Plant in the City of Skopje, where loans and grants are planned to be provided from EBRD, EIB and EU.

In order to establish professionally and efficiently organised and managed houses of correction (HC) and educational correctional houses, which continuously ensure re-socialised and integrated citizens in the society, “Project for Reconstruction of Houses of Correction” is being implemented.

Government activities and measures as regards social policy are also supported under the “Project for Housing of Vulnerable Groups”, encompassing construction of flats for low-income persons. Within this sector, the Government of the Republic of Macedonia undertakes activities, in cooperation with the World Bank, for preparation and implementation of a new project to include implementation of reforms in the social protection area, as well as investment activities aimed at improving the social infrastructure, i.e. reconstruction and construction of early childhood development centres.

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

Implementation of the “Municipal Services Improvement Project”, with financial support by the World Bank, will continue in 2019 as well, by financing infrastructure investment projects in the field of water supply and wastewater drainage, management of solid waste etc. In the next medium-term period, the completion of the first phase of the project “Water supply and sanitation of municipalities” is expected, and the realization of the second phase of this project is expected to start. In the next period, the implementation of the “Water Supply and Waste Water Collection Project” will continue in order to improve the conditions and raise the quality of life, especially in the rural areas.

Projected deficit and its financing. During the 2019-2021 period, the budget deficit is envisaged to gradually fall, as follows: Denar 17.7 billion in 2019, Denar 17.2 billion in 2020 and Denar 16.1 billion in 2021. This means that gradual fiscal consolidation is projected in this medium-term period, i.e. the share of budget deficit in GDP will decrease from 2.5% in 2019 to 2.3% in 2020 and 2.0% in 2021.

The financing of the projected deficit will be provided from domestic and foreign borrowing (Table 3.3). Borrowing abroad may be realised on the basis of favourable loans from international financial institutions, disbursements of funds under favourable loans and credit lines intended for financing certain projects, as well as issuance of Eurobond on the international capital market. Related to this, the choice of a specific external financing source will be based on the ongoing and the expected developments on the international capital market. Furthermore, borrowing on the domestic government securities market will provide for additional financing under favourable terms and conditions, by using the relatively low interest rates and the high level of interest of investors on the domestic government securities market. For the purpose of optimising the payments and reducing the

refinancing risk, main commitment of the Ministry of Finance will be to lengthen the maturity of issued securities, by issuing government bonds with longer maturities.

Table 3.3 Projected deficit and sources of its financing

(Denar million)	2019	2020	2021
Budget balance	-17,700	-17,162	-16,105
Deficit financing	17,700	17,162	16,105
Inflows	34,195	51,849	61,798
Domestic sources	25,516	34,838	35,400
External sources	19,004	15,217	17,136
Deposits	-10,325	1,794	9,262
Outflows	16,495	34,687	45,693
Repayment upon foreign borrowing	6,175	27,137	37,383
Repayment upon domestic borrowing	10,320	7,550	8,310

Source: Ministry of Finance, Revised Fiscal Strategy of the Republic of Macedonia 2019-2021

Local Government Budget. In the course of 2019, as well as in the medium run, municipalities are expected to continue the trend of improved collection of own revenues, strengthening the capacities for development of policies for financing the municipalities and enhancing the capacities for financial management. For the purpose of realising the strategic commitments, strong commitment to encouraging sustainable local development, good local governance and creating conditions for more active, more effective and more innovative role of the local authorities in implementing national objectives for growth and development will continue in the next period as well.

Stable revenues are allocated to the municipalities from the local government budget on the basis of the VAT grant (general grant), in the amount of 4.5% of VAT collected in the previous year. As regards the grants for transferred powers, an inter-ministerial working group was established, that in the following period will define the criteria for distribution of funds allocated for the transferred powers in the field of primary and secondary education, culture, child care and protection of elderly people and fire fighting.

New revenues are provided by allocating funds from lease of state-owned agricultural land to the municipalities, the proportion of which is 50% for the central government budget and 50% for the municipalities, provided that collection of revenues on the basis of tax on real estate exceeds 80% in relation to the ones projected in the previous year. Municipalities also have higher revenues from the fee collected by issuing concession for usage of water resources for electricity generation (50% for the central government budget and 50% for the local authorities).

Increased own revenues of the municipalities, in particular revenues collected on the basis of taxes on real estate, as a result of better coverage of the tax base of natural persons and legal entities and re-assessment of the value of real estate, will continue in the next medium-term period. At the same time, part of the municipalities generate higher revenues on the basis of property taxes as a result of the higher rate of calculation and collection of property tax within the margin set by to the Law on Property Taxes. Higher revenues are also expected by applying the improved elements of calculation in the Methodology on Determining Market Value of Real Estate, as well as the improved quality of the assessment of the value of real estate with the legal possibility to employ an expert – an evaluator or to use the services of licenced evaluators.

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

The Government of the Republic of Macedonia will continue to carry out the activities aimed at equal regional development and advancement of all regions in the country in the next period as well. Implementation of the 2009-2019 Strategy for Equal Regional Development of the Republic of Macedonia in the eight planning regions, by better vertical and horizontal coordination of both the national and the local policies and the integrated development projects adjusted to the local needs and conditions, will provide for more balanced local development throughout the country. The Council for Equal Regional Development will continue to play a significant role as promoter of partnership between the regions/the municipalities and the Government, and within it the usage of funds will be coordinated from all sectoral programmes intended for the planning regions

and the municipalities. Special efforts will be put in supporting the municipalities by encouraging the local development via supporting the local projects and harmonizing them with the national ones.

The 2015 - 2020 Programme on Sustainable Local Development and Decentralisation in the Republic of Macedonia is in the process of revision, as well as the 2018 - 2020 Action Plan, envisaging specific activities and projects to be implemented by the relevant institutions. The request for the Programme to be partially revised arose due to the need for it to be harmonised with the present policies, priorities, strategic documents and trends of local development and decentralisation in the country.

3.4. Structural Deficit

Economic activity, over time, tends to grow, but, moving along the trend line, the economy usually fluctuates above and below the long-term trend. Such cyclical developments in the economy are also reflected in the fiscal developments, through automatic stabilisers. In order to exclude the effects from fluctuations of economic activity on the fiscal indicators and to estimate the underlying fiscal stance of the country, we calculate and analyse the cyclically adjusted budget balance, which is obtained by adjusting the budget revenues and the budget expenditures by the effect of deviation of the potential from the actual/projected GDP, and the adjustment is made on aggregate level for the central government budget.

Calculations point out that in 2018 the cyclically adjusted budget deficit accounted for 2.1%, and it is lower than the projected budget deficit in the respective year, taking into account that the cyclical budgetary component has a negative value, as a result of the estimated negative output gap.

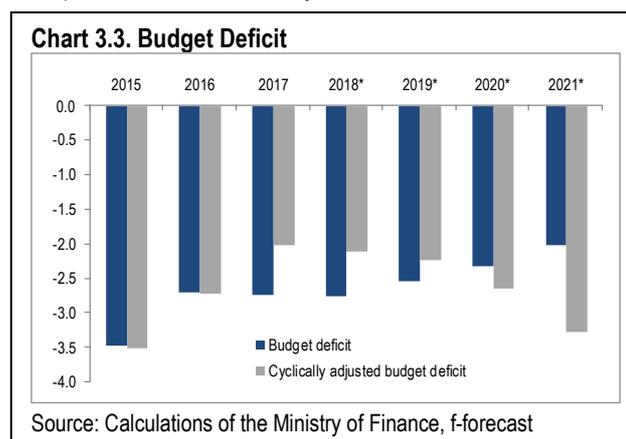


Table 3.4. Aggregate fiscal indicators and output gap

	2018	2019	2020	2021
Total budget balance	-2,7%	-2,5%	-2,3%	-2,0%
Primary budget balance	-1,6%	-1,2%	-1,0%	-0,7%
Production gap	-2,0%	-1,0%	1,0%	4,1%
Cyclical component of the budget	-0,6%	-0,3%	0,3%	1,3%
Cyclically adjusted total budget balance	-2,1%	-2,2%	-2,6%	-3,3%
Cyclically adjusted primary budget balance	-0,9%	-0,9%	-1,3%	-2,0%

Source: Calculations of the Ministry of Finance

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

In 2019, the projected GDP is expected to remain below the potential, therefore the cyclical budgetary component is negative, i.e. cyclically adjusted budget deficit is lower than the projected one (Chart 3.3). In 2020 and 2021, in conditions of positive output gap, estimated cyclically adjusted budget deficit is higher than the projected budget deficit, i.e. it amounts to 2.6% in 2020 and 3.3% in 2021, respectively. During the analysed period, cyclically adjusted primary budget deficit accounts for 1.4% on average (Table 3.4).

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

At the end of the third quarter in 2018, government debt of the Republic of Macedonia²⁴ amounted to EUR 4,302.3 million, i.e. 40.3% of the projected GDP. At the end of the third quarter, total public debt²⁵, which includes both the government debt and the guaranteed debt, amounted to EUR 5,144.4 million, accounting for 48.2% of the projected GDP. During the analysed period, domestic government debt accounted for 37.6% in the total government debt, while the external government debt accounted for 62.4%. Share of external government debt

²⁴ Government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, public institutions established by the Republic of Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje.

²⁵ Public debt comprises the government debt and the guaranteed debt of public enterprises and state-owned joint stock companies.

increased by 2.4 p.p. compared to the end of 2017, given that the sixth Eurobond, in the amount of EUR 500 million, with a 7-year maturity and historically lowest interest rate of 2.75%, was issued in January 2018, reflecting the exceptionally high confidence of the international investors in the perspectives of the Macedonian economy, the improvement of the domestic political environment, as well as the favourable conditions on the international capital market. The exposure of the government debt portfolio to market risks registered a further decrease, in accordance with the favourable changes in the interest and currency structure. From interest structure point of view, fixed interest rate debt increased by 3.8 p.p. compared to end-2017, mainly as a result of the issued Eurobond which has fixed interest rate. The share of fixed interest rate debt in the total government debt is significantly above the minimal share of 60% determined by the Fiscal Strategy and amounted to 76% in the third quarter in 2018, as opposed to the variable interest rate debt which was 24%. As for the currency structure of foreign currency debt, share of euro-denominated debt in the foreign currency government debt portfolio is 92%, significantly above the minimum share of 85% determined by the Fiscal Strategy and, compared to end-2017, it has increased by 1 p.p.

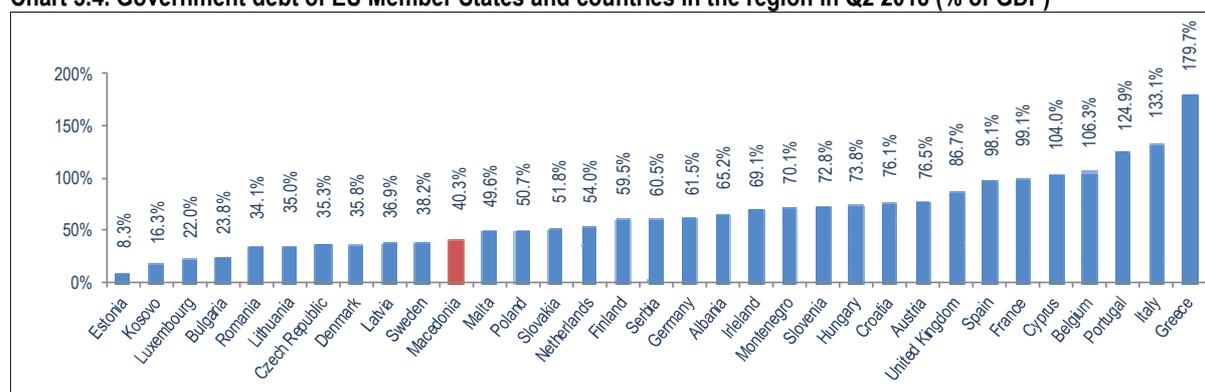
Table 3.5. Public debt stock (EUR million)

	2012	2013	2014	2015	2016	2017	30.09.2018
External Public Debt	1,941.2	2,078.7	2,725.1	2,847.5	3,286.0	3,187.5	3,512.3
Government Debt	1,615.9	1,597.5	2,092.2	2,096.7	2,446.6	2,376.8	2,685.9
Guaranteed debt	325.3	481.2	633.0	750.8	839.4	810.7	826.3
Domestic Public Debt	967.6	1,202.7	1,196.2	1,379.7	1,425.4	1,599.4	1,632.1
Government Debt	938.6	1,174.1	1,170.3	1,356.6	1,404.9	1,581.7	1,616.4
Guaranteed debt	29.0	28.6	25.9	23.2	20.5	17.7	15.7
Total Public Debt according to Public Debt Law	2,908.8	3,281.4	3,921.3	4,227.2	4,711.4	4,786.9	5,144.4
Total Public Debt as % GDP	38.3	40.3	45.8	46.6	48.8	47.8	48.2
Total Government Debt	2,554.5	2,771.6	3,262.5	3,453.3	3,851.5	3,958.5	4,302.3
Total Government Debt as % GDP	33.7	34.0	38.1	38.1	39.9	39.5	40.3
Guaranteed Debt	354.3	509.8	658.9	774.0	859.9	828.4	842.0
Guaranteed Debt as % of GDP	4.7	6.3	7.7	8.5	8.9	8.3	7.9

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

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

Chart 3.4. Government debt of EU Member States and countries in the region in Q2 2018 (% of GDP)



Source: Ministry of Finance, Eurostat, October 2018

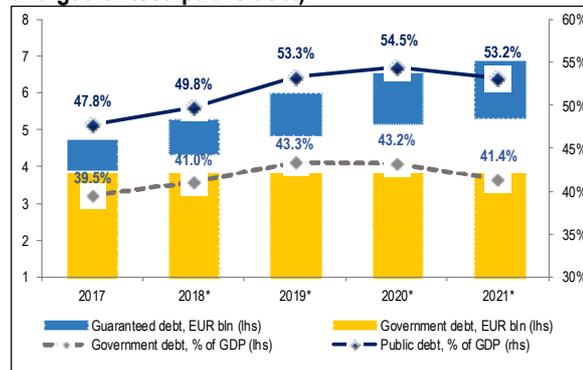
Investments launched in the past period in the field of road and rail infrastructure, water supply and sewerage, sports facilities, education, health, energy, construction of the National Gasification System, as well as other projects that are in line with the Programme of the Government of the Republic of Macedonia, are expected to continue in the 2019 - 2021 period. The projects, co-financed with foreign loans, will be implemented by the state administration bodies, strongly committed not to jeopardise the long-term sustainability of the debt level of the country. In addition, part of the borrowing is aimed at covering the budget deficit, i.e. providing for smooth Budget execution. In addition, part of the borrowing will also be intended for repayment of debt liabilities falling due in the coming period. According to the Revised Fiscal Strategy 2019-2021, moderate increase of the total public debt is expected on the medium term to 54.5% of GDP in 2020, followed by a decline to 53.2% of GDP in 2021, which is significantly below the limit on the medium- and long-term level of the public debt of 60% of GDP. Moderate

increase of the government debt to 43.3% of GDP in 2019 is expected, followed by a decline to 43.2% of GDP in 2020 and to 41.4% of GDP in 2021. The Fiscal Strategy is submitted to the Parliament of the Republic of Macedonia, whereby the legislative authority is informed and has insight in the public debt management policy.

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

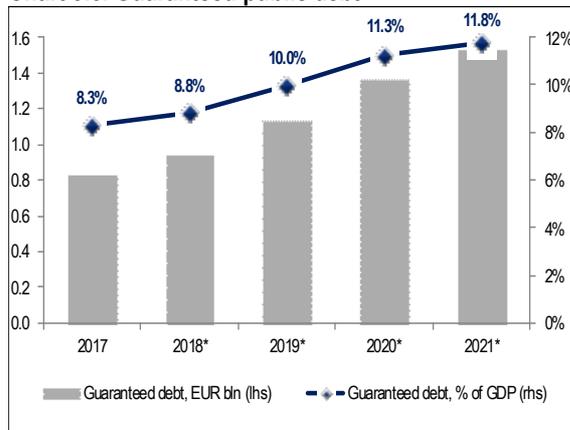
In order to protect central government debt portfolio against the refinancing risk, minimum level of the “average time to maturity” indicator in 2019 should be 3 years. In order to reduce the re-financing risk in 2020, the Ministry of Finance, in January 2018, made an early repayment of part of the previously issued Eurobond with an interest rate of 4.875%, falling due in 2020 in the nominal amount of EUR 91.7 million. The early repayment smoothened the redemption profile by reducing the refinancing amount in 2020, while also generating savings on interest costs from the Budget of the Republic of Macedonia. In order to further smoothen the redemption profile and reduce the re-financing risk, as well as generate additional savings, the Ministry of Finance will continue to consider the possibility for debt restructuring in the coming period by actively managing the debt portfolio through liability management activities.

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



Source: Ministry of Finance, * forecast

Chart 3.6. Guaranteed public debt



Source: Ministry of Finance, * forecast

In order to protect central government debt portfolio against the interest rate risk, minimum level of the “average time to refixing” indicator in 2019 should be 2 years.

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

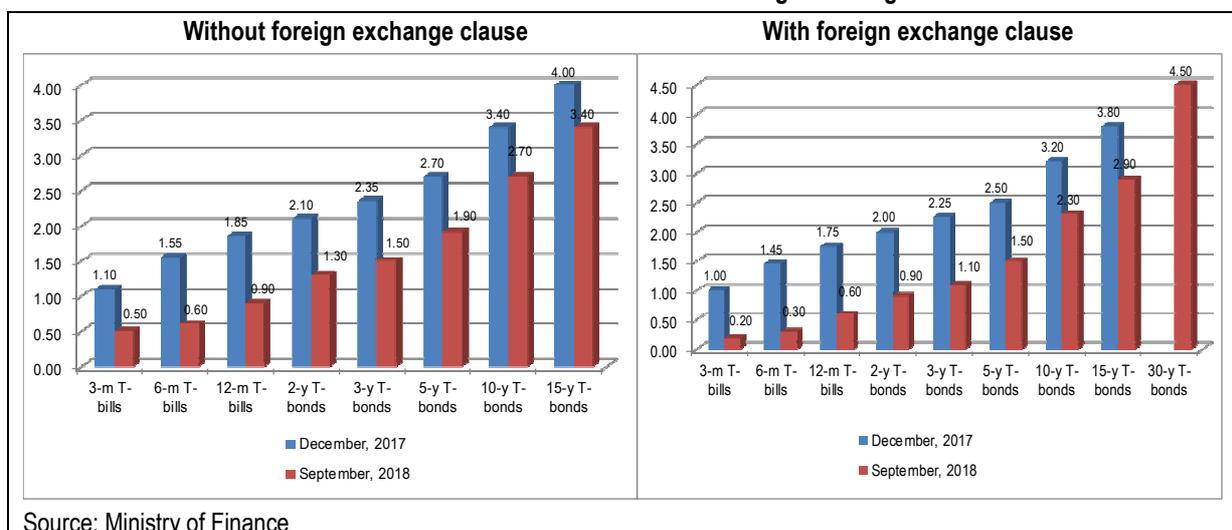
Guaranteed debt. On the basis of the analyses made on the movement of the projected guaranteed public debt in the 2019-2021 period, it is expected to moderately increase as a result of the disbursement of loan proceeds under the projects mainly in the road infrastructure, implemented with loans for which sovereign guarantee is issued. In the course of the whole period, the level of the guaranteed public debt is below the set maximum limit of 13% of GDP.

As for the new borrowings, account is taken of the long-term sustainability of debt, whereby the process of issuing new guarantees is strictly regulated and subject to the borrowing procedure prescribed in the Public Debt Law, according to which the public debt issuers should fulfil certain criteria so as for the country to be able to issue guarantee. As of 30th September 2018 inclusive, issued sovereign guarantees amounted to EUR 842 million, accounting for 7.9% of GDP (included in the public debt which accounted for 48.2% of GDP).

Primary Government Securities Market. According to the Calendar for Issuance of Government Securities (GS) on the Domestic Market, in the period January - September 2018, Ministry of Finance issued 6- and 12-month treasury bills on regular basis, as well as 2-, 3-, 5-, 10-, 15- and 30-year government bonds. The 30-year government bond is a new instrument that was issued for the first time in April 2018, and reflects the stability, reliability and liquidity of the market. In the period January-September 2018 two auctions of 30-year government bonds were held, whereby the demand doubled the offered amount.

In this period, total of 49 auctions of GS were carried out, i.e. 21 auctions of treasury bills and 28 auctions of government bonds. Total amount offered for sale at the auctions was Denar 38,398.00 million, demand was Denar 60,462.83 million and amount realised accounted for Denar 37,902.42 million.

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



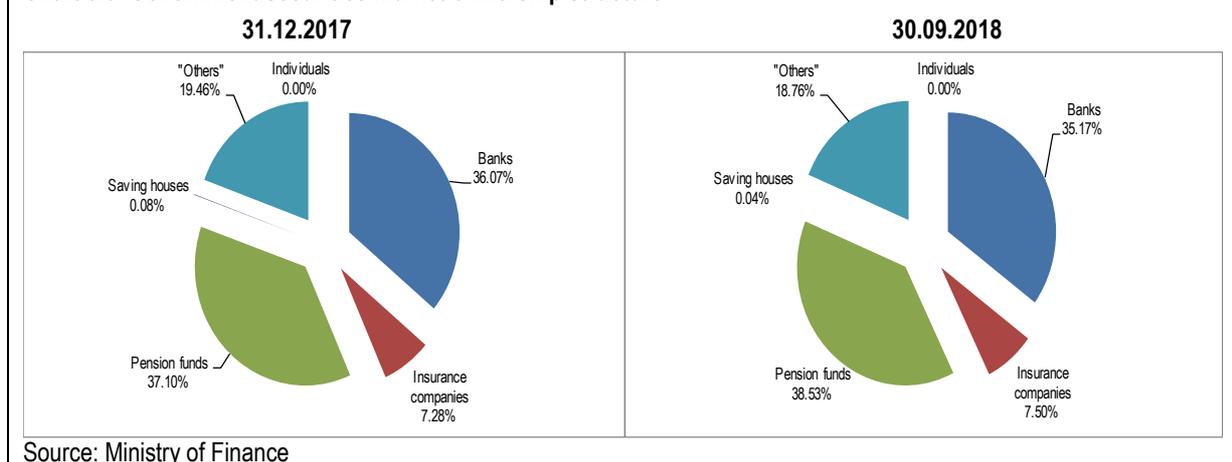
Source: Ministry of Finance

Interest rates on government securities in the period December 2017 – September 2018 are shown in Chart 3.7. The Ministry of Finance decreased the interest rates on government securities in January, May and September.

As of September 2018 inclusive, stock of outstanding government securities amounted to Denar 95,181.09 million, Denar 34,581.33 million out of which as treasury bills and Denar 60,599.76 million as government bonds.

In the period January - September 2018, the share of pension funds and insurance companies continues to register an upward trend in the ownership structure of the government securities portfolio, compared to 31.12.2017 (Chart 3.8). In the analysed period, except for pension funds and insurance companies, the share of other categories of market participants in the ownership structure decreased. During the analysed period, share of banks dropped by 0.90 p.p.. As of September 2018 inclusive, ratio between banks and other market entities was 35.17% to 64.83% respectively. Such ownership structure changes the nature of the government securities portfolio, increasing its duration and reducing exposure to refinancing risk.

Chart 3.8. Government securities market ownership structure



Source: Ministry of Finance

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

In January - September 2018, only trading in government denationalisation bonds was recorded at the Macedonian Stock Exchange. Total volume of trading during this period amounted to Denar 478.50 million, increasing by Denar 314.50 million compared to the same period last year.

During the same period, one transaction with government securities, pertaining to treasury bills, and 5 transactions with government securities, pertaining to government bonds, were realised on the OTC market. Total nominal trading amount amounted to Denar 380.96 million. Compared to the trading in 2017, it can be concluded that lesser number of transactions with government securities were realised as of 30.09.2018, while total nominal amount of trading was lower by Denar 1,208.85 million.

International Capital Market. In January 2018, the Republic of Macedonia issued an Eurobond in nominal amount of EUR 500 million, yield of 3.00% and coupon interest rate of 2.75%. Demand, amounting to EUR 3,500 million, was higher by 7 times than the offer. Statistically speaking, the ownership of the Eurobond was geographically distributed among investors from the United States (34%), the United Kingdom (42.9%) and Continental Europe (13.6%), with a major share of asset management funds (AM) of 86.75%. The funds from the Eurobond are intended for financing budget needs in 2018 and 2019, while a portion was spent for an early repayment of part of the previously issued Eurobond, falling due in 2020 in the nominal amount of EUR 91.67 million. The early repayment generates savings on interest costs from the Budget of the Republic of Macedonia. In the course of 2018, Eurobonds issued by the Republic of Macedonia, falling due in 2020, 2021, 2023 and 2025 were traded on the international capital market. As of September 2018 inclusive, yield to maturity as regards the Eurobonds falling due in 2020, 2021, 2023 and 2025 is 1,03%, 1,78%, 2,51% и 3,01%, respectively.

Credit Rating of the Republic of Macedonia. On 9 February 2018, “Fitch” Credit Rating Agency announced that it has revised Macedonia's outlook from negative to positive, as a result of political stabilization and improvement of the key international relations, at the same time affirming the foreign and local currency credit rating at BB. On 2 August 2018, “Fitch” Credit Rating Agency announced that it affirmed Macedonia's credit rating at BB, with positive outlook. On 16 March and 14 September 2018, “Standard & Poor's” Credit Rating Agency affirmed the previously awarded ‘BB-’ foreign and local currency sovereign credit rating of the Republic of Macedonia, at the same time affirming the stable outlook of the country.

3.6. Sensitivity analysis

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

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

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

Taking into account that medium-term fiscal scenario is based on macroeconomic assumptions, we consider them as a primary factor with potential effect on the fiscal trends. Hence, as a first risk scenario we assume the materialization of downward risks in relation to the external environment, according to the first alternative scenario explained in point 2.3. According to this scenario, the projection for the average annual real GDP growth in the period 2019-2021 is by 1.0 p.p. lower than in the baseline scenario. In addition, the possible lower economic growth will imply a lower realization of the cyclical component of budget revenues. Hence, with respect to the baseline projection, this scenario would result in a 0.5 p.p. higher budget deficit on average between 2019 and 2021. Table 3.6 shows the budget deficit in this period according to the baseline and risk scenarios.

Table 3.6. Sensitivity analysis of budget deficit

	2019	2020	2021
Budget deficit (% of GDP)			
Baseline Scenario	-2,5	-2,3	-2,0
Scenario 1. Lower economic growth	-2,9	-2,8	-2,7
Scenario 2. Lower realization of capital expenditures	-2,7	-2,6	-2,4
Scenario 3. Lower collection of tax revenues	-3,4	-3,2	-2,9

Source: Calculations of the Ministry of Finance

In the second risk scenario, lower realization of capital expenditures is assumed, according to the second alternative scenario explained in point 2.3, i.e. their realization at a level of 75% in relation to the planned with the

baseline scenario, which is similar to the performance in the past. Decreased realization of capital expenditures would cause a slowdown of growth of gross investments, and accordingly a lower real GDP growth rate compared to the baseline scenario, by an average of 0.6 p.p. per year. This scenario would also have a negative impact on tax revenues, which would exceed the effect of reduced expenditures. Therefore, according to this scenario, the budget deficit would worsen by 0.3 p.p. on average annually compared to the baseline scenario.

The third scenario assumes a reduced collection of total tax revenues by 5% per year in the analysed period compared to the baseline scenario. In conditions of unchanged level of budget expenditures and unchanged economic growth, reduced tax revenues would contribute to an increase of the budget deficit by 0.9 p.p. per year compared to the baseline scenario.

The materialisation of any of the above risk scenarios in the upcoming period, would result in relatively limited effects on the budget deficit. In particular, the sustainability of fiscal policy in the medium term is not endangered in any case.

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

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

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

Index figures	2019	2020	2021
Baseline scenario	100.0	100.0	100.0
Scenario 1: increase of respective interest rates by 1 p.p.	105.2	105.1	105.0
Scenario 2: appreciation of other currencies of the portfolio in relation to the euro by 10%	101.4	100.5	100.4

Source: Calculations of the Ministry of Finance

The analysis covers the period 2019-2021, being based upon scenarios of increase of interest rate by 1 p.p. compared to the baseline scenario, as well as euro depreciation by 10% compared to the other currencies.

Main conclusions under this analysis are the following:

- Servicing-related costs on the basis of external general government debt are sensitive to the interest rate movements. Should interest rates in 2019 surge by 1 p.p. in relation to the baseline projection, this would cause interest-related costs to increase by 5.2%, i.e. by EUR 5.3 million, with similar effects in 2020 and 2021. Such sensitivity could be explained as exposure of the debt portfolio to interest rate risk.
- future euro depreciation in relation to the other currencies in the portfolio (US dollar, Japanese Yen and Special Drawing Rights) by 10% will cause an increase of servicing-related costs by 1.4% in 2019, i.e. by EUR 3 million, while the effects are weaker in 2020 and 2021. Given the obtained results, it may be concluded that possible unfavourable movements of exchange rates of other currencies in relation to the euro will not cause any significant increase of the servicing-related costs, as a result of the fact that most of the external general government debt is euro-denominated.

3.7. Fiscal governance and budgetary frameworks

In 2018, the Government started implementing both the measures and the activities envisaged in the Public Financial Management Reform Programme and the adopted 2018 Action Plan. Key reform activities encompassed by the 2018 Action Plan are aimed at preparing new legal solutions in several key areas: Public Procurement Law harmonised with the latest Procurement Directives and the EU best practice, Law on Public Internal Control, Budget Law, introduction of fiscal rules and fiscal council and revision of the Public Debt Law.

In the coming period, implementation of measures and activities envisaged in the Public Financial Management Reform Programme and the annual action plans for its implementation will continue, to the end of realizing the Programme goals: improved medium-term fiscal projections, improved revenue collection in the country by both the tax and the customs administration and ensured long-term stability of the IT systems for public financial management in case of crisis, maintaining overall fiscal discipline on the medium term, improved efficiency when executing the Budget and strengthened financial discipline, improved transparency in public financial management, establishment of a sound financial management and control system and ensuring accountability in spending public funds.

Improved transparency through government reporting is one of the measures envisaged in the Programme which the Government started in 2017, when the Ministry of Finance published the Citizen's Budget for the 2017 Supplementary Budget and the Citizen's Budget for the 2018 Budget for the first time, as well as many other new fiscal information. In order to improve accountability and to inform the public on how citizens' funds are spent, at the same time reflecting in greater inclusion of the citizens in the creation of government programmes and policies, one of the key commitments of the Ministry of Finance in the period 2019- 2021 will be to develop and implement transparency standards on PFM reporting.

Taking into account that no unified mechanism on recording liabilities exists as regards the liabilities of the entities using the public funds, a need has arisen for a systemic solution for recording liabilities by creating an electronic system to provide for a single recording of all liabilities. Therefore, Law on Reporting and Recording Liabilities was adopted in 2018, regulating the reporting and the recording of undertaken liabilities not yet due for payment and unpaid liabilities that are due for payment, in order to ensure and maintain transparency and accountability and strengthen the responsibility when managing public funds. This legal solution establishes a legal obligation for reporting the liabilities in the electronic system on monthly basis by:

- government bodies,
- local government units,
- institutions performing activities in the field of culture, education, health, child care and social protection, as well as other activities of public interest determined by law, established by the Republic of Macedonia or the local government units,
- public enterprises, state-owned companies and
- other legal entities established by the Republic of Macedonia or the local government units.

On the basis of the recorded data on reported liabilities, and in order to inform the public and improve transparency, in October 2018, the Ministry of Finance published summary reports on its website, which fully reflect the undertaken liabilities not yet due for payment and unpaid liabilities that are due for, as of September 2018 inclusive.

On the basis of the data from the Electronic System for Reporting and Recording Liabilities, as well as the fiscal space provided under the amendments to the 2018 Budget of the Republic of Macedonia, Law on Financial Support to Local Government and Spending Units Established by Local Government was adopted, to the end of financing the arrears. The Law is aimed at providing one-off financial support in the amount of Denar 3,032 million (around EUR 49 million) for the purpose of servicing part of the reported arrears of the local government and the spending units established by the local government.

In addition, under the amendments to the Law on Financing Local Government Units, fiscal rule has been set out for planning the own revenues of the core budget of local government units, i.e. for limiting the planning of own revenues, thus preventing future incurring of significant amount of liabilities and improving the fiscal discipline.

Within the efforts to further improve transparency and government finance statistics, in January 2018, Ministry of Finance for the first time submitted reports to be published in the IMF GFS Year Book in line with the latest IMF GFSM 2014. The reports cover the execution of the General Government Budget (central government budget and local government budget), prepared on cash basis, including annual data for the period from 2013 to 2016. By publishing these reports, the Republic of Macedonia joined the IMF database which provides for comparison of the data at international level. One of the priorities of the Ministry of Finance in the coming period will be further improvement of government finance statistics and alignment with the latest international standards.

For the purpose of better quality public debt management, the Ministry of Finance has initiated strengthening of its capacities in this area and has asked for a technical assistance from the IMF and the World Bank. At the

beginning of 2017, the Ministry of Finance joined the World Bank Government Debt and Risk Management Programme (GDRM), which comprises several components to be worked on in the coming period, as follows:

- further development of domestic securities market
- improvement of the capacities when managing risks of the public debt portfolio and improvement of the medium-term public debt management framework
- improvement of the functions of the public debt management system.

3.8. Sustainability of public finances

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

- average labour productivity growth of approximately 1.6%;
- increase of male participation rate from 78.4% in 2017 to 83,8% in 2060;
- more intensive increase of female participation rate (from 51.7% in 2017 to 71.4% in 2060), by which share of female population in the total active population is expected to reach 46% in 2060;
- reduction of unemployment rate with higher intensity by 2040, projected at 10.2% in 2040, and with lower intensity in the remaining 20 years, whereby unemployment rate is projected to amount to 4.7% in 2060;
- Gradual increase of the share of population above 65 years of age, reaching around 28% in 2060.

On the basis of the employment and wages growth projections, an average annual growth of 5% of revenues on the basis of pension insurance contributions is envisaged in the analysed period, while their share in GDP amounts to 5.6%. As for pension-related expenditures, it is worth mentioning that only those of the Pension and Disability Insurance Fund are taken into account. Thus, share of pension-related expenditures in GDP in the period by 2030 is expected to maintain above the level of 8%, while, in the coming period, the share is envisaged to significantly reduce, which is expected to be around 5% in 2060. Public expenditures for health protection as percentage of GDP are projected to gradually increase and reach 6.7% in 2060. Such projected increase of expenditures is mainly a result of the effects of population aging. Education-related expenditures are envisaged to increase by 5.4% on average annually in the next forty years, so their share in GDP is expected to reach 5.5% in 2060. Interest-related costs, as a share of GDP, are expected to gradually decrease and reach a level below 1% in 2060, in line with the projected trend of budget balance, i.e. government debt.

4. Structural reforms in 2019-2021

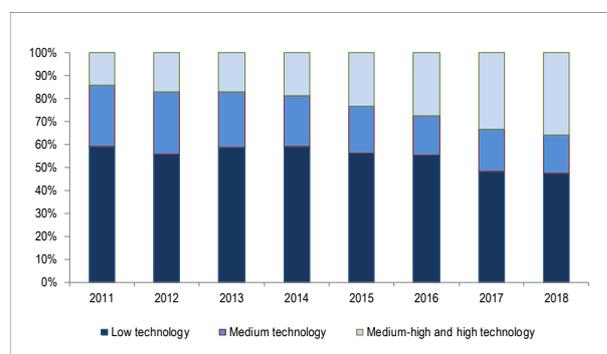
4.1. Identification of key obstacles to competitiveness and inclusive growth

In 2018, after the weak growth at the beginning of the year, reflecting the developments in the construction sector, i.e. the weaker dynamics in the realization of public capital expenditures, positive movements were registered in the second and third quarter in the more significant sectors in the economy. Thus, the activity in the industrial sector continued to grow with a stronger intensity, with a part of the traditional activities also having a positive contribution. Growth in the service sector has also been accelerated, with a significant contribution of trade activity, while construction sector activity has seen a significant slowdown of the downward trend. The average growth in the first three quarters of 2018 was 2.3%. Analysed by sectors, the economic growth in this period was due to the positive achievements in the service and industrial sector, while construction and the agricultural sector had a negative contribution to the growth. Foreign direct investments reached EUR 315.6 million in the first three quarters of the year, significantly exceeding the total FDI realized in 2017. Positive developments on the labour market continued, with the employment rate in the third quarter grew by 0.9 pp. on annual basis and accounted for 45.1%, while the unemployment rate dropped to 20.8%.

The clear EU perspective and the policies the Government implements, contributed to economic recovery, though still very fragile. In order the growth to be sustainable in a longer term, there is a strong need for pursuing structural reforms that shall boost investments, productivity and job creation in high technology intensity industries. The analysis of high-frequency data for the first nine months of 2018 shows that the share of manufactured products in total exports is about 90%. Export growth is mainly driven by the capacities in the free economic zones specialized in technology-intensive sectors. Also, manufacturing, which accounts over 80% of industrial production, outperformed the overall industrial production index, rising by 6.8% compared to 5.0%. But,

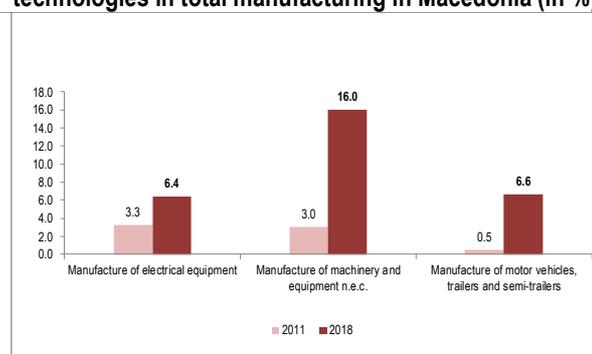
looking by technological intensity structure, the medium and medium to high technology manufacturing industries contributed by about half to industrial index rise and similar is their export share. This means that there is still significant share of labour-intensive industries with low productivity within the industry sector.

Chart 4.1. Structure of manufacturing in Macedonia



Source: MoF calculations based on SSO data

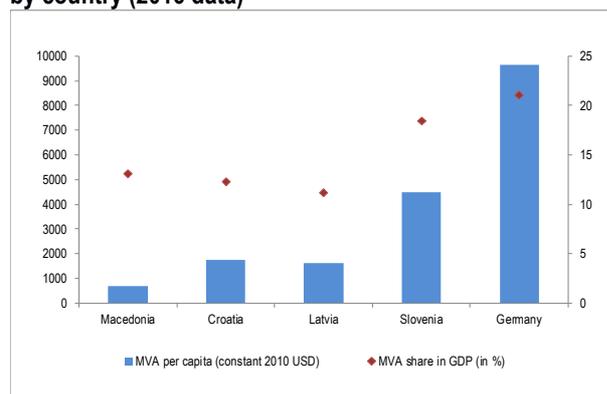
Chart 4.2. Share of selected medium-high and high technologies in total manufacturing in Macedonia (in %)



Source: MoF calculations based on SSO data

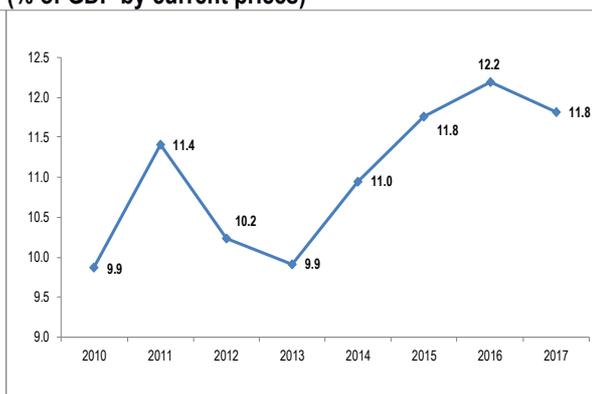
According to UNIDO Competitive Industrial Performance Index 2018²⁶ Macedonia is ranked on the 78th place out of 150 countries, yet if compared to other countries, there is a need for increasing the share of high-value added manufacturing industry in economy output.

Chart 4.3. Manufacturing value added performance by country (2016 data)



Source: UNIDO

Chart 4.4. Share of manufacturing in GDP (% of GDP by current prices)



Source: MoF calculations based on SSO data

Notwithstanding the fact that the country's manufacturing sector structure has changed by shifting gradually to higher technology-based production and by increasing its share in GDP, this is still not translated in higher value added per capita which measures the industrialization of a country. Increased value added per capita leads to rising of the living standard, as the real GDP per capita in Macedonia is around 36% of EU-28 average in 2017. The IMF Analysis on FDI in New Member States and Western Balkans²⁷ states that much of the pre- and post-production services activities, which hold the higher share of value added are done by parent companies, meaning research and development activities, which have increased over time, are kept in host countries. For this reason, the domestic companies should embrace more vigorously the advantages of the digital technology for increasing their productivity, competitiveness and their share of value added in higher technology industries.

In this regard, only investing in research, development and innovation can provide success on the global market, which is becoming increasingly integrated in value chains. According to the European Innovation Scoreboard 2018²⁸, Macedonia is a modest innovator as it shows performance level below 50% of the EU average. The report states Attractive research systems and Innovators as the strongest innovation dimensions, while Sales impact and Intellectual assets are the weakest innovation dimension. The report shows that firms' investments in

²⁶<https://stat.unido.org/country/MKD.pdf?sessionid=5302677C31C67CE81999C66B812E7916>

²⁷<http://www.imf.org/en/Publications/WP/Issues/2018/08/21/Foreign-Direct-Investment-in-New-Member-State-of-the-EU-and-Western-Balkans-Taking-Stock-and-46152>

²⁸ https://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en

R&D are negligible, compared to Non-R&D innovation expenditures. It also shows very low level of patent and design applications vs. trademark applications, in favour of the latter.

The OECD report – Competitiveness in South East Europe: A Policy Outlook 2018²⁹, states that in a global economy increasingly dependent on knowledge and skills, investment in education and competencies is critical to increase human capital and thus improve labour productivity, which is a long-term driver of economic competitiveness. PISA results for Macedonia are well below its peers from CEE and the OECD average, and Macedonia with Kosovo are the lowest achievers among SEE countries. Mismatches between private employer needs and the skills provided by the education system are problem for decreasing the high unemployment rate in Macedonia, especially youth unemployment being at a level of 47.6% in 2017, almost three times higher than EU average. In this sense, the activation policies should play key role in supporting young, long-term, women and vulnerable groups to find suitable employment and increase employment opportunities. Closely related to this is the need to strengthen the integration of social work centres and public employment agencies for better targeting the employability of social assistance beneficiaries. The system of social protection should be redesigned as to provide support to most materially vulnerable families, while encouraging working-capable beneficiaries to improve their living standard by looking for employment opportunities.

The larger integration of companies in higher technological global value chains depends in a great extent on further improvement of the business environment. Despite the continuous improvement of business regulations, there is a need to improve law enforcement conditions, simplify existing legislation and reduce unnecessary costs. Lack of innovation is closely related to lack of proper logistic such as excellent public services, customs, communication links and transport infrastructure. The country needs to continue with improving the competitiveness of the energy sector, and particular attention should be given to sustainable development given the high potential for renewable energy sources and energy efficiency³⁰.

Building inclusive society means decreasing income gaps as inequality can worsen growth sustainability. What presents real challenge is the existence of an informal sector that creates unequal conditions for companies that are paying taxes and social contributions and adhere to the legislation. Also, there are large intersectoral differences in productivity, or lack of access to finance, especially for SMEs³¹.

Based on monitoring the economic governance process and assessing the ERP 2018-2020, EC policy guidance recommends the challenges that need to be immediately tackled, such as low participation in labour market, skills mismatch, lack of legal certainty for companies, significant brain drain, quality and efficiency of public spending, lack of systematic, efficient and transparent law enforcement, many para-fiscal charges at different administrative levels, size of informal economy, quality of education system as a whole, coverage of labour market measures in particular for low-skilled unemployed and better targeting of social benefits.

4.2. Summary of reform measures

Energy and transport market reform
Measure 1: Increasing the competitiveness of the electricity market
Measure 2: Promotion of renewable energy sources and improvement of energy efficiency
Measure 3: Facilitating Macedonia-Serbia cross-border crossing
Measure 4: Implementation of an Intelligent Transport System (ITS) along Corridor 10
Agriculture sector development
Measure 5: Improving of irrigation system
Measure 6: Consolidation and defragmentation of agricultural land
Measure 7: Agricultural cooperatives
Industry sector development
Measure 8: Financial support of investments
Measure 9: Financial support for micro, small and medium enterprises
Services sector development
Measure 10: Increasing competitiveness in the tourism and hospitality sector
Business environment and reduction of the informal economy

²⁹ https://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en

³⁰ <http://www.oecd.org/south-east-europe/programme/competitiveness-south-east-europe.htm>

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

Measure 11: Harmonization of the Public Procurement Legal framework with the Acquis
Measure 12: Development of a National E-Services Portal. This measure is linked to the fifth policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2018 “Create a register of para-fiscal charges on central and local levels that clearly states the purpose of each charge and make it publically available”.
Measure 13: Reducing the informal economy. This measure is linked to the fourth policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2018 “Prepare risk assessments focusing on sectors and branches most vulnerable to informalities, identify and apply appropriate corrective measures”.
Research, development and innovation and the digital economy
Measure 14: Improving Infrastructure and Access to Finance for Research, Development and Innovation
Trade-related reforms
Measure 15: Trade facilitation
Education and skills
Measure 16: Further development of the qualification system
Employment and labour markets
Measure 17: Youth guarantee. This measure is linked to the sixth policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2018 “Facilitate women’s access to the labour market and ensure sufficient capacity of the Employment Service Agency for implementing the Youth Guarantee”.
Social protection and inclusion
Measure 18: Enhancement of financial benefits in the field of social protection. This measure is linked to the first and sixth policy guidance from the Joint Conclusions of the Economic and Financial Dialogue from May 2018 “Streamline and better target social spending and agricultural subsidies” and “Adopt the law on social protection to better target those at risk of social exclusion”.

4.3. Analysis by area and structural reform measures

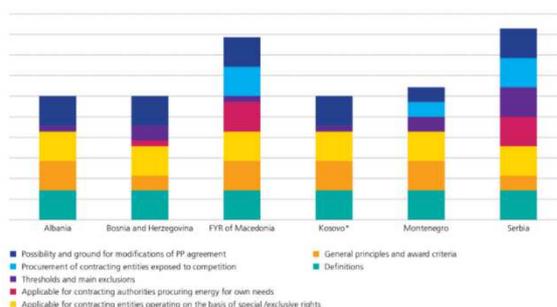
4.3.1 Energy and transport market reform

Energy market. The Republic of Macedonia has limited range of options for energy supply and is highly dependent on energy imports as demand has outpaced domestic supply. In the total amount of electricity for consumer needs for 2016, domestic generation accounts for 70.77%, while imports account for 29.23%. The total installed capacity of the power plants for generation of electricity is 2,057 MW.

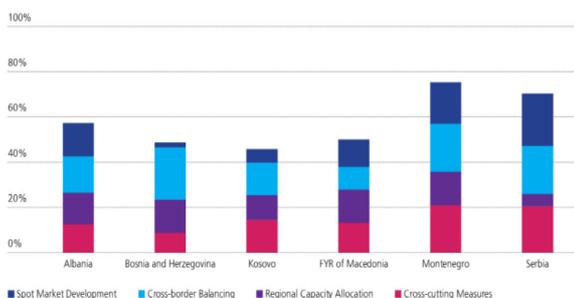
The Republic of Macedonia has high consumption of total energy per GDP compared to the developed countries, although it has low energy consumption per capita. The energy-intensity indicator expressed as the ratio between total energy demand per unit of GDP is worsened by 2% in 2016 compared to 2015 (338 kgoe/1,000 euro in 2016, 332 kgoe/1,000 euro in 2015), indicating the energy efficiency as an important contributor to this trend. For comparison only, in EU-28 the total energy required per unit of GDP was 120 kgoe/1,000 euro in 2015.

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

Implementation of harmonized public procurement rules for specific energy related procurements



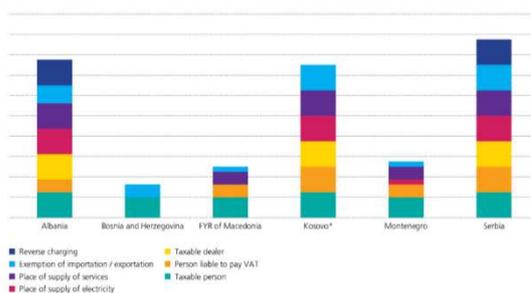
Overall Implementation of Soft Measures



According the WB6 Electricity monitoring report from June 2018 prepared by the Energy Community, below are given tables for overall implementation of soft measures, implementation of harmonized public procurement rules

for specific energy related procurements and harmonization of value added tax regimes for electricity related cross-border transactions.

Harmonization of value added tax regimes for electricity related cross-border transactions



The preparation of the Energy Efficiency Law is underway, in which the provisions and obligations arising from the Energy Efficiency Directive shall be implemented.

Transport market. The economic development of the Republic of Macedonia, as a small continental country, depends to a large extent on a well-developed transport network. In order to achieve high quality regional connection, reduce the distance to foreign markets and reduce transport costs, rehabilitation and completion of road and rail sections/routes are continuously carried out.

The most important transport corridors in Macedonia are the Pan-European Corridor 10, extending from north to south across the country (from the border with Serbia to the border with Greece) and Pan-European Corridor 8, extending from east to west and connecting the port of Durres in Albania with the ports of Burgas and Varna on the Black Sea in Bulgaria. Most of the goods are transported by road transport. Thus, in the total freight transport for the period 2006-2016, the share of road freight transport is over 91.7%, while the railway is less than 8.2%³². This leads to increased delays at road border crossings and slowdown in the flow of goods. Hence, there is a need to increase the share of rail transport. In order to encourage greater utilization of rail transport through Corridor 10, it is necessary to reduce the waiting time at the railway border crossings by introducing the "one-stop-shop" system for shortening the border crossing procedures.

Road Corridor 8 is 304 km long, extends along the east-west direction, but only 37% have been upgraded to highway level, thus it needs further upgrading. Railway Corridor 8 is under construction to provide a direct rail link between Macedonia, Bulgaria and Albania, access to their ports and an alternative transportation opportunity for Macedonian companies.

In December 2018, the Government adopted the National Transport Strategy (2018-2030) which covers current and planned priority activities. The Strategy is designed to improve the economic efficiency, safety and accessibility of transport, environmental management and integration with other sectoral policies.

In December 2017 the Parliament of the Republic of Macedonia ratified the Treaty for establishing the Transport Community. The establishment of the Secretariat of the Transport Community is currently ongoing.

Measure 1: Increasing the competitiveness of the electricity market

1. Description of the measure

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

The main reason for launching liberalization of the energy market is to provide competitive prices and innovative offers from retailers in favour of consumers. Consumers have the right to choose their supplier of electricity and to buy electricity from trader of their choice at planned price that best meets their needs, or remain in the regulated tariff.

The adoption of the new Energy Law enabled the fulfilment of the energy "soft measures", removal of the main legal obstacles for the establishment of organized electricity market, as well as full liberalization of the energy market, which will start from 01.01.2019, when universal supplier is going to be selected. According to the new Energy Law, the regulation of the generation price is terminated and the right of all buyers to change the supplier is regulated. Additional activities will be undertaken for implementation of "soft measures" from group 4.

The Republic of Macedonia should join the existing electricity exchange in some of the neighbouring countries or establish its own electricity exchange (taking into account liquidity and economic justification). In this regard, Action Plan for the establishment of national organized electricity market was adopted, and AD MEPSO, as operator of the electricity market, is obliged to implement it. With the establishment of the electricity trading platform, day ahead will enable secure functioning of liquid energy market and creation of conditions for greater competition in the provision of energy to the consumers. Technical assistance is provided by the Energy

³² Source: State Statistical Office

Community to find compatible solution for organizing market for a day ahead of electricity and joining neighbouring stock exchanges, as well as procedures for the appointment of NEMO in accordance with the EU CACM Regulation (Capacity Allocation and Congestion Management). This draft model for organized electricity market was presented to the Government on May 30, 2018.

Electricity Market Rules have been adopted by the Energy Regulatory Commission³³. The level of trading in energy exchange in isolated regime (prior to the merger of the market) is expected to be about 5% of the total electricity consumption. The increase in liquidity is expected after the merger of the market with at least one of the neighboring countries. The new balancing mechanism is fully market-oriented and will apply to all electricity market participants. The electricity transmission system operator organizes and manages the balanced energy market. Procedures for adoption of the Balance Rulebook are underway. AD MEPSO (TSO) will procure balancing services from the providers of balance services in the national and in the perspective of the regional market for balancing under competitive conditions. The current production company AD ELEM signed a Memorandum of Understanding with the Secretariat of the Energy Community, which will provide technical assistance for improving their electricity trading capacities and developing business strategies for managing its electricity production and trading portfolios in order to be competitive on the electricity market. With gradual deregulation of the production price, households and small consumers after January 1, 2019 will be able to choose their own electricity supplier, and if they do not choose, they will be supplied by the universal supplier. The following bylaws have been adopted and approved by the Energy Regulatory Commission for the implementation of all the aforementioned activities: Tariff system for sale of electricity to consumers supplied by the universal supplier and supplier in the last instance, Rules for electricity supply for the universal supplier, Electricity Market Rules, Rules for electricity supply, Rules for electricity supply for covering the losses in the electricity transmission system, Rules for allocation of cross-border transmission capacities, Rules for electricity supply for covering the losses in the electricity distribution system, Compliance program (EVN). In order to protect the vulnerable consumers, it is envisaged to adopt Program for Protection of Vulnerable Energy Consumers for 2019, prepared by the Ministry of Economy in cooperation with the Ministry of Labor and Social Policy. This fulfils the measures for energy reforms of Group 2 and 4.

a. Planned activities for 2019

- Adoption of bylaws for practical implementation of the Energy Law,
- Separation and certification of the transmission system operator in accordance with the Third Energy Package,
- Establishing market operator,
- Procedures for the appointment of NEMO in accordance with the EU CACM Regulation,
- All necessary activities for market merging with the Bulgarian electricity market.

b. Planned activities for 2020

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

2. Expected impact on competitiveness

This measure will enable liquid electricity market and creation of conditions for greater competition in the energy supply to consumers, as well as increasing the number of companies that will participate on the open energy market. Further liberalization of the electricity market also has indirect effects on other economic sectors, especially those whose competitiveness depends on energy prices.

3. Key Performance Indicators

With functional organized day-ahead market, is expected to be traded with at least 5% of the total electricity consumption in isolated regime.

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

For the realization of the activities related to the establishment of energy exchange is envisaged about EUR 1 million. In 2019 and 2020, EUR 960,000 will be spent on opening new working positions, installing new software that will be used to connect the national electricity market to neighboring markets, as well as the procedure for appointing NEMO and unexpected costs.

³³ Official Gazette of RM No. 173/18 dated September 2018

5. Expected impact on employment and gender

Opening the electricity market positively affects employment, bearing in mind that opening of new companies directly affects creation of new job positions. The number of companies that own license for supply and license for electricity trade in 2018 has increased by more than 10%, taking into account the novelties in accordance with the new Energy Law³⁴. Gender equality will be respected in the process of implementing the measure.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Achieving liquidity in isolated mode	5-10%	High	- Enable trading conditions for the energy needed to compensate the maintenance costs of the electricity distribution and transmission system (losses) - Merge the markets day ahead
Implementation of CACM Regulation (Capacity Allocation and Congestion Management) as a precondition for quick connection to neighboring organized electricity market	5-10%	High	Currently, preparations are being made to overcome this potential risk within the Energy Community Secretariat, with the participation of the PSC DAMI (Program Steering Committee for Day-Ahead Market Integration) by the contracting parties and the PSC MRC (Program Steering Committee for Multiregional Coupling) by countries included in the MRC.
Harmonization of the domestic legislation in the area of VAT. The risk is identified by the Secretariat of the Energy Community within the Study for all Western Balkan countries on the situation related to VAT	5-10%	High	The recommendations of the Study are appropriately implemented in the domestic legal system for VAT

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

1. Description of the measure

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

Greater use of renewable energy sources (RES) and energy efficiency improvement (EEI) is one of the main strategic goals in the energy sector. According to the RES Action Plan, the percentage share of RES in the final consumption in 2020 should be 23.9% and in 2025 it should be 25%. According to SSO data, the share of RES in 2016 is 18%, and in 2017 it is 19.6%³⁵. This percentage should be achieved through the construction of new RES plants, as well as reinforced energy efficiency measures in accordance with the RES Strategy for 2020, as well as pursuant to the new Strategy for Energy Development by 2040, which is in the process of preparation and is expected by the end of 2019 to be adopted. Pursuant to the Sustainability Charter signed at the Western Balkans Summit (WB6), the Republic of Macedonia has committed itself to introduce market-oriented support mechanisms for promoting RES (auctions and premiums).

Secondary legislation is currently being drafted, which refers to the more specific implementation of the provisions of the Energy Law for the generation of electricity from renewable energy sources. Under the new bylaws, it will be announced a public call for the award of several locations for the construction of photovoltaic power plants with capacity of up to 200 MW, which will provide state land with regulated infrastructure and connection to the electricity network. Also, in the next period, a public call for construction of wind power plants with a capacity of up to 50 MW will be announced, using a premium on locations for which the potential for wind energy production has already been determined. At the same time, special premiums will be awarded to private lands through transparent and competitive procedure. According to the Premium analysis (within the Clean Energy Investment Project), the total estimated cost for premiums in 2022 is EUR 7.8 million.

The Third Energy Efficiency Action Plan identifies the priorities for achieving the objective of indicative savings by introducing measures in the most important sectors: the public sector, the industry, the commercial, energy and transport sectors. The realized energy savings in 2016 are estimated at 102.5 ktoe, which is 6.27% of the final energy consumption. Estimated consumption of primary energy is expected to be 3,014 ktoe in 2020, while the value of "individual consumption" is 3,270 ktoe. This means that the country will keep the primary and final energy consumption in line with the consumption of the countries of the Energy Community, with primary energy

³⁴ Source: <http://www.erc.org.mk/default.aspx>

³⁵http://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat/MakStat_Energija_Energetindikator/425_Ene_Mk_17UOIBf_ml.px?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef

savings in 2020 estimated at 256 ktoe per annum and the final energy savings in 2020 are estimated to be 226.27 ktoe³⁶.

It is also necessary to adopt the Law on Energy Efficiency and accompanying bylaws. According to the Law, the Government shall adopt decree to determine how the savings targets will be met, whether only with binding scheme or with alternative measures. Alternative measures can be of a diverse nature such as: introduction of new pollution taxes, sale of products with energy characteristics (except those for which there is obligation), establishment of the EE Fund, voluntary agreements that introduce high-efficiency technologies, campaign, introduction of fees for buying inefficient products, i.e. using inefficient services, renovation of buildings of municipalities and public enterprises, etc.

It is necessary to create favourable conditions (economic, technical and legal) for effectuation of energy services agreements in order for ESCO companies to be able to guarantee for the achieved savings by applying energy efficiency measures. It is also important to adopt a Strategy for reconstruction of buildings by 2030, which should analyse the existing policies and instruments in terms of effectiveness and propose appropriate measures for reconstruction of the entire fund of buildings in the Republic of Macedonia. The establishment and operation of the Energy Efficiency Fund is important in order to support faster implementation of successful energy efficiency programs and to improve investments.

The responsible institutions are: Ministry of Economy, Energy Agency, Energy Regulatory Commission and AD MEPSO.

a. Activities planned in 2019

- Adoption of the bylaws deriving from the Energy Law in the field of Renewable Energy Sources
- Adoption of Annual Program for Financial Support for Electricity Generation from Preferential Manufacturers Using the Premium
- Conducting tender procedures with auction for granting the right to use premiums for preferential producers
- Adoption of the Law on Energy Efficiency
- Adoption of the bylaws arising from the Law on Energy Efficiency
- Commencement of activities for preparation of typology of buildings needed for adoption of the Strategy for reconstruction of buildings by 2030
- Preparation of analysis of the manner of establishing the Energy Efficiency Fund

b. Activities planned in 2020

- Adoption of Strategy for reconstruction of buildings by 2030
- Adoption of Program for realization of the Energy Development Strategy
- Comprehensive assessment of the potential for applying highly efficient combined energy generation and efficient central heating and air conditioning systems
- Adoption of Law on Establishing Energy Efficiency Fund

2. Expected impact on competitiveness

The implementation of the measure will ensure: diversification of the supply, increased competition of the energy markets, increased utilization of renewable energy sources, increase of the domestic energy production, security and continuity in the energy supply of households and companies, reduction of the emissions of greenhouse gases and the improvement of environment.

3. Key performance Indicators

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

³⁶ <http://www.economy.gov.mk/doc/2110>

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

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

For this measure EUR 553.500 are planned from the budget, for salaries for new working positions, installation of new software for premiums and funds that will be used for subsidies and premiums. Grant of EUR 1,800,000 will be provided for the installation of panels for photovoltaics in public buildings in rural municipalities.

5. Expected impact on employment and gender

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

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Delaying the establishment of the Energy Efficiency Fund	5-10%	High	The appropriate recommendations from the Analysis on the manner of establishment of the Energy Efficiency Fund should be incorporated into the new Law on Establishment of the EE Fund. Also, it is necessary to develop procedures for the manner of operation of the Fund and approval of the projects that implement measures for EE.

Measure 3: Facilitating Macedonia-Serbia cross-border crossing

Description of the measure

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

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

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

In February 2015, the Government of the Republic of Macedonia and the Government of the Republic of Serbia signed an Agreement on the establishment of border procedures, in accordance with the Directive 2012/34 for creation of a single European railway area. Protocols between the relevant services from Macedonia and Serbia (police, customs, inspection services etc.) were signed in June 2016, by which the official staff of the two countries defined the method, methodology and procedures for the work of the joint station.

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

This measure is closely related to the measure for trade facilitation.

a. Activities planned in 2019

- Approval of the Application for Investment Grant (first screening mid of 2019, final approval end of 2019),
- EBRD will Amend the Loan for rail Corridor X project and will start negotiation for signing the Guarantee Agreement, if the Application is positively screened,
- Second half of the year - tendering procedure for Works and Supervision Engineering.

b. Activities planned in 2020

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

c. Activities planned in 2021

- Implementing of construction activities.

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

2. Expected impact on competitiveness

The construction of JRBS is expected to improve the competitive advantage of the rail compared to the road transport. The greatest impact is expected to be in the time saving. Total travel time saved, as a result of the construction of the JRBS is expected to be 30 minutes instead of 60 minutes per passenger train, due to the fact that most controls will be done on the moving train, and 90 minutes per freight train instead of 180 minutes.

Companies performing transport activities will experience lower costs and lower transport times, which will create conditions for increased amount of transport by railway.

3. Key performance indicators

Type of transport	2018		2021	
	Minutes	Percentage decreased	Minutes	Percentage decreased
Passenger train time savings	60	0%	30	50%
Freight train time savings	180	0%	90	50%

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

The estimated investment value is EUR 5,136 million, while for the maintenance of the facilities it is estimated that it will take 50,000 euros annually for all components and phases (for buildings - construction part, electricity, machine parts, water treatment and sewage treatment plant, equipment and parking with access road). The funds are planned to be provided as an investment grant through the WBIF instrument in 2019. The cost is increased because the access road with the estimate cost of EUR 1,200,000 is added. The application for an investment grant has been submitted to the WBIF Steering Committee on 30 November 2018. In addition to the application is the support letter from the European Bank for Reconstruction and Development, which confirms that the Bank will support the Program, as a surplus and expansion of the existing loan from the Bank for modernization of the railway Corridor 10.

5. Expected impact on employment and gender

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

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Prolongation of construction activities for completion of the railway border crossing	10%	High	Regular monitoring of the implementation of activities for construction of the JRBS. The regional dimension of the measure contributes to reduce the risk of untimely implementation of activities.

Measure 4: Implementation of an Intelligent Transport System (ITS) along Corridor 10

1. Description of the measure

Intelligent Transport System in road transport covers traffic management, video surveillance of traffic, information systems and traffic technology. Through the implementation of the ITS project along road Corridor X, one of the strategic objectives in the National Transport Strategy of the Republic of Macedonia will be fulfilled i.e. maintaining a high level of safety and traffic flow in all conditions.

The introduction of a ITS arises from the need for approximation and harmonization with the directives from the EU transport acquis.

The establishing of technical management of transportation, i.e. the construction of a single comprehensive and consistent Intelligent Transport Traffic Management and Control System, surveillance over the traffic and weather conditions on every segment will be enabled. The system uses variety of traffic data and the number and type of vehicles that move along corridor X, as well as meteorological data along the route throughout the year which can be used for statistical and analytical purposes.

Project documentation was prepared at the beginning of September 2018, the audit documentation is expected to be completed by the end of 2018. At the same time, consultants from CONECTA are engaged, who should review the technical documentation in terms of compliance with the European directives and experiences in the field of intelligent transport system. The location of the control centre will be near the Petrovec toll station.

As part of the preliminary talks on the Western Balkan Trade and Transport facilitation project, the implementation of the Intelligent Transport System has been discussed to be part of Component 2 of this Project.

a. Activities planned in 2019

- Closure of financial construction, provision of funds for implementation and approval of the Program,
- Start the process for selection of the contractor for construction and selection of supervision of construction.

b. Activities planned in 2020

- Finishing the process for selection of a contractor for construction and selection of construction supervision,
- Start of construction activities.

c. Activities planned in 2021

- Continuation of construction activities.

2. Expected impact on competitiveness

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

3. Key Performance Indicators

- Reduced number of traffic accidents expressed in% along Corridor 10
- Lower annual emissions of CO₂ (tonnes) expressed in% along Corridor 10

4. Estimated costs for activities and the source of financing

Costs for the project will be defined after the current revision. The funds are planned to be provided through WBTF project application.

5. Expected impact on employment and gender equality

The implementation of this system will have a direct short-term impact on companies that work with this type of equipment and accordingly increased employment in them. Gender equality will be respected in the process of implementing the measure.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Prolongation of the activities for completion of the project	10%	Medium	Regular monitoring of the implementation of the activities
Delay in adoption of appropriate legislation and by-laws for this type of systems	10%	Medium	Using EU technical assistance (TAIEX) in better and efficient legislation approximation

4.3.2 Sectoral development

4.3.2.1 Agriculture sector development

Agriculture plays an important role in the Macedonian society, with wide regional differences. Its share in the total gross value added (GVA) was 9.4% in 2017³⁷. At the same time, its share in employment was 16.2% in 2017, registering a modest decline over the past years (SSO).

Job creation is a priority in Macedonia, and further modernization and development of the agri-food sector can generate a job creation and economic growth. Rural areas face many structural and socio-economic challenges. Huge rural areas remain depopulated and their resources unutilized, with negative economic, social and environmental consequences. The rural population has been stagnant over the last decade as a share in the total population, about 42.3% in 2017. Employment opportunities in rural areas are limited and dominated by agriculture as an economic sector. All these factors limit rural employment and economic growth.

Primary agricultural production remains caught in a low-productivity-low-income trap. Most agricultural producers are engaged in subsistence and semi-subsistence activities, registered as unemployed and have poor labour force mobility. The average physical size of a farm in 2016 was 1.8 ha and 2.1 LSU (livestock size units). The value added per agricultural worker³⁸, as a measure of productivity in agriculture, amounts to 19,127 in 2016 and is 2/3 of the EU average 29,425.

The arable land cadastre data indicate excessive land fragmentation where the average size of a privately owned parcel is 0.22 ha, while for the state-owned it is 0.56 ha. The consolidation of agricultural land will take place through the processes of exchanging parcels with or without changing their form, until the land borders are completely changed in order to obtain utilized arable land with proper form suitable for agriculture production. Additionally, an audit will be carried out for state agricultural land already granted and categorization of the land by quality, which will depend on the value and duration of the concession.

Widening agri-food trade deficit reflects the sector's competitive weaknesses. The country is a net agri-food importer, having had a negative trade balance for more than a decade. The agri-food trade situation continued to worsen in the last few years, in spite of an improvement in the general trade performance, overall. Only a few agri-food commodities, such as some fruits and vegetables, wine, tobacco, and lamb, register a trade surplus.

Macedonia's increased vulnerability to climate change poses additional challenges to the performance of its farm sector. Climate change is already affecting the country and its adverse impacts are likely to increase over the next decades. Increases in the mean temperatures (by 2.5°C in the summer, by 2050) and water deficits (a decline by 17% in the summer, by 2050) are the risk factors most likely to manifest in the future (World Bank 2010). As reaction to the challenges with climate change, the agriculture will be distribute in regions according to the soil and climatic conditions of the areas for planned plant and animal production and lists of recommended crops and varieties will be made, taking into account the traditional production and the needs for watering. Additionally, arable land will increase by investing in hydro-melioration systems.

Measure 5: Improving of irrigation systems

1. Description of the measure

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

The new capital investments in construction of dams and irrigation systems already started and will proceed in the next period. Overall objective is increase of irrigated areas on the level of installed capacity (144.000 ha) and gradual widening of irrigation systems to fulfil the objective irrigated land to be a half of total cultivated land (around 250.000 ha). These capital investments will have direct impact on the increase of irrigated crop yields and physical agricultural production.

The activities are realized in accordance with the "Investment Plan for Water Management Master Infrastructure 2015-2025", which encompasses: Rehabilitation and reconstruction of installed infrastructure for irrigation and drainage in order to achieve their sustainability and water conservation; Upgrading and expansion of the existing hydro-system in order to increase the irrigated area in the country; and Construction of new major facilities in the hydro-system.

³⁷ <https://data.worldbank.org/indicator/nv.agr.totl.zs>

³⁸ https://data.worldbank.org/indicator/EA.PRD.AGRI.KD?locations=MK&year_high_desc=true

Activities planned in:	2019	2020	2021
Construction of dam Konsko	Continuing construction activities	Continuing construction activities	Continuing construction activities
Construction of dam Rechani	Starting construction activities	Continuing construction activities	Continuing construction activities
Construction of irrigation system Raven – Rechica	Continuing construction activities	Continuing construction activities	Continuing construction activities
Construction of dam on Slupchanska river	Finishing technical documentation and starting procedure for issuing construction permit	Starting construction activities	Continuing construction activities
Second and third phase on HS Zletovica	Continuation of discussions and acting upon EIB's recommendations for loan approval for construction of II stage - irrigation and III stage - energy	Starting tendering procedure for construction of II stage - irrigation and III stage - energy	Starting construction activities
Second phase of South Vardar Valley irrigation system	Starting construction activities	Continuing construction activities	Continuing construction activities
IPA small irrigation systems	Completion of technical documentation and start construction work on three irrigation systems	Finishing construction activities of three irrigation systems. Start construction of three new systems.	Completing construction of three irrigation systems.

Environmental impact assessment studies or elaborates are prepared for each of the capital projects. Procedures for issuing licences for using of irrigation water are under competency of Ministry of environment and physical planning, that is deciding upon each individual application according to the Water Law.

2. Expected impact on competitiveness

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

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

3. Key performance indicators

The implementation of the measure will increase the proportion of irrigated agricultural land in relation to agricultural cultivated land from the current 4% to approximately 6%, or 50% increase of irrigated land compared with irrigated area in 2014 (from 20,575 to 32,275 ha) and will also improve the existing irrigation systems.

4. Estimated cost of the activities and the budgetary impact

The total cost of the measure for the period 2019-2021 is estimated at EUR 107.1 million, of which EUR 80.7 million are from the Budget of the Republic of Macedonia, and EUR 26.3 million non-budgetary financing.

In EUR million	2019	2020	2021
Construction of dam Konsko	5.9	19.0	5.5
Construction of dam Rechani	3.4	8.8	7.2
Construction of irrigation system Raven Rechica	3.2	7.2	3.9
Construction of dam Slupchanska river		3.0	6.0
HS Zletovica second and third phase	3.4	0.1	0.1
South Vardar Valley second phase	1.9	1.2	0.6
Preparation of tender documentation for construction of small irrigation systems up to 300 ha	3.5	1.5	-

5. Expected impact on employment and gender

The construction of hydro systems will have direct short-term impact on employment, by engaging construction workers. Additionally, in the medium and long term, positive impact on employment is expected as a result of increased competitiveness of the agricultural sector. The gender equality will be respected in the process of implementation of the measure.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Insufficient capacity of institutions to implement the measure	15-20%	High	Strengthening the capacity of the competent institutions

Measure 6: Consolidation and defragmentation of agricultural land

1. Description of the measure

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

The measure will contribute to reduction of extreme defragmentation of land owned and utilised by farm hold, by their grouping within defined consolidation areas, as well as improving the rural infrastructure related to agricultural production. Its aim is to improve the unfavourable agricultural land structure in the country, dominantly in the private sector.

The ongoing land consolidation activities are taking place within the IPA 2015 project "Mainstreaming of the National Land Consolidation Program". Land consolidation projects are in the phase of implementation. However, new potential land consolidation projects are in the process of identification, following the results provided by the nationwide feasibility study and an assessment of the interest of landowners and other impact factors in micro locations across the country.

The expected effects of this process are reduction of fragmentation of land parcels, their clustering, improved form of parcels for application of modern techniques and production technologies, increased average size and providing access to new or rehabilitated irrigation systems and upgraded or newly built road infrastructure. Furthermore it is expected that the value of the consolidated agricultural land would be increased that would enable accelerated investment cycle of the involved agricultural holdings.

The activities are realized in accordance with the National Strategy for Consolidation of Agricultural Land 2012-2020, responsible being MAFWE's Department for Land consolidation, exchange and identification of parcels. Its capacity to plan, manage, monitor and control the land consolidation projects is in the process of strengthening. In parallel, capacity of private geodetic companies, acting as service providers to MAFWE for land consolidation projects, is in the process of setting up as well.

a. Activities planned in 2019

- Adoption of a second set of legislative amendments to the Law on Consolidation of Agricultural Land;
- Finalization of 15 feasibility studies (analysis of the current state) of selected micro locations as potential consolidation areas;
- Preparation of 9 consolidation plans for selected consolidation areas, and preparation of 4 infrastructure plans for the selected regions will be implemented;
- Finalization of the consolidation projects in the pilot regions KO Konce and KO Egri.
- Continuation of the capacity building of MAFWE, especially of the regional offices and the Department for Consolidation of Agricultural Land, exchange and identification of land parcels;
- Training of service providers for the preparation of consolidation plans and infrastructure plans;
- Establishment of a system for monitoring and evaluation of the National program for consolidation of agricultural land.

b. Activities planned in 2020

- Continuation with the strengthening of the capacities of the MAFWE, as well as continuous training of service providers for the preparation of infrastructure plans;
- Finalization of 4 infrastructure plans and their construction, including analyses of the environmental impacts in the respective areas.

c. Activities planned in 2021

- Implementation of land consolidation activities within the IPA 2019 project "Implementation of the National Land consolidation program" (4 consolidation projects).
- Continue with other ongoing activities for the implementation of the National Land Consolidation Program.

2. Expected impact on competitiveness

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

3. Key performance indicators

It is expected that 1,800 ha agricultural land will be consolidated until the end of 2020.

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

The total funds needed for implementation of the measure amount to EUR 3,570,000, of which EUR 1,230,000 for 2019, EUR 1,000,000 for 2020 and EUR 1,340,000 for 2021.

5. Expected impact on employment and gender

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

The new legal framework to support the implementation of the land consolidation procedures for agricultural land, especially emphasizes the gender issue, by providing mechanisms for inclusion of women in the decision making processes by guaranteeing their rights as co-owners (registered or unregistered) of agricultural land.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Institutional and organizational readiness of relevant institutions to accept and support the required procedures for implementation of consolidation of agricultural land	15%	High	Capacity building through IPA 2019 project "Implementation of the National Land consolidation program"
Lack of trust of landowners based on bad experience in the past	15%	High	Transparently driven land consolidation process by including all relevant stakeholders. Media campaign for promoting land consolidation.

Measure 7: Agricultural cooperatives

1. Description of the measure

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

The activities for support of the association of farmers in agriculture cooperatives are part of the measure "Economic association of agricultural holdings for joint agricultural activities" within the "Program for financial support of the rural development" and from the on-going project "Support to agricultural cooperatives in the Republic of Macedonia". Support from national budget is disbursed in two ways, 100% refund for costs for management and 90% co-financed amount for purchase of mechanization. In 2018 one call for proposals is published and 18 cooperatives submit applications.

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

In the Registry of agriculture cooperatives there are 40 registered so far, of which 7 are large size cooperatives and the other 33 are small size cooperatives, with a total capacity of 1,150 ha agriculture land, 1,200 bee families, 450 cattle, 200 goats and 250 sheep. The total number of agriculture holdings joined in cooperatives is 423. The procedure for registration in the Ministry is very simple and takes no more than 5 working days.

a. Activities planned in 2019

- Providing continued financial support for cooperatives (continues from the previous period);
- Encouraging the process of market-oriented association of farmers in agricultural cooperatives;

- Revising the legal framework for agricultural cooperatives in the way that cooperative principles are better fulfilled;
- Support for investments in processing, finalization and marketing of agricultural products.

b. Activities planned in 2020

- Providing continued financial support for cooperatives (continues from the previous period);
- Support for acquisition of Protected labels of quality of the agriculture and processed products;
- Developed monitoring system for agricultural cooperatives functioning and effectiveness of national support measures;
- Support for investments in processing, finalization and marketing of agricultural products.

c. Activities planned in 2021

- Providing continued financial support for cooperatives (continues from the previous period);
- Support for modernisation and innovative management with agriculture cooperatives
- Support for investments in processing, finalization and marketing of agricultural products;

2. Expected impact on competitiveness

Establishment of agricultural cooperatives is an opportunity for development of farms by promoting economic partnership, that through joint production, sale and marketing of their products, will strengthen their market role, increase competitiveness and efficiency, increase individual income of the farmer, and moreover will provide for better production quality, assured sale and higher profits. As a result, the objective of horizontal integration of the entities involved in the sector of food production basically is oriented towards agricultural cooperatives as the most suitable way for improvement of supply chain of agricultural products. Investments in marketing and certification of the products are crucial for cooperatives development in the forthcoming period.

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

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

3. Key Performance Indicators

Indicator	2019	2020	2021
Number of agriculture cooperatives using new investments	33	43	53
Agriculture cooperatives capacity presented in ha arable land	1,225	1,600	2,000
% of young farmers (age below 40) members of agriculture cooperatives	23	25	27
% of women associated to agriculture cooperatives	19	20	21

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

The total cost of the implementation is EUR 6,960,000, out of which in 2019: EUR 3,040,000, 2020: EUR 1,060,000 and 2021: EUR 2,860,000. Detailed distribution of the funds is presented in Table 10b.

5. Expected impact on employment and gender

Development of agricultural cooperatives will contribute to the community by increasing and retaining jobs in agriculture and processing industry. The gender equality will be respected in the process of implementation of the measure. Additional points are dedicated in the selection procedure for financial support for agriculture cooperatives with female members.

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

At this moment 40 persons are employed as managers of the existing cooperatives. It is expected that this number will be doubled with the employment of staff for machinery operation if we take into account new

investments in modernisation of agriculture production. Also new cooperatives will emerge so the number of the employees will be even higher.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
The limited capacity of cooperatives can prevent modernization of production practices of members and transfer of new technologies into production	20%	High	Enabling priority to agricultural cooperatives in granting state agricultural land. Additional points should be given to agricultural cooperatives in the procedure for granting state agricultural land.
The status of individual agricultural producer vs. members of cooperatives in terms of tax policy (VAT and PIT)	20%	High	Assess tax policy regarding individual agricultural producer vs. members of cooperatives to provide equal treatment. Members of cooperatives are in unfavourable position because they pay more taxes than individual agricultural producers and therefore are demotivated to join.

4.3.2.2 Industry sector development

The industrial sector is an important foundation of the economy that is closely connected to economic growth, investment, export, employment, research and development, productivity, value added etc. The share of manufacturing in GDP is 12%, share of employment 19%, and it encompasses 10% of total number of active companies. The importance that the EU attaches to industrial development is reflected in the target it has set, namely that manufacturing in EU countries should reach 20% of GDP by 2020, from current 15%.

One of the key features of domestic market is its size, it is relatively small and does not provide enough opportunities for growth of the economy. Thus, the alternative is seen through strengthening of the competitiveness, domestic companies' export expansion and access to external markets. According to SSO data for 2016, only 5% of companies are exporters (3,489 companies, this number in EU is above 13%), of which the largest five exporters' participation is above 40% of total export, the first 20 exporters' participation is about 60%, and top 100 with 80% of total export. More than half of the Macedonian companies have only one external business partner (about 55%), while 18% have two business partners, thus pointing to low diversification of manufacturing and inward processing³⁹.

From innovation expenditure point of view, their participation in GDP in 2015 is 0.44%, while the EU 2020 target is 3% of GDP. The business sector investment is only 0.02%⁴⁰. The level of cooperation between universities and industrial sector is very low. Less than 10% of companies have some form of regular cooperation with the universities, except for IT and automotive industry where the cooperation is on a higher level.

Several industrial capacities, mainly FDIs, were opened in the past period, resulting in diversification of the industrial production. However, the leverage into domestic companies is limited and the expected multiplication effect of cooperation with domestic companies is still low (less than 1%). Export needs to be improved, but the domestic companies lack support for product innovation and diversification, finding appropriate business partners from other countries, presenting their products on markets abroad.

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

- low productivity and low productivity growth rates,
- low modernization of the production process and obsolete technologies used by the production process (introduction of new technologies and innovation),
- insufficient development of clusters and value chains,
- lack of cooperation between the scientific and educational institutions and industry, as well as between the domestic companies and FDIs,
- export concentration and very large dependency on 7 export products (67% of the export), as well as high share of basic and low technology products,
- weak compliance of the educational programmes with labour market needs resulting in lack of adequately trained work force.

³⁹ <http://www.stat.gov.mk/pdf/2018/7.1.18.08.pdf>

⁴⁰ <http://www.stat.gov.mk/Publikacii/SG2017/15-OdrzhivRaz-SustainableDev.pdf>

Having in mind the above, the Government adopted an Economic Growth Plan (EGP) at the end of 2017 containing measures specifically designed for supporting the industry and companies. The EGP contains measures within three pillars. The measures from the first and second pillar are being implemented based on the Law on Financial Support of Investments, while the third pillar is being implemented by the Fund for Innovation and Technological Development through the Programme for support of micro, small and medium enterprises. The selection procedure for awarding funds includes preselection by peer-review and final selection by a Committee for Approval of Investments composed of five international experts. All funded projects are monitored through regular reporting on project level. All support measures are harmonized with the Law on State Aid and related regulative and the Fund is introducing a risk assessment protocol related to moral hazard prevention.

Accordingly, a change has been made in the structure of the proposed reform measures, i.e. instead of last year 3 measures reflecting the three pillars of the EGP, in ERP 2019 two measures are included encompassing the same activities, but reflecting the legal and organizational aspect for their realization and monitoring (Law and Programme).

The new Industrial Strategy for the period 2018-2027, adopted by the Government in November 2018, integrates the measures of the EGP and set of new measures for creating industry based on green, innovative, circular and smart growth. The foreseen 38 measures are divided in five strategic goals aimed at reinforcing the manufacturing foundation, raising productivity, innovation and technology transfer, catalysing green industry and green manufacturing, stimulating manufacturing export and building an learning manufacturing sector.

Measure 8: Financial support of investments

1. Description of measure

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

The measure is part of the Economic Growth Plan adopted by the Government in December 2017. In order to implement the Economic Growth Plan, Law on Financial Support of Investments was adopted in May 2018, which established the legal basis for formalizing the support and implementation of the measures from the first and second pillar of the Economic Growth Plan. Basically, the essence of these activities is to establish an objective framework for business entities to use benefits provided by the state if they meet the prescribed conditions and criteria. The Law on Financial Support of Investments regulates the types of financial support for investments, the amount of financial support, the conditions, the manner and the procedure for awarding the financial support. The procedure for obtaining financial support is transparent, clear, precise, simple and equal for all business entities in the Republic of Macedonia.

In accordance with the Law on Financial Support of Investments, the following types of financial support are provided:

(1) Financial support for investments: a) Support for new employments; b) Support for establishment and promotion of cooperation with suppliers from the Republic of Macedonia; c) Support for the establishment of organizational forms for technological development and research; d) Support for investment projects of significant economic interest; e) Support for growth of capital investments and revenues, and f) Support for the purchase of funds from enterprises in difficulty.

(2) Financial support for competitiveness: a) Support for increasing the competitiveness of the market; b) Support for conquering markets and increasing sales.

a. Activities planned in 2019

Activity 1: Financial support for investments - companies are supported for new employments, establishment and promotion of cooperation with suppliers from Macedonia, technological development and research, investment projects of significant economic interest, growth of capital investments and revenues and purchase of funds from enterprises in difficulty.

Activity 2: Financial support for competitiveness - companies are supported for increasing their competitiveness on the market, conquering markets and increasing sales.

Pursuant to the Law on Financial Support of Investments, the competent authorities for implementation of the procedure for granting financial support are the Directorate for Technological Industrial Development Zones and the Agency for Foreign Investments and Export Promotion.

b. Activities planned in 2020 and 2021

In 2020 and 2021, the implementation of the activities from 2019 will continue.

2. Expected impact on competitiveness

In the current setting of the national economy the domestic companies are still inferior in comparison to the FDIs present in the country, both in terms of technological readiness and participation into the international value chains. Therefore, the measure is supportive of the goals of boosting the spillover effect for the national economy through linking FDIs and domestic companies, as well as through investments in and financing activities for creating high-paying jobs. Strengthening the co-operation between FDIs and domestic companies should also lead to an expansion of the supply chain, which will lead to internationalization and increasing the export capabilities of domestic companies (and capacities in some cases). Overall, the measure will contribute to the development of the economy by increasing competitiveness driven by stable companies with solid balance sheets and positive results. This measure will stimulate investment in technological development, which will have an effect on the productivity, profitability and competitiveness of companies, both on the domestic and foreign markets. However, the measure is not favorising neither domestic or FDIs. The access is allowed to all on a basis of investment of the capital back in businesses, in property or human capital in order to achieve development and better results.

3. Key Performance Indicators

Indicator	2019	2020	2021
Number of supported companies through the measure on an annual basis	100	100	100
Number of created jobs by the supported companies on an annual basis	1,000	1,000	1,000
Volume of investments of the supported companies on an annual basis	Up to EUR 50 million	Up to EUR 50 million	Up to EUR 50 million

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

The planned value of the measure is up to EUR 12 million per year, or up to EUR 60 million for a period of 5 years.

5. Expected impact on employment and gender

Over the past 10 years around 10,000 jobs have been created by implementing measures to support FDIs with low skills level of the workforce engaged. The proposed measure is designed to encourage employment of a workforce with developed skills in high quality and well-paid jobs, thus limiting brain-drain. The available data shows that, currently in the companies supported by the measure in 2018 about 14 thousand people are employed, and only in 2017, the number of newly employed persons in these companies is about 1,000 workers. The real effects of the support can be calculated after every calendar year ends when companies make their data available. However, the expectations are that, if not more, at least the results from the previous year are reached. Gender equality will be respected in the process of implementation of the measure.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Readiness and awareness of companies	5%	High	<ul style="list-style-type: none"> - regular press conferences - workshops - introduction and maintenance of electronic communication - use of an electronic tool (calculator)
Coordination, monitoring and communication at institutional level	5%	High	<ul style="list-style-type: none"> - established working group - regularly informing the members of the Government - monitoring and coordination at a strategic (ministerial) level

Measure 9: Financial support for micro, small and medium enterprises

1. Description of measure

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

The measure aims to address the main challenges of SMEs related to reaching EU productivity level, standardization and quality compliance, as well as to increase human and technological capabilities of companies. The activities stem from Action Plan of the newly adopted Industrial Strategy 2018-2027 and are being implemented by the FITD.

a. Activities planned in 2019

Activity 1: Support for SMEs with a rapid growth tendency ("Gazelles"): Companies-gazelles are supported for various types of investment activities, such as: acceptance and implementation of European technical regulations regarding product safety, preparations for acquiring quality certificates, activities for analysis, preparation, acquisition and protection of industrial and intellectual property rights, activities for improving energy efficiency, environmental protection, waste management, introduction of information systems, etc.

Activity 2: Support for micro enterprises: Micro companies are supported for: preparation of medium and long-term strategic plans, training for medium-term business planning (three-year business plan), improvement of organizational structure, specialized management training, training for planning and cost control, preparation of development projects for business connection and establishment of business cooperation (in the period of 3 to 5 years) with foreign investors and domestic enterprises.

Activity 3: Support for professional training and practice for newly employed young people: Companies are supported to provide professional training and practice for newly employed young people related to (1) entrepreneurship, innovation, financial management, business development; and/or (2) operating/managing advanced technologies, including IT. Companies are supported to implement vocational training and practice for newly employed young people, including the Fast Track Management Program.

b. Activities planned in 2020 and 2021

In 2020 and 2021, the implementation of the activities from 2019 will continue.

2. Expected impact on competitiveness

The measure is designed to enhance human and technological capabilities in SMEs which will result in increased productivity, compliance with external market requirements and hence contribute to increase the competitiveness of national companies with a focus on export.

3. Key Performance Indicators

Indicator	2019	2020	2021
Number of supported companies through the measure on an annual basis	100	150	200
Volume of investments of the supported companies on an annual basis	4,500,000	5,000,000	5,000,000
Number of trained young people	50	100	200

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

	2019	2020	2021
Financial support for micro, small and medium enterprises	2,500,000	3,000,000	3,000,000

5. Expected impact on employment and gender

Increasing the technological capabilities of the companies will generate high-skilled employments. Providing support for professional trainings will increase the human capacities of the companies and increase the employability among young people. Gender equality is respected in the process of implementing the measure.

6. Potential risks

Risk	Probability	Potential Impact	Mitigating actions
Readiness and awareness of companies	5%	High	Development and implementation of a Communication Action Plan. Providing free technical assistance for potential applicants.
Coordination, monitoring and communication at institutional level	5%	High	Establishing consultation and cooperation mechanisms to increase effectiveness in the delivery of the results. Establishing monitoring and evaluation plan and risk mitigation plan and conducting regular meetings of the Monitoring Body.

4.3.2.3 Services sector development

The services sector of the Macedonian economy has the highest share in GDP with over 50% and it also employs more than half of the workers. The sector registered growth of 1.7% in 2017.

Tourism and hospitality. Macedonia has good tourism potential, but it lacks an adequate approach towards planning and management of tourism development in the country. The total contribution of travel and tourism to the country's GDP, employment, and total capital investment in 2017 was fair (6.6%, 6.1%, and 2.4%, respectively) in comparison with other countries in the region. Leisure travel spending (inbound and domestic) generated 66.8% of direct Travel&Tourism GDP in 2017 compared with 33.2% for business travel spending. Domestic travel spending generated 44.2% of direct Travel&Tourism GDP in 2017 compared with 55.8% for visitor exports (i.e. foreign visitor spending or international tourism receipts) (WTTC⁴¹).

The number of tourists increased by 16.6% in 2017 compared to 2016, the number of domestic tourists increased by 6.3%, while that of foreign tourists increased by 23.5%. The number of nights spent increased by 12.8% in the same period, out of which the number of nights spent by domestic tourists increased by 5.2%, while those by foreign tourists increased by 22.8% (SSO). Capital city Skopje and UNESCO-protected Ohrid and ski resorts such as Mavrovo and Popova Sapka remain the key tourist attractions in the country, complemented by rural, alternative and cultural heritage tourism.

The country needs comprehensive approach and streamlined action in the sector Tourism where several actions are implemented over the past year and will continue in the following one. Increasing the tourism and hospitality capacities as well as improving their quality and efficiency are challenges that are expected to be overcome by a new Tourism Strategy. Moreover, all the analyses shows that tourism sector faces problems when it comes to clear and targeted promotions, capacities to absorb the incoming tourist and needs of better destination management approach.

Measure 10: Increasing competitiveness in the tourism and hospitality sector

1. Description of measure

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

The measure is aimed at providing support and capacity building to improve the environment and skills, along with targeted investment in infrastructure, support tourism activities and destination promotion, and will help to better connect related industries and SMEs. The support is realized on several potential tourist destinations in the country through a combination of infrastructure investments, technical assistance and capacity building support. This measure is implemented through 1) Program for Local and Regional Competitiveness in Tourism, and 2) Program for increasing market employability.

a. Activities planned in 2019

- Establishing process for destinations management,
- Implementation of large infrastructure and small investment sub-grants according to the grant scheme,
- Strengthen capacities for implementation of activities of key government institutions, as well as the private sector and civil society associations, in order to play an active role in tourism development,
- Improved access to international markets, improved destination management and improved tourism services.

b. Activities planned in 2020

Activities for financing infrastructure projects are expected to end in 2019. Activities for improving the quality of the tourist offer and tourist services are expected to continue in 2020 with the start of the second phase of the project for increasing market employability.

c. Activities planned in 2021

The second phase of the project for increasing market employability is expected to begin.

2. Expected impact on competitiveness

Expected results are oriented towards local economic growth, but also to improving productivity, service quality, connections and innovation.

⁴¹ <https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2018/macedonia2018.pdf>

3. Key Performance Indicators

Indicator	2019	2020	2021
Number of tourists	annual growth of 5%	More than 1,000,000 tourists per year	More than 1,000,000 tourists per year
Number of nights spent	annual growth of 3%	More than 2,700,000 nights spent per year	More than 2,700,000 nights spent per year

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

The total funds for implementation of the measure in the next three years amount to EUR 17.9 million, out of which EUR 15 million are intended for 2019.

5. Expected impact on employment and gender

New jobs will be created along the whole tourism value chain and it is expected higher participation of young people and women. It is also expected that actions will produce spill over effect to other industries and sectors in their further growth and development (e.g. education, trade, transport etc.).

Considering that the gender disparities can be found mostly in the rural areas, this measure can potentially have a positive impact on female activity rates.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Risks related to management of the measure and change in the level, as well as the continuity of support of the implementing agency and the public entities that are beneficiaries of the measure	5%	High	Strong communication with institutions, private sector, civil society and other relevant stakeholders in order to maintain a broad platform to support reforms that will help overcome the risk of inadequate management of activities
Low level cooperation between stakeholders and limited capacity to implement the measure	5%	High	Capacity building of public sector agencies and substantial technical assistance for agency coordination and public-private dialogue
Potential risks of inappropriate use of assets	5%	High	Direct monitoring of the available and spent resources and linking with relevant decision makers in order to avoid bottlenecks in implementation of activities

4.3.3 Business environment and reduction of the informal economy

Despite being a small landlocked economy⁴², Macedonia is relatively competitive and dynamic compared to its regional peers. The private sector mainly consists of SMEs accounting for 99.8% of the total number of active enterprises. SMEs are the dominant type of enterprises. Because of their high share in the total number of enterprises they are important source of employment, investment and significant creators of GDP. The growing number of SMEs absorbs the majority of the workforce and contributes to reducing the unemployment. SMEs account for almost two thirds of total value added and nearly three quarters of all jobs, well above the respective EU averages of 57% and 66%. The main challenge for SMEs is catching up with European productivity levels⁴³.

In the latest World Bank report "Doing Business 2019", Macedonia ranks 10th among 190 economies. Macedonia is best ranked in the area of Protecting minority investors (7th place), Getting credit (12th place), Dealing with construction permits (13th place), etc. However, areas such as Registering Property, Starting a business and Getting Electricity still have room for improvement.

The informal economy is estimated by SSO at around 17% of total output. The share of informally employed in the total number of employees in 2017 is 18.1% and it is decreased by 4.4 pp compared to 2013. Approximately half of informally employed are in the agriculture sector, and according to their economic status, approximately half are unpaid family workers. Informal employees with elementary occupations are most dominant. The most common reason for working in the informal economy is the lack of regular jobs, the seasonal nature of work, the economic benefits, etc. Regarding the participation of informally employed, in the total number of employees, by gender, men have a rate of 19.7%, and women 15.7%.

⁴² Assessing the implementation of the European Small Business Act

⁴³ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/the_former_yugoslav_republic_of_macedonia_sba_fs_2017.pdf

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

- Despite the low tax burden, companies complain about the so-called para-fiscal charges, especially micro and small enterprises indicate that these payments do not take into account the size of the firm. Often there are overlaps on the same charges at central and local level, and an additional problem is the fact that for some of the charges there is no clear purpose why are they used and what do they finance.
- Opaque interpretation of business regulations, notably by local administrations, uneven enforcement of rules and contracts, as well as corruption and the large informal economy hamper private sector development⁴⁴.
- Existing informal economy creates an unlevelled playfield with formal businesses that comply with the taxes, contributions, and regulations. In fact, approximately 30% of companies indicate the informal sector as their primary constraint to growth⁴⁵.
- SMEs in the SEE region no longer identify access to finance as the primary limitation for business development, and point to a lack of programmes for strengthen financial literacy and investment readiness, especially for newly established enterprises⁴⁶.

The National Strategy for Development of SMEs was adopted in April 2018, while the Woman Entrepreneurship Strategy (2018-2023) was adopted in December 2018. Both documents offer new set of measures for SME support that will be implemented through annual programs. At the beginning of 2018, the first medium-term Strategy for Formalization of the Informal Economy 2018–2022 was adopted.

The **public procurement system** regulates the use of public funds by public (state) authorities, in order to obtain the necessary resources from external, commercial sources. The tendency and purpose of the regulated process of using these funds is to achieve a fair process, fair participation of the business sector and getting the best value for money. The previous Law on Public Procurement (PPL) is based on the EU public procurement directives that were in force at the time of its adoption (2007). The EC reports, as well as the SIGMA reports, confirm that "the PPL is generally in line with the EU legislation"⁴⁷. However, since the adoption of the PPL, the compliance with EU requirements has not been improved, on the contrary, the level of compliance has been reduced by frequent amendments, in particular, from 2013 onwards. The frequency, nature and the scope of amendments may affect the legal certainty. On the other hand, this trend also reflected a very active interest of national authorities on the importance of public procurement legislation that, if coordinated constructively, could contribute to future strategic reforms⁴⁸.

There is currently no single central gateway for accessing government **e-services** with a higher level of sophistication, and users of governmental e-services access them in a non-unified manner. The existing portal for e-services www.uslugi.gov.mk is outdated and provides only information on services. On the other hand, a significant number of institutions offer their services electronically on their web portals, with inconsistent electronic identification and payment, thus creating confusion and discouraging the use of e-services. According to the recommendations outlined in the SIGMA reports for 2015⁴⁹, 2016 and 2017, the Ministry of Information Society and Administration (MISA) should modernize the public services portal, offering platform and space for e-services from any institution.

Since administrative procedures for providing public services are complex processes that involve the exchange of evidence and data between the institutions ex officio, the establishment of the Catalogue of Public Services will help in the implementation of the Law on General Administrative Procedure in direction of systematic data management for each of the public services, in accordance with the prescribed legal provisions. The Catalogue of Public Services will be used to prioritize digitalization of the services, to enable simplification of the processes (administrative guillotine, cutting red tape, etc.) followed by the regulatory alignment, and above all, to enable comprehensive and up-to-date data for analysis of para-fiscal charges for services, thus enabling tools and bases for reducing the services' costs (fees and taxes) for the users (citizens and businesses).

Legal bases for the National portal are covered by the three laws that are in the process of adoption: the Law for electronic management and electronic services (describing the interoperability, the National portal, the Catalogue

⁴⁴ European Commission Progress Report of the Republic of Macedonia 2016

⁴⁵ World bank Policy notes 2017

⁴⁶ Assessment framework for research, development and innovation Competitiveness in South East Europe A POLICY OUTLOOK, 2018

⁴⁷ Report. Review of the Public Procurement System. SIGMA. April 2016.

⁴⁸ Final report on performance audit. SAO. 26.04.2017.

⁴⁹ <http://www.sigmaxweb.org/publications/public-governance-monitoring-reports.htm>

of services and other areas); the Law for central population register; and the Law for electronic documents, electronic identification and trust services; latter is transposition of the eIDAS regulation.

One of the main priorities of the Government of the Republic of Macedonia is to increase the quality of administrative services, and in that direction, amendments to the Law on General Administrative Procedure (Official Gazette of the Republic of Macedonia No. 124/15) have been made in order to improve the provision of public services through fully coordinated and integrated public administration activities.

Measure 11: Harmonization of the Public Procurement Legal framework with the Acquis

1. Description of the measure

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

The measure aims to harmonise the PPL with directives 2014/24/EU, 2014/25/EU and with the Remedies Directive 2007/66/EC. In fact, the existing remedy procedure system prescribed by the PPL is based on certain elements of the Remedies Directive, but several additional elements remain to be implemented, such as alternative penalties.

The Law on Public Procurement was adopted by the Parliament on 28 January 2019. The law envisages, inter alia, introduction of an electronic market for small public procurements, electronic publication of public procurement plans, administrative control carried out by the Public Procurement Bureau, simplifying public procurement procedures etc.

The publication of annual public procurement plans and their updates will lead to greater transparency of the overall process in the implementation of procedures for awarding public procurement contracts.

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

a. Activities planned in 2019 and 2020

- Preparation of the bylaws arising from the new law
- Upgrade of the public procurement software according to the new PPL.
- Professionalization of civil servants working with public procurement.

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

2. Expected impact on the competitiveness

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

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

3. Key performance indicators

- Prepared bylaws
- Upgraded public procurement software according to the new PPL
- Published annual procurement plans of the Contracting Authorities – 100% in 2020
- Number of educated public procurement officers for requirements introduced with new legislation – minimum 300 civil servants per year

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

- Upgrade of the public procurement software according to the new PPL – EUR 200,000 planned for 2019.
- Professionalization of civil servants working with public procurement: 30,000 EUR per year.

5. Expected impact on employment and gender

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

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Delay with full upgrade of the public procurement software in accordance with the provisions of the new law	30%	High	Timely initiation of a public procurement procedure for the development, maintenance and upgrade of the public procurement software
Delay with the establishment of a new department for administrative control	30%	High	Timely commencement of a recruitment procedure for qualified and experienced personnel for conducting administrative control

Measure 12: Development of a National E-Services Portal

1. Description of the measure

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

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

The e-services portal is closely connected with the current activities on interoperability, the National Population Register as well as establishing Halls for Single Point of Services and harmonization with EU legislation⁵⁰.

One of the core components of the portal's toolbox is the Catalogue of Services, which is an independent and important software solution. The Catalogue of services will cover all public services, data and evidence necessary for the realization of public services, legal deadlines for the provision of services, distinction of data and documents that will be obtained ex officio and those that citizens and legal entities will have to attach to the requests, legal remedies for each of the services, the level of fees and taxes for the service, etc. The software solution for managing the Catalogue has already been developed and data from all services from 50 laws have been entered in the Catalogue.

The Catalogue of Public Service will contribute for improving records and overviews of public services provided by state institutions and unification of services, while its main goals are: opportunity for quantitative and qualitative analysis of services; prioritisation for digitalisation of the services; and most importantly for charges analysis in order to make informed decisions for releasing the finance burden for the para-fiscal services' consumers.

a. Activities planned in 2019

- Launch and promotion of the National e-services Portal;
- Quantitative and Qualitative analysis on data entered in the catalogue;
- Para-fiscal changes analysis of the services in the Catalogue, with recommendations;
- Continue entering data on services from remaining laws in the Catalogue of services and maintain the up-to-date data in the Catalogue;
- Development and adoptions of the bylaws on the respective regulatory acts;

⁵⁰Relevant EU acquis (Regulation 910/2015 and its implementing acts, Directive 95/46 and Regulation 2016/679, and Directive 2003/98), as well as policy documents (EU eGovernment Action Plan 2016 – 2020, updated European Interoperability Framework, EU eGovernment Report 2016); Law on Electronic Management and its by-laws, Law on Data in Electronic Form and Electronic Signature, Law on General Administrative Procedure etc.

- Development of new electronic services;
- Improvement of the National Portal with the Single Sign On functionality;
- Upgrade the portal with the opportunity for legal persons' profiles and to enable them as users.

b. Activities planned in 2020

- Analysis of the use of the National e-services Portal;
- Training to public sector employees on the implementation of the Law for electronic management and electronic services; the Law for central population register and the Law for electronic documents, electronic identification and trust services;
- Training for public sector employees - users of the portal;
- Development of new electronic services;
- Qualitative analysis of data in the Catalogue for administrative guillotine;
- Implementation of the recommendation as a result of the para-fiscal changes analysis;
- Improvement of the National Portal with new functionalities.

c. Activities planned in 2021

- Development of new services for citizens and businesses.

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

2. Expected impact on competitiveness

The National e-services Portal is expected to reduce administrative and financial burden on citizens and businesses and increase the efficiency of businesses. Reducing the time and fees for obtaining the services entails a reduction in costs for businesses, leading to their increased competitiveness.

3. Key Performance Indicators

Indicator	2019	2020	2021
Number of users of the portal	2,000	5,000	More than 8,000
Number of e-services offered	50	75	More than 100
Number of the services in the Catalogue	500	750	More than 1,000
Share of the services consumed by the portal vs the same services consumed via traditional means	1%	5%	More than 10%

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

The estimated cost for the upgrading the Portal (software and hardware) and filling-in the Catalogue, is estimated on 3,694,500 EUR.

5. Expected impact on employment and gender

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

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Insufficient coordination and communication between the institutions that need to be involved with providing e-services on the portal.	5%	Medium	Establishing working group with stakeholders, and continue maintaining the regular cooperation, through meetings, workshops and training.
Commitment on the highest level in the institutions involved in portal development is not reflected in the commitment on operational level.	10%	Medium	Regular communication and reporting to the National ICT council (ministerial level) for the progress and early warning notifications
Required preconditions in the involved institutions are not met (human resources, system readiness, outsourcing contracts, etc.).	10%	Medium	Preparation of working plans based on the analysis for realistic targets, involvements and deadlines.

Insufficient capacities and skills for Para-fiscal changes analysis of the services in the Catalogue	5%	Low	Regular communication with the Ministry of finance, as well as informing local partner donors and local NGOs experts in this field for possible cooperation.
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Measure 13: Reducing the informal economy

1. Description of measure

Transition to formality requires an integrated strategy cutting across a range of policy areas which can bring informal workers and entrepreneurs into formal channels of protection and support while preserving existing dynamic potentials (integrated approach to informality)⁵¹.

At the beginning of 2018, the first medium-term Strategy for Formalization of the Informal Economy 2018–2022 was adopted. It aims to reduce the number of informally employed (both in informal and formal businesses, as well as within households), and to reduce the share of unregistered business entities and informal activities within the formal economy. Due to the complexity of the informal economy, the Strategy unites all relevant aspects of many sectoral policies, such as improving regulatory and business environment, enhancement of the institutions in the labour market, increasing the inspection of informal economy flows and raising the awareness of citizens and businesses about the importance of formalization of informal activities. The Strategy aims to reach the following strategic goals:

- Improving the process of measuring, monitoring and detection of the informal economy;
- Better business environment for establishment, growth and development of companies;
- Stimulating and supporting the formalization of the informal economic activities; and
- Strengthening the tax morale and lowering the tolerance towards the informal economy.

For implementation of the strategy, the Action Plan for Formalization of the Informal Economy 2018–2020 was adopted in August 2018 containing 29 measures.

During the preparation of the strategy and the action plan, the relevant strategic and programming documents were taken into consideration in order to ensure their complementarity. Due to the complexity of the informal economy and the horizontal approach to its formalization, numerous relevant institutions, social partners and non-governmental sector, as well as representatives of international organizations provided their support and participated in the preparation of the Action Plan. The Action Plan was reviewed by the Economic and Social Council in June 2018.

MLSP has primary responsibility for monitoring the Strategy and the Action Plan; the ministry is also involved in implementation, and given the horizontal approach and character, other ministries, authorities and institutions are involved, too. MLSP will prepare annual reports on the progress of implementation of the Action Plan, starting from April 2019.

a. Activities planned in 2019

Planned activity	Institution in charge
1. Analysis of the system for monitoring the informal economy	Ministry of Labour and Social Policy, State Statistical Office, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Central register of Macedonia, Social partners
2. Develop tools that ease inspection procedures for undeclared work prevention	Ministry of Labour and Social Policy, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Social partners
3. Design voucher-based system or equivalent mechanisms which promote better working conditions	Ministry of Labour and Social Policy, Ministry of Economy, Ministry of Finance, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Social partners

b. Activities planned in 2020

Planned activity	Institution in charge
1. Define the system and build capacities for monitoring the informal economy	Ministry of Labour and Social Policy, State Statistical Office, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Central register of Macedonia, Social partners
2. Develop tools that ease inspection procedures for undeclared work prevention	Ministry of Labour and Social Policy, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Social partners

⁵¹ Recommendation concerning the transition from the informal to the formal economy (Transition from the Informal to the Formal Economy Recommendation, 2015), the International Labour Conference (ILC)

3. Design voucher-based system or equivalent mechanisms which promote better working conditions and prepare the ground for implementation of the system	Ministry of Labour and Social Policy, Ministry of Economy, Ministry of Finance, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Social partners
4. Plan and implement awareness raising on the benefits of the transition to formality	Ministry of Labour and Social Policy, State Labour Inspectorate, Public Revenue Office State Market Inspection, Social partners

c. Activities planned in 2021

Planned activity	Institution in charge
1. Established system and built capacities for monitoring the informal economy	Ministry of Labour and Social Policy, State Statistical Office, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Central register of Macedonia, Social partners
2. Test and introduce the tools that ease inspection procedures for undeclared work prevention	Ministry of Labour and Social Policy, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Social partners
3. Introduce the designed voucher-based system or equivalent mechanisms which promote better working conditions	Ministry of Labour and Social Policy, Ministry of Economy, Ministry of Finance, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Social partners
4. Implement awareness raising on the benefits of the transition to formality	Ministry of Labour and Social Policy, State Labour Inspectorate, Public Revenue Office, State Market Inspection, Social partners

2. Expected impact on competitiveness

Decreasing of distort for fair competition among firms and stimulate the creation of regular employment can lead to fair competition, decreasing in employment insecurity and new possibilities for descent work.

4. Expected impact on employment and gender

Efficient labour markets are negatively correlated with undeclared work, while they are positively linked to higher competitiveness of the overall economy. Decreasing of informal economy will lead to better quality of work and working conditions, better business environment and fair competition, and puts the financial sustainability of social protection systems at lower risk. At the same time, it should be noted that for some of the workers, informality is not a choice, but a necessity in which they are pushed by a lack of decent jobs. Impact will be balanced by gender.

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

In EUR	2019	2020	2021
Budgetary expenditures			
Non-budgetary financing – IPA funds	200,000	500,000	300,000

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Institutional stakeholders are not committed and consistent in their effort to fight informal economy.	5%	Low	Involvement of all stakeholders in the design phase of the new measures. Their participation will also be ensured through awareness raising activities.
Lack of public trust and confidence in the effectiveness of the administrative procedures and measures.	10-15%	Medium to high	The risk will be addressed by ensuring good coordination among ministries and other relevant institutions and by creation of clear cross-sectoral rules for implementation of the policy measures for promotion of decent work. The implementation of the rules will be accompanied with targeted public campaign that will involve all institutional and non-institutional actors.

4.3.4 Research, development and innovation and the digital economy

Research, development and innovation. The European Innovation Scoreboard 2018 ranks the Republic of Macedonia as a “modest innovator”. The report identifies “Attractive research systems and Innovators as the strongest innovation dimensions and Sales impacts and Intellectual assets as the weakest innovation dimensions”⁵². In addition, the latest Small Business Act (2017) finds that the principle of “Skills and innovation” is one of the lowest performing principles, well below the EU average.

⁵²<https://ec.europa.eu/docsroom/documents/30678>

A detailed assessment of the innovation ecosystem is difficult to conduct due to limited availability of consistent data on national level. Statistical reports show that investment in RDI remains low (0.45% of the GDP in 2016), with highest investment being in the higher education (0.27% of the GDP in 2016) and significantly lower investment in the public sector (0.05 of the GDP in 2016) and in the private sector (0.1% of the GDP in 2016). Regular access to finance from alternative, non-banking sources remains a challenge for the private sector. Looking at the available access to finance, the lowest variation from the EU average is that of equity and mezzanine financing (-1.25 of the EU average) and business angels financing (-2.00 of the EU average)⁵³. The Competitiveness Outlook in Southeast Europe 2016 also recommends increasing R&D expenditure, further developing venture capital to provide new financing opportunities for innovative enterprises and diversifying support to innovation including incentives such as public procurement for innovation and measures tailored to enhance business & academia cooperation⁵⁴. Less than 10% of companies have some form of regular cooperation with the universities, except for IT and automotive industry where the cooperation is on a higher level.

The 2017 SBA Factsheet notes a positive development with the establishment and operation of the Fund for Innovation and Technology Development, it also notes however that consistent poor record in using EU R&D funds requires reassessment of the existing R&D support measures.

In 2018, the Fund for Innovation and Technology Development continued with the implementation of the instruments for support, including the successful piloting of the instruments for supporting technology extension and business-technology accelerators programmed in the ERP 2018-2020. It also diversified the available support to the private sector, significantly increasing the public investment in innovation and technology development through the measures of the third pillar of the Economic Growth Plan. At the same time, the Fund provided free technical assistance through consultations and mentoring on several innovation-related topics for all interested companies and in coordination with various donors organized a number of free investment readiness programs. As a result, for the first time, the number of the evaluated successful applications exceeded the available budget for the public calls. The selection procedure for awarding funds includes preselection by peer-review and final selection by a Committee for Approval of Investments composed of five international experts. All funded projects are monitored through regular reporting on project level. All support measures are harmonized with the Law on State Aid and related regulative and the Fund is introducing a risk assessment protocol related to moral hazard prevention.

To comprehensively address the insufficiencies in the innovation ecosystem, in 2018 the Fund commenced two projects funded under the EUIF mechanism: "A Canvas for Innovation: a way forward to strengthening the innovation ecosystem" and "A Feasibility Study for Science and Technology Park". Both projects are in an advanced phase of implementation and provide a base for formulating the future RDI support measures.

Digital economy - Legal framework, policies and strategies. As the market grows beyond national borders, utilizing the reach and scaling the potential of digital technologies requires reliable and predictable rules of conduct. Today, electronic signatures are widely accepted as a global standard and are legally on par with traditional handwritten signatures. As noted in Sigma Monitoring report from November 2017⁵⁵, the use of digital signatures by individuals in the Republic of Macedonia is limited, partially due to the annual cost for electronic signature issuance is relatively high (compared to purchasing power), hence the majority of administrative procedures are conducted in person. Insufficient information over the rules governing electronic signatures and their legal recognition, has fuelled fears that hampered the usage of this digital tool. In addition, the current subject matter regulation (Law on Electronic Data and Electronic Signatures) is outdated and does not follow the technological neutrality principle, thereby disabling electronic signing with the use of contemporary technologies (such as smart phones and other smart devices), which is one of the reasons for the small breakthrough in electronic services. Although electronic invoices are being used in business transactions for fast and efficient exchange of data, additional hard copy is being issued for accounting records. The new **Law on Electronic documents, Electronic Identification and Trust Services** defines so-called. "Confidential Services", including the electronic signature, extends their range and determines their legal force. Additionally, the legal definition of the electronic document is expected to eliminate all uncertainties, especially with electronic invoices, and with precise determination of the levels of security of electronic identification and competent authorities, interoperability of future national identification schemes with those of the EU is ensured. The new law is

⁵³ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/the_former_yugoslav_republic_of_macedonia_sba_fs_2017.pdf

⁵⁴ https://read.oecd-ilibrary.org/development/competitiveness-in-south-east-europe_9789264250529-en#page283

⁵⁵ Available at: <http://www.sigmaxweb.org/publications/Monitoring-Report-2017-the-former-Yugoslav-Republic-of-Macedonia.pdf>

harmonized with the Regulation no. 910/2014 on electronic identification and trust services for electronic transactions on the internal market (eIDAS).

The World Bank⁵⁶ provides an overview of the political turmoil, lack of trust in the public institutions, corruption and other factors influencing citizens' trust. Public administration is evaluated as inefficient, lacking transparency, which leads to a decrease in credibility, as well as the quality of public services. In this manner, the process of digitalisation, especially in G2G, is expected, in addition to increasing the quality of public services, to contribute to improving administrative transparency, reducing the risk of corruption and restoring confidence in state systems. The new draft **Law on Electronic Management and Electronic Services** (replacing the Law on Electronic Management) defines the legal foundation for Interoperability platform, Service Catalogue, National Population Register, National Portal for e-Services and all future government-owned information systems. Availability of electronic identification is identified as one of key enablers for e-services components within the E-Government benchmark report 2017.

While digitalisation brings numerous benefits to consumers and businesses, it also generates new challenges and policy issues such as cyber threats and cyber security. Technological advancement on a global level opens new opportunities for the use of technology in everyday life, business operations, learning and exchange of information. Yet, new global economic and technological trends carry significant risks for businesses and citizens of the Republic of Macedonia. The need to set strategic national goals in the field of cyber security is recognized on a global level. In this manner, the **National Cyber Security Strategy 2018-2022** addresses the challenges in cyberspace and fosters the development of safe, secure, reliable and resilient digital environment, supported by high-quality capacities, based on cooperation and trust in the field of cyber security. This Strategy entails a broad range of network and operational security on a national level. Protection of the Critical National Infrastructure, among which energy infrastructure protection is defined as one of the priority activities in the Strategy and Action Plan.

Digital skills. Developing digital society depend on availability of skilled ICT workforce on the side of service providers, as well as service users. In this manner, strategic objectives aimed at developing digital skills are categorized in three streams: digital skills for citizens, digital skills in the educational system and digital skills for public administration workforce. In order to strengthen the digital skills of citizens on a national level, current initiatives include organizing campaigns to inform and educate the citizens for the use of e-Services (National Portal for e-Services) and public awareness raising activities in the field of cyber security (National Cyber Security Strategy). In addition, an analysis of the ICT staff across all public institutions in Macedonia is currently being conducted, focusing on the retention of ICT workforce and ICT skills demand. In order to stimulate the development of digital skills in the formal education system, this year the Republic of Macedonia is actively involved in the "EU Code week" initiative, by promoting and encouraging engagement of educational institutions and lecturers. A large number of projects within the EU code week will continue as long-term projects, which will in turn fuel innovation, creativity and entrepreneurship at an early age. In addition, all 10-14-year olds in the public school system will be engaged within the "21st century schools programme in Western Balkans" in order to build their digital skills and employment prospects. The programme will allow them to learn in a fun and innovative way by having access to free micro:bit pocket-sized, codeable computers in ICT classes and other subjects, helping them build their skills and confidence in computer literacy and coding.

Broadband. A recent World Bank report (2018)⁵⁷ identified the low purchasing power of the population as the main reason for low penetration of user's access to fast and ultra-fast NGA networks. In addition, the report emphasizes that high retail prices (in relation to average income) and high wholesale prices are a major obstacle for the development of broadband penetration in the country, as well as limited competition and investments in this field.

In 2018, for the need of developing a National Operational Broadband Plan, mapping process of the existing and planned broadband coverage for the whole territory of the Republic of Macedonia has been conducted. The results demonstrated that the access to fast NGA network coverage for households (78%) is close to the EU average (80%), whereas access to ultra-fast NGA network coverage in Macedonia (43.8%) is significantly lower compared to the EU average (58%). Taking into account operators' future investment plans, the percentages of

⁵⁶World Bank, 2018. "Higher But Fragile Growth WESTERN BALKANS REGULAR ECONOMIC REPORT No.14": <http://pubdocs.worldbank.org/en/194301538650996304/rev2-WBRER14-WQ-web-ENG.pdf>

⁵⁷ World Bank, 2018. "Seizing a Brighter Future for All": World Bank Systematic Country Diagnostic for Macedonia. <http://pubdocs.worldbank.org/en/606381543434479145/MKD-SCD-2018-ENG-Web.pdf>

households with access to fast and ultra-fast NGA networks are expected to grow within the next 3 years with expected rise in 6.94% for fast NGA networks and 25.67% rise for ultra-fast NGA networks. Thus, further efforts are concentrated on assessing future public investments in areas where no commercial interest exists (white areas).

The objective of the National Operational Broadband Plan 2019-2023 is to address these issues, thus providing specific measures and activities to improve the national broadband outlook, along with the development of 5G mobile technology. Among other elements, the Plan envisions the establishment of a National Broadband Competency Office, which will secure that all citizens will have equal access to broadband, enabling them to utilize the digital entrepreneurship opportunities.

Measure 14: Improving Infrastructure and Access to Finance for Research, Development and Innovation

1. Description of the measure

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

In an effort to address the key challenges related to RDI such as lack of venture capital, low academia & private sector cooperation and insufficient incentives for innovation, FITD continues to advance the available measures and tends to introduce new measures and infrastructure to bridge the identified gaps. In the forthcoming period, the Fund will be implementing measures based on the two afore-mentioned ecosystem assessments and included in the new Action Plan 2019-2020 of the Innovation Strategy and the Action Plan of the Industrial Strategy.

I. Fund for Equity and Mezzanine Investments (FEMI)

The aim is to increase the survival and success rate of innovative companies by providing (i) access to equity and quasi-equity financing for capital market segments that are not attractive for bank financing; (ii) provide an information point for potential investors on investment opportunities.

- Development of the relevant bylaws (2019)
- Launching a Public Call / Tender Release for selection of management (2019)
- Signing contract / establishing the Fund for Equity and Mezzanine Investment (2019)
- Operation of the Fund for Equity and Mezzanine Investment (2019-2021).

II. Science and Technology Park (STP)

The STP is envisaged as a complex organization that offers in one place professional business support and innovation services designed to increase the extent of innovation, as well as networking possibilities on national level. The establishment of the first STP in the country will be based on the findings of the feasibility study (to be delivered by the end of 2018) with an overall objective to strengthen the cooperation among academia, industry and government. The STP will potentially incorporate a National Technology Transfer Office.

- Development of bylaws for establishment of the STP (2019)
- Establishment of the initial premises of the STP (2019)
- Staffing and strengthening the human capacities of the STP (2019 onwards)
- STP providing services for academia and the private sector (2019 onwards)
- Further development of the premises / hard infrastructure (2020 onwards).

III. Co-financed Grants for Commercialization of Innovation

Based on the lessons learned from the implementation of the instruments for support financed under the Skills Development and Innovation Support Project and the measures under the Economic Growth Plan, as well as on the recommendations from the assessment of the national innovation ecosystem, the Fund is working on consolidating two measures with similar objectives into a single measure for commercialization of innovation.

- Adoption of the revised Rulebook for Commercialization of Innovation (2019)
- Announcing a public call under the instrument for support Co-financed Grants for Commercialization of Innovation (2019)
- Implementing calls under the instrument for support (2020 onwards).

2. Expected impact on competitiveness

Bridging the existing gaps in the innovation ecosystem will introduce mechanisms to encourage RDI investments, innovation activity, business academia cooperation and commercialization of innovation. Facilitated access to finance will increase the survival rate and sustainability of the newly established enterprises. Investment in RDI is one of the key contributors to increase in the SMEs competitiveness and export potential.

3. Key performance indicators

	2019	2020	2021
Number of companies receiving equity/mezzanine investment	3	5	10
Number of active contracts for business & academia innovation cooperation	10	30	50
Increased private expenditure in RDI mobilized through the support measures (by % compared to 2018)	40%	50%	60%
Number of employments supported	500	1,000	2,000

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

in EUR	2019	2020	2021
I. Fund for Equity and Mezzanine Investment ⁵⁸	7,000,000	/	/
II. Science and Technology Park ⁵⁹	1,000,000	1,000,000	/
III. Co-financed Grants for Commercialization of Innovation	10,000,000	12,000,000	12,000,000

5. Expected impact on employment and gender

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

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Lack of interinstitutional cooperation and participatory stakeholder involvement	5%	Low	Establish consultation and cooperation mechanisms to increase effectiveness in the delivery of the results. Establishing M&E plan and risk mitigation plan and conducting regular meetings of the Monitoring Body.
Capacity of FITD for implementing new measures	10%	Medium	Further strengthening of the human resources in FITD: 10 new employments foreseen at the beginning of 2019. The FITD budget for salaries for 2019 is doubled and the new Systematization Act is in preparation (to be adopted in 2019) foresees 50 positions in total.
Low investment readiness /absorption capacity in the private sector	5%	Low	Continue and extend the free technical assistance to companies and implement investment readiness programs. Development and implementation of a Communication Action Plan.

4.3.5 Trade-related reforms

Global trade faced various difficulties in 2018 as some disputes are rising between major trading partners. Some of the core, fundamental principles on which the trading system has been based for seven decades are being questioned. The impact of this global trade disputes for Macedonia is small and limited as the biggest part of our trade is done with EU and in the region. The 70.6% of the total trade of Republic of Macedonia in 2017 is with EU and 10.5% with CEFTA countries. Evidence for the small and negligible impact to trade is the export growth of 14.7% and the growth of imports of 11.7% in the past 8 months of this year.

The trade relations between the EU and the countries in the region is set up within the Stabilization and Association Agreements or processes that require bringing national legislation in line with the EU Acquis for establishing free trade area between each candidate or potential candidate country and EU. Albania, Macedonia and Montenegro are also World Trade Organization (WTO) members. All countries are signatories of the Central

⁵⁸ The budget will be used during the period 2020-2013

⁵⁹ The establishment of the STP is envisioned in two phases. The here presented budget is for Phase 1, the budget for Phase 2 is conditioned on the implementation of Phase 1.

European Free Trade Agreement (CEFTA) and for those not yet being part of WTO, this is of great benefit as it prepares them to meet the criteria for WTO membership.

Trade liberalization and facilitation measures, as part of multilateral trade agreements, enable access to bigger markets and global value chains and provide opportunity to companies to increase their competitiveness. There is a joint initiative in Western Balkans to accelerate regional economic cooperation and develop a Regional Economic Area, based on CEFTA and EU rules and principles. It will progressively allow an increased free movement of goods, services, investment and skilled workers, in full coherence with each country's path.

The biggest achievements of CEFTA are: ratifying Additional Protocol 5 and starting with its implementation by 5 countries and one pending for depositary info; the text for Additional Protocol 6 is defined, pending for adoption; the negotiations for Dispute settlement mechanism are about to start soon; the transparency is increased with regular updating of statistical portal with the data for trade in goods, services, FDI etc.; the negotiations for mutual recognition for professional qualifications for doctors, dentists, engineers and architects have started.

The trade policy of the region, in accordance with the CEFTA Agreement, provides for a significant level of openness in the commodity market and the possibility of wider liberalization of trade in services. The economies in the region have made progress in creating policies that facilitate trade, but they still face non-tariff barriers and restrictions on trade in services. Regarding non-tariff barriers, improvement is needed in several categories, such as technical standards, sanitary and phytosanitary measures and administrative obstacles. In order to strengthen and improve the quality of risk analysis to avoid repetition of sampling and testing, as well as to establish regional standards for mutual recognition of programmes, documents and inspection certificates, to facilitate trade in goods, CEFTA countries undertake activities for the application of regional protocols that will be an integral part of the CEFTA Agreement.

Measure 15: Trade facilitation

1. Description of the measure

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

The measure is related to the implementation of the Additional Protocol 5 to the CEFTA Agreement aimed at simplifying the inspections related to all clearance procedures (and reducing formalities to the maximum extent possible through electronic exchange of information between customs authorities). Negotiations on the Additional Protocol 5 began in 2015 and the Protocol entered into force in 2018.

Trade policy and its facilitation are part of the Integrated Growth Pillar of the South East Europe 2020 Strategy. The main goal of this pillar is to promote regional trade that is non-discriminatory, transparent and predictable, and intensifies the flow of goods and services in the region.

The general objective of the Additional Protocol 5 is to simplify inspections (food and veterinary agency, phytosanitary agency) related to all clearance procedures and reduce formalities to the possible maximum extent, to exchange data between customs authorities to the extent that each national legislation allows and mutually recognise the national Authorised Economic Operators' Programmes in each CEFTA Party, provided that both the legislation and implementation of each national programme is fully in line with the relevant EU *acquis*.

The measure is linked with the measure of facilitating Macedonia-Serbia joint railway cross border crossing.

a. Planned activities in 2019

The Customs Administration of the Republic of Macedonia will upgrade the customs systems intended for data exchange between the customs authorities in the region, to purchase a new server with appropriate storage for incoming SEED + data and to purchase a new Firewall / Router to improve the current and to establish additional VPN links for processing of increased flow of messages and creating active network security equipment.

The Food and Veterinary Agency will develop transparent tools for extending the TRACEE Certificate of Veterinary Application with an appropriate warehouse for hosting a new software module to support the workflow of issuing certificates and Firewall equipment.

The Phytosanitary Directorate will create a system for phytosanitary certificates for which a new central server will be procured with adequate storage of a national phytosanitary software application and a firewall / router to establish VPN links to remote locations with permanent licenses for VPN clients.

b. Planned activities in 2020

In 2020 no specific activities are planned except for system maintenance activities.

2. Expected impacts on competitiveness

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

3. Key Performance Indicators

To monitor the success of the measure it is expected that the procedures for customs and inspections will be simplified and reduced for at least 25% which will result with reduction of time of the customs clearance for 25%.

4. Estimated costs for activities and the source of financing

CEFTA Secretariat planned activities will be financed by IPA. The country planned activities will be financed within the Budget for each institution involved in the implementation. The planned activities in 2019 amount to EUR 51,500, to be included in the Budget of the Republic of Macedonia, EUR 22,500 in the Budget of the Customs Administration, EUR 14,500 in the budget of the Phytosanitary Directorate and EUR 14,500 in the budget of the Food and Veterinary Agency. The annual costs for running of internet connections at all locations amount to EUR 3,600.

5. Expected impact on employment and gender

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

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Possible underestimation of allocated budget	10-15%	Medium to High	Timely assessment for the need of increased budget allocations
Coordination problems between countries might arise in the implementation phase	10-15%	Medium to High	Regular consultation meetings between countries involved

4.3.6 Education and skills

The new Education Strategy 2018-2025 was adopted by the Government in 2018, as a key document for improving quality of and conditions in education. According to OECD Competitiveness Outlook 2018, the assessment of the dimension on education shows that, Macedonia achieves a score of 2.8⁶⁰, with the average for the countries of Southeast Europe being 2.5, meaning that there is a solid strategic framework, but it is not always followed by implementation and the process of monitoring the public policies for providing feedback and corrections.

According to the International Student Assessment Program (PISA), conducted by OECD, two thirds of Macedonian students at the age of 15 show poor results (not achieving a level of functional literacy) in science, mathematics, reading, cooperation in solving problems and financial literacy compared to their peers from 72 countries and economies. Therefore, investment in primary and secondary education is significant⁶¹.

For these reasons, several processes for increasing the quality of the primary education started: preparation of a new Law on primary education, revision of the curricula in the first three grades, as well as preparation of the National standards for achievements, for each cycle of the primary education, based on learning outcomes and key lifelong learning competences defined by the European Commission. Also, in order to provide support for the trainings of teachers, the Bureau for Development of Education has established the Learning Management System in support of providing training for teachers and their professional development. In addition, Draft Annual

⁶⁰(Competitiveness in South east Europe, A policy Outlook 2018).

⁶¹(Competitiveness in South east Europe, A policy Outlook 2018).

Program for Professional Development and Advancement of Teachers and Professional Associates in Primary and Secondary Schools were prepared.

Enhanced support should be provided especially for vocational education and training, as well as good trainings for teachers and pre-school education⁶².

Although more students are enrolled in VET than in general secondary education, students that complete VET are identified as having the largest skill gap by all economic sectors, that is, they are not ready for work, except for the ICT and automotive industry. Taking in consideration an analysis from 2014 that less than 10% of companies regularly communicate with any educational institution, and that the system of vocational education and training, characterized by narrowly defined professional profiles and low flexibility, is not effective⁶³, several activities were undertaken in order to increase the involvement of the business community in the ongoing reforms of the VET. Since 2017, the business sector's representatives are members of the National Board for Macedonian Qualification Framework, of the sectorial commissions for qualification and they were included in the preparation of the Methodology for developing standards of occupation.

In cooperation with employers in the past two years, over 229 occupational standards have been developed and adopted, but it is still necessary to invest in raising the knowledge of employers for the role that occupational standards and qualification standards have in creating relevance between businesses and vocational education and training. At the request of employers and the needs of the labour market, 40 standards of qualifications were designed and adopted. In the process of adoption, there are 20 qualifications designed according to the requirements of employers. The modular approach in vocational education has been piloted in the 2017/2018 school year for three pilot qualifications by reforming the curriculum. A special focus is placed on the training of the teaching staff and the school management team. In addition to the ongoing reform of the four-year vocational education (technical education), the reform of the two-year and three-year vocational education was completed. The focus of the trainings was on the student and on the work-based approach. Starting from the academic year 2017/2018, direct involvement of the business company was enabled by involvement of students in the work process.

It is necessary to invest in post-secondary education, which does not attract a sufficient number of students due to obsolete and unreformed professional profiles. Amendments to the Law on Vocational education and training will be foreseen in order to regulate certain processes and procedures in this area. The Centre for Adult Education started to develop a system for validation of non-formal and informal learning (VNIL) by creating relevant conceptual guidance.

A National Qualification Framework (NQF) Register (software and hardware) has been developed to include qualifications at all levels to ensure transparency and visibility of qualifications. However, there are challenges in the implementation of the NQF that remain, such as capacity building, financing and engagement and stakeholder co-operation⁶⁴.

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

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

Measure 16: Further development of the qualification system

1. Description of measure

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

A new Law on Primary Education is under preparation. The main focus is on quality assurance system based on a National Standard for each cycle of primary education with clearly defined learning outcomes, with attention to

⁶²(A credible enlargement perspective for and enhanced EU engagement with the Western Balkans" - Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the regions).

⁶³ (World Bank (2014c) Macedonia: Labour Market Assessment 2007-2011. Washington, DC: The World Bank).

⁶⁴(CEDEFOP, 2017b).

inclusiveness, respect for diversity of children's rights and democratic culture. Afterwards, new curricula and programs will be prepared, where the focus will be on the interaction between the teacher and the student. This reform is planned to be piloted in 2019. A new Law on Secondary Education is planned to be prepared and adopted. In order to improve achievements of students on international tests, introduction and piloting of the innovative teaching methodology alongside the mainstream curriculum will help students to develop digital, problem solving and critical thinking skills. An additional measure is the planned establishing of a Math Gymnasium.

In order to overcome the great discrepancy in the skills acquired in the educational process and the needs of the employers, some of the already started activities will continue to be implemented, but new activities are planned as well. The Ministry of Education and Science continues with the implementation of the program - grants to support joint projects between vocational schools and companies aimed at improving the practical training of students and their skills for employment, thus increasing the employability of secondary vocational education students. After piloting the reformed curricula for the 4-year technical secondary education in 2017/2018 in 3 sectors (construction and geodesy, tourism and electro), the reform is extended to all the curricula for the 4-year VET. The new curricula are modular, based on competences, with learning outcomes, and defined with ECVET credit points, based on the Recommendations of the European Parliament and the Council, as well as on the best practices in the EU member countries.

Piloting the new curricula for dual vocational education will help companies acquire professional staff, having in mind that students will be preparing for work in a particular company during their secondary education.

The main goal of the reform in formal and non-formal education is increasing employability of young people, especially women and vulnerable groups (Roma and young people with special needs). In the following decade greater focus will be placed on cooperation between the education system (including non-formal education) and the business community. The idea is to build a sustainable system, primarily for companies to detect what skills are needed for workers and how to ensure the development of those skills (whether through a system of formal or non-formal education). The project will focus on several clusters: IT, personal services, agriculture, food industry, catering and tourism.

The focus of all these activities will be on work-based learning through the realization of high quality practical training, to the end of better preparedness and increased employment opportunities.

Regarding the Validation of Non-formal and Informal Learning (VNIL), the Centre for Adult Education prepares procedures and develops methodological documents for conducting and piloting of the system for VNIL. It is also planned to ensure quality in the qualification system by introducing a diploma supplement, as well as harmonization with the laws on education of the Law amending the Law on the National Qualifications Framework.

Regarding higher education, in the next period focus will be placed on harmonization of the bylaws and accreditation and evaluation rules with the European standards and criteria, establishment of a Quality Assurance Agency in accordance with the new Law on Higher Education, adoption of an Action Plan for activities required for membership of the Quality Agency in ENQA and EQAR, including the Agency's self-evaluation process.

a. Activities planned in 2019

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

b. Activities planned in 2020

Planned activity	Institution in charge
1. Trainings on transversal skills at the request of employers	Employers; Providers of educational services
2. Validation of non-formal education for acquiring specific	Centre for Vocational Education and Training; Special accredited

qualifications (establishment of validation system - recognition of previous learning)	institutions for validation of non-formal education
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c. Activities planned in 2021

Planned activity	Institution in charge
1. Continuing the cooperation between higher education institutions and the private sector, as well as secondary vocational schools and the private sector in order to ensure quality practical work for students in companies.	Universities and higher education institutions; Secondary vocational schools; Companies.
2. Validation of non-formal education for acquiring specific qualifications (establishment of validation system - recognition of previous learning)	Centre for Vocational Education and Training; Special accredited institutions for validation of non-formal education
3. Development of 5 qualifications at level V - specialist and master for the needs of the labour market and the opportunity for self-employment in craft activities.	National Board for the Macedonian Qualifications Framework; Sectoral committees; Ministry of Education and Science; Centre for Vocational Education and Training; National Chamber of Crafts of Republic of Macedonia, Providers of educational services

2. Expected impact on competitiveness

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

3. Key performance indicators

Indicator	2019	2020	2021
Number of students enrolling to VET schools compared to general education	55%-45%	58%-42%	60%-40%
Number of student enrolling in STEM studies	increase of 3%	increase of 5%	increase of 10%
System for validation of nonformal and informal learning	Adoption of changes in the Laws	Established system for validation	

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

In EUR	2019	2020	2021
Budgetary expenditures	1,444,761	1,494,761	688,000
Non-budgetary financing – IPA funds	1,360,000	1,436,000	1,586,000
Total	2,804,761	2,930,761	2,274,000

5. Expected impact on employment and gender

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

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Lack of an overall framework for implementation of all activities might contribute to various non systemic decisions	10%	High	Establishing accompanying bodies for support of NQF (sectoral committees) consisting of employers' organization, trade unions, students, higher education institutions, government institutions, associations etc.
Insufficient interest of the relevant interested parties, particularly employers, whose opinions and suggestions are crucial	15%	High	Strengthening of the awareness for the role of NQF; Finding adequate instruments to motivate employers

4.3.7 Employment and labour markets

In the medium-term period between 2013 and 2017, the number of employees increased by 62,000 or by 9.1%. The average annual growth rate of the number of employees is 2.2%. The largest number of new jobs can be seen in the manufacturing industry; construction; trade; and public administration and defence, compulsory social insurance, while there is a decrease in agriculture. In 2017, the employment rate for the population aged 15-64 was 50.5%. It remains at a low level and indicates lack of utilization of the workforce as a development potential. Gender gap in employment is high. The employment rate of men (60.5% in 2017) is higher than for women (40.3%) by 20.2 pp.

The employment rate among young people is low: only 17.5% of young people aged 15-24 are employed. One of the reasons for this is the low activity rate of young people (32.8%), which mainly stems from participation in the education system. The share of young people (15-29 years old) out of the workforce, education or training (NEET) is 32.5%, with women aged 25 to 29 years more likely to be outside the workforce, education and training compared to young men. The main reason for this are family responsibilities.

Although the unemployment rate is continually declining, the Republic of Macedonia still faces a high unemployment rate. The unemployment rate in 2017 was 22.5% (declined significantly from 31.2% in 2013), and there are no major gender differences. Of all unemployed persons, 53% are also looking for work through the Employment Agency of the Republic of Macedonia (EARM).

Apart from the positive trend, young people have a high unemployment rate and the unemployment rate drops with the level of education. In young people, the low job creation rate in the labour market and the high unemployment rate result in high long-term unemployment. The activity rate in 2017 was 65.3%, which is by 1.4 pp. higher compared to 2013. Analysed by gender, the activity rate in 2017 is higher in men and is 78.4% (51.7% for women). Inactive women are disproportionately distributed among young women, women in rural areas and unskilled, with one of the most important reasons for female inactivity being household responsibilities. The activity rate is higher for those with higher education levels.

According to the Employment Reform Program and Social Policy 2020 and the Employment Strategy 2016-2020, the goal is to increase the employment rate to 46.9% by 2020 and to reduce the unemployment rate to 21.5%. Taking into account the trends in 2016-2017 and the first three quarters of 2018, the goals are feasible.

Taking into account the reasons for high unemployment, most often they are associated with insufficient labour demand, which is largely a consequence of the weak economic growth in the past decade. Demand is mainly driven by improving the business environment and reducing labour costs.

On the side of the labour supply, the measures were mainly aimed at improving the skills of the unemployed, retraining and further qualification, supporting young unemployed people in order to gain work experience, however, linking the needs of companies and the offered workforce remains a major challenge.

In the past period, an assessment of the impact of the active employment measures was carried out and the measures were adjusted according to the recommendations, the quotas of minimum 30% youth participation in the active employment measures were determined, the measurement of the performance of the participants in the services and the measures for employment was conducted, information on the labour market was improved, the operation and services of EARM were modernized, but still only a small number of employers use the services of the Employment Agency in relation to employment mediation. Also, in the past three years, implementation of profiling of the unemployed persons and preparation of individual employment plans in EARM has begun, through which the most vulnerable categories are directed to take part in the Active Employment Measures.

Measure 17: Youth guarantee

1. Description of measure

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

Under the Youth Guarantee, each young person under the age of 29 will be given the right job offer, the opportunity to continue education or be included in some of the active employment measures. This will be provided within 4 months after registration as an unemployed person in EARM. EARM started the implementation of the measure Youth Guarantee in 2018 as a pilot activity in 3 employment centres (Skopje, Strumica and Gostivar), having in mind that it was necessary to see the course of implementation and possible

problems that may arise, so if necessary to amend and modify the activities before the measure is implemented on the entire territory of the Republic of Macedonia.

Following the example in the European countries, 3 pillars of activities are identified (early intervention, identification and inclusion and activation with integration in the labour market). EARM will intensify its activities and introduce new methods of work that are aimed at early intervention in order to prevent the future unfavourable position of young people on the labour market and to prevent their long-term unemployment and other related problems. In this sense, the following activities:

- info meetings with young people in schools / faculties;
- professional orientation and career counselling of students in primary and secondary schools;
- employment fairs with a special emphasis on the participation of pupils and students;
- better information on the situation on the labour market through the EARM website, social media and other applications,

will be realized in cooperation with the educational institutions and will contribute to bringing the information on the labour market closer to pupils or students.

The identification of inactive young people (who are not involved in the educational process, are neither employed nor are they seeking employment), is aimed at preparing for their inclusion in the measures for activation and integration in the labour market. In doing so, a special focus will be placed on young people who face different obstacles (social exclusion, poverty or discrimination). For that purpose, EARM will organize:

- information campaigns for awareness raising and attracting young people to engage in some of the activation measures;
- activities for identifying, contacting and involving inactive young people.

The youth organizations within the non-governmental sector shall have the main role in the process of realization of this activity, whose contribution will be significantly important.

The Youth Guarantee begins with the activation measures for young people. It will initially apply to young people who are active jobseekers and are registered for the first time as unemployed (influx). Once the unemployed persons are registered in the unemployment register, they are immediately referred to their first interview with an expert from EARM, who makes the profiling of their employability using a control questionnaire and develops the individual employment plans. The IEP defines the activities that will enable the young unemployed person in the next 4 months to be included again in the educational process (not in the regular education) or to be included in some of the measures and services for employment, which will enable him to increase his opportunities for easier employment, i.e. he will be offered appropriate employment which corresponds to his education and skills. These activities include group and individual counselling and information; providing job search assistance services; motivational training; inclusion in one of the labour market integration measures (employment, education and training measures).

a. Activities planned in 2019

This measure with all the activities stated above will be implemented in all 30 employment centres, having in mind the experience of the pilot implementation in 2018.

Within the Sector for Active Measures and Employment Services, a separate Unit for Employment of Young Persons will be established. Therefore, the existing Rulebooks for internal organization and systematization of the working positions in EARM will be adjusted accordingly. Within this unit, all activities for increased inclusion of young people on the labour market will be planned, coordinated and monitored, including the implementation of the Youth Guarantee Project, the National Youth Strategy and the National Action Plans for employment of young people.

b. Activities planned in 2020 and 2021

This measure with all the activities stated above will be implemented in all 30 employment centres, as part of their regular activities.

2. Expected impact on competitiveness

All activities foreseen within this measure are expected to increase the competitiveness of young people and facilitate their inclusion in the labour market. In addition, competitiveness will be assessed through indicators that will be determined before the start of the implementation of the measure.

3. Key performance indicators

- % of successful participants in the Youth Guarantee for a period of 4 months, in relation to the total number of participants in the measure,
- % of successful participants in the Youth Guarantee according to the grounds for exit from the measure (employment, measure),
- The situation of young people after leaving the Youth Guarantee (in the 6, 12 and 18 month intervals).

All indicators will be monitored by sex, age and education level of the persons.

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

In 2019, 2020 and 2021, the planned coverage of participants in all employment centres is 9500 annually, out of which it is estimated that one third will be included in active programs and measures for employment, for which approximately EUR 4,200,000 will be spent annually.

5. Expected impact on employment and gender

The measure aims to improve the position of young people in the labour market, hence to increase their employability or employment opportunities. The employment of young people involved in this measure will be monitored monthly, semi-annually and annually. In addition, gender representation will be monitored.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Lack of physical and human capacities of EARM	20%	High	In the employment centres and EARM headquarters, new persons will be employed who will work with the unemployed in the area of profiling the employability, categorization and preparation of appropriate forms of individual employment plans; provision of employment services; implementation of active programs and measures for employment. Continuous trainings of EARM employees for work with the unemployed persons and employers will be realized. The trainings will especially refer to working with vulnerable categories of unemployed persons; young people with special reference to those persons included in the Youth Guarantee; employment mediation; profiling and proper targeting of unemployed persons when engaging in some of the active employment programs and measures.

4.3.8 Social protection and inclusion

In Republic of Macedonia there is a trend of continuous reduction in poverty and inequality, however, despite these positive trends, they are still high compared to EU average. According to the latest SSO data, the at-risk-of-poverty rate was 22.2% in 2016, while the Gini coefficient (measure of inequality of income distribution) was 32.5. Poverty rate in EU-28 is 16.9% in 2017, while the Gini coefficient is 30.3.

Table 4.2. Laeken poverty and social exclusion indicators, 2013–2017

	2013	2014	2015	2016	2017
At-risk-of-poverty rate, % of population	24.2	22.1	21.5	21.9	22.2
Number of persons below at-risk-of-poverty threshold, in thousand persons	500.4	457.2	445.2	453.2	460.3
At-risk-of-poverty threshold of single-person household - annual equivalent income in denars	70,275	71,925	78,362	82,560	90,120
At-risk-of-poverty threshold of four-person household (2 adults and 2 children aged less than 14) - annual equivalent income in denars	147,578	151,043	164,560	173,376	189,252
At-risk-of-poverty rate before social transfers and before pensions, % of population	41.0	41.7	40.5	41.6	40.7
Inequality of income distribution, S80/S20, %	8.4	7.2	6.6	6.6	6.4
Inequality of income distribution, Gini coefficient, %	37.0	35.2	33.7	33.6	32.5

Source: SSO

However, despite the reduction of the poverty rate of from 27% in 2010 to 22.2% in 2017, poverty and inequality are high when compared with other countries with similar levels of development in the region⁶⁵ and there are concerns about the sustainability of the recent gains in poverty reduction.

⁶⁵ World Bank Policy Notes 2017

Significant reforms are necessary, among other things, in redesigning the types and adequacy of social welfare cash benefits as assistance and support to the most vulnerable categories for dealing with poverty, especially having in mind the goal of the Government to reduce the poverty rate below 16% by 2020.

Analyses show that the social protection system is in a phase when essential reforms are necessary, primarily in order to improve the effectiveness of financial benefits and the efficiency of benefits and social services that are delivered to end users. The current design of the social transfers is quite uneven and inadequate, and, as such, contributes to the deepening of inequality in the society. As regards the social protection services, they are not tailored to the individual needs of end users, and they should be provided in the community through further implementation of the process of deinstitutionalization, decentralization and pluralisation.

Although the Law on Social Protection allows the process of pluralisation in the provision of social services, in practice, these are mainly provided by the state. There is a lack of initiative from municipalities to establish institutions for institutional or extra-institutional social protection, as well as greater activity and involvement of the local communities in the implementation of policies in these areas, coordination at the local level between relevant stakeholders and their greater cooperation with institutions at the national level. The private initiative is not sufficiently present in relation to all social protection services; however, what can be highlighted as the reason for this is the non-existence of the amount of the cost of the service defined by the state (per hour and per beneficiary). There is an evident lack of provision of social services by the civil sector, which is usually dependant on funds provided by external donors. Hence, the access to social protection services and the coverage of the beneficiaries of these services within the established forms of social protection do not fully satisfy the needs of the vulnerable categories.

Measure 18: Enhancement of financial benefits in the field of social protection

1. Description of measure

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

The Ministry of Labour and Social Policy implements a comprehensive reform of the systems for social and child protection. The aim of the reform is to harmonize the amounts of benefits with the needs of citizens and to help them get out of poverty. Social financial assistance will be reformed and upgraded to guaranteed minimum assistance. The beneficiaries will receive an amount that can meet the minimum subsistence needs, which was not the case until now with the existing entitlement to Social Financial Assistance (SFA). In this direction, new Law on Social Protection has been prepared, which is in parliamentary procedure and is expected to be adopted in the first quarter of 2019.

The amount of the guaranteed minimum assistance is calculated as the basis being one member household, increased by a coefficient of the equivalent scale for other members of the household, up to a maximum of five members. The basis is 4,000 denars per month, and for each subsequent adult member of the household it is increased by:

- a coefficient of 0.5 for the second member,
- a coefficient of 0.4 for the third member,
- a coefficient of 0.4 for the fourth member,
- a coefficient of 0.2 for the fifth member.

For a child member of the household, the basis is increased by a coefficient of 0.1. There are coefficients prescribed for various vulnerable groups like single parent, disabled persons etc.

At the same time, users will be provided with support to complete their education and acquire skills that will become competitive in the labour market.

In order to achieve one of the highest priorities of eradicating child poverty, easier access to the child allowance will be provided, in a way that the right can be realized by low-income families with children who do not have to have an employed member in the family, a requirement that so far, has been crucial in the exercise of the right to child allowance. So far, the number of child allowance beneficiaries in 2018 is 3,200, and after the adoption of the amendments, the number of beneficiaries is expected to increase to 73,500 children.

A novelty in child protection is the introduction of an educational allowance for children attending primary and secondary school in order to support parents in meeting school expenses, thus preventing early school leaving. The current entitlement to Conditional Compensation (education allowance) was only for children from secondary education who are beneficiaries of SFA and child allowance. It is now expanded for children in primary

education, but also for all low-income households. The number of children using education allowance is 3,800 in 2018, and it is projected to increase to 64,316 children. The annual amount of education allowance per school year per child will be 8,400 denars for primary education and 12,000 denars for secondary education.

In addition to these rights, each household beneficiary of guaranteed minimum assistance will receive 1,000 denars per month during the six winter months to cover heating costs. So far, this measure has been minimally used due to administrative difficulties.

The reformed social protection system envisages enhanced activation of the beneficiaries of guaranteed minimum assistance in a way that all able-bodied members of the household will be included in active employment programs for their empowerment for work and employment. This involves the obligatory continuous attendance of trainings as well as the acceptance of an employment offer.

a. Activities planned in 2019

- Adoption of a new Law on Social Protection,
- Adopting new bylaws (rulebooks, guidelines, norms, etc.),
- Trainings for the persons employed in the social protection system in order to become acquainted with the new solutions and their smooth implementation,
- Public campaign for the new legal solutions in order to familiarize end users,
- Finalization of the upgrade of the software solution for administering monetary rights,
- Defining, designing and testing new software for administration of money rights and social services,
- Implementation of the new software for administration of monetary rights and social services,
- Establishing mechanisms for controlling of the functioning of the system.

b. Activities planned in 2020

- Monitoring the implementation of the new Law on Social Protection, especially in the segment targeting the beneficiaries of the right to guaranteed minimum assistance,
- Establishment of new social protection services in the direction of strengthening and activating the users,
- Expanding the social services network and establishing a comprehensive system of social services.

c. Activities planned in 2021

- Establishment of mechanisms for control of the functioning of the system.

2. Expected social outcomes

Better targeting of target groups and increase of effectiveness of cash transfers contributes for exit of the poverty circle, economic strengthening and social inclusion, i.e. achieving the ultimate goal of poverty rate of 16% in 2021. The measure will contribute to optimal utilization of financial resources aimed at providing social services.

3. Key Performance Indicators

- Reduction of the poverty rate to 16% by 2021.
- Inclusion in the labour market of about 20% of existing social welfare beneficiaries

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

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

5. Expected impact on employment and gender

Cash transfers for job-seekers will be conditioned by strengthening their work capacity and inclusion in the labour market, which is expected to contribute for activation and employment of 20% of social beneficiaries. Within this measure, appropriate activities are planned for strengthening the capacities and employability of women from vulnerable categories. Gender equality will be respected in the implementation of this measure.

6. Potential risks

Risk	Probability	Potential impact	Mitigating actions
Insufficient funds for payment of cash transfers	10%	High	Giving priority to this activity when allocating budget funds.

5. Budgetary implications of structural reforms

The projected expenditures of the Budget of the Republic of Macedonia also include expenditures for key structural reforms in the following period. Significant funds will be allocated to support domestic companies for investment and improving competitiveness, as well as attracting FDIs as an extremely important factor for achieving higher economic growth rates. Also, for upgrading of agricultural production, significant funds have been allocated for improvement of irrigation systems, consolidation and defragmentation of agricultural land and support of agricultural cooperatives. Significant funds are foreseen for implementation of a comprehensive reform of social and child protection systems.

More details on budgetary implications of structural reforms are shown in Tables 10a and 10b of Annex 3.

6. Institutional issues and stakeholder involvement

Economic Reform Programme 2019-2021 is a joint result of the collaboration of many institutions, while the overall preparation is coordinated by the Ministry of Finance. The preparation of this programme as a coherent strategic document is confirmation of the capacity of the administration in terms of coordination and efficiency. The programme was prepared by the Ministry of Finance, coordinated by the Minister of Finance, with the following institutions:

- Cabinet of the Deputy Prime Minister in charge of economic affairs;
- Secretariat for European Affairs of the Republic of Macedonia;
- National Bank of the Republic of Macedonia;
- Ministry of Economy;
- Ministry of Labour and Social Policy;
- Ministry of Education and Science;
- Ministry of Transport and Communication;
- Ministry of Agriculture, Forestry and Water Economy;
- Ministry of Information Society and Administration;
- Ministry of Justice;
- Public Procurement Bureau;
- Fund for Innovation and Technical Development;
- Employment Agency of the Republic of Macedonia.

The program was adopted by the Government of the Republic of Macedonia on 22 January 2019.

Considering the fact that the Programme should be submitted to the European Commission no later than January 31st 2019, upon proposal of the Ministry of Finance, all participants in process adopted a timetable for implementation of activities for the preparation of this document:

- June 11 and 12, 2018, an Initial Meeting on ERP in the Republic of Macedonia and the first Workshop on capacity building were held, attended by about 70 participants, including: the Minister of Finance, the Head of the Delegation of the European Union in Skopje, coordinators from line institutions involved in the process, representatives of the OECD, EUD, international financial institutions, experts, university professors, as well as representatives from stakeholders;
- From June 12 to August 20, 2018, the ministries and other institutions performed diagnostics of their sector, using the tools provided by the OECD and formulated proposals for sectoral reform measures and, together with the diagnostics, submitted them to the Ministry of Finance;
- By September 4, 2018, the first draft version of the Structural Reform Measures was completed and submitted to the OECD;
- An OECD workshop was held on September 19 and 20, 2018, where a draft ERP was discussed in detail (workshop on the updated diagnostics and prioritization of the reforms).
- TAIEX expert mission for assessment of the budgetary impact (costing) of structural reforms, the expected impact on competitiveness, employment and gender impact of the proposed measures, was held from 15 to 19 October 2018;

- On October 31, 2018, the Second draft version of the Structural Reform Measures, including recommendations from the OECD and TAIEX experts was prepared and submitted to the EC and OECD;
- On November 14 and 15, 2018, an EC mission was organized to support the preparation of ERP;
- As of November 23, 2018, after the mission and on the basis of the received recommendations from the EC and OECD, the Third draft version of the Structural Reform Measures was prepared;
- From November 23 to December 7, 2018, the third version of ERP was published on the MoF's website as part of the public consultation process;
- On November 30, 2018, a Consultative Meeting was held with stakeholders, where it was agreed that opinions and proposals for ERP should be submitted by December 7, 2018;
- On December 20, 2018, the Program was sent by e-mail to members of the Economic and Social Council asking for their opinions and suggestions on ERP to be submitted by 4 January 2019;
- By December 25, 2018, the first version of the remaining parts of the Economic Reform Program (macroeconomic and fiscal framework) was prepared;
- Submission of ERP to the Government of the Republic of Macedonia - 11 January 2019;
- The Government adopted the Program at a session held on 22 January 2019;
- Submission of ERP to the European Commission no later than January 31, 2019.

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

During the preparation, consultation process with stakeholders was conducted: the business community, universities, ZELS, local authorities, social partners, civil society and other stakeholders.

In this regard, from November 23 to December 7, 2018, the draft ERP 2019-2021 was published on the Ministry of Finance's website and at the same time invitations were sent to interested parties for their active contribution to the process of preparation of the document by giving opinions on the content of the document and suggestions for its improvement. Additionally, on November 30, 2018, a public debate was held in the premises of the Ministry of Finance between the institutions participating in the preparation of the document, representatives of the European Delegation in Skopje and the stakeholders.

The draft-programme was sent by e-mail to members of the Economic and Social Council.

More detailed information on the public consultation process is presented in Annex 4 of the document.

At the public debate held on November 30, 2018, the stakeholders confirmed the high level of quality of the document, which according to their perceptions is constantly improving, especially in the part of the diagnosis, the risks and the plan of costs, and there is continuous progress in regard to the proposed measures to improve competitiveness and growth. The measure for reducing the informal economy, which was proposed for the first time in the Economic reform program, was particularly welcomed.

Annex 1: Indicators for the Macedonian Economy in 2017 according to the Macroeconomic Imbalances Procedure of the European Commission

Observing the economy using scoreboard indicators with set of indicative thresholds, under the EC's Macroeconomic Imbalances Procedures⁶⁶ - MIP implemented in the EU member states, is useful for monitoring the main areas of vulnerability among candidate countries, and for understanding the extent of their convergence towards the EU. Main indicators within this approach for the Macedonian economy in 2017, according to the given thresholds, are presented below.

Indicators	Indicative thresholds		2011	2012	2013	2014	2015	2016	2017
	upper	lower							
External imbalances and competitiveness									
Current account balance (% of GDP, 3-year moving average)	-4	6	-3,8	-2,6	-2,4	-1,8	-1,4	-1,7	-2,0
International Investment position, net (end-year, % of GDP)	-35		-52,6	-55,1	-55,9	-53,1	-56,0	-57,7	-58,1
Real effective exchange rate (CPI-based, 3-year percent change)	-11	11	-1,4	-2,5	2,1	2,7	2,3	1,9	0,4
Share in the world export (at current prices, 5-year percent change)	-6		23,4	-10,2	-6,5	21,4	24,8	24,6	47,3
Nominal unit labour costs (3-year percent change)		12	0,6	1,6	4,2	1,6	3,2	2,3	8,7
Internal imbalances									
	upper	lower	2011	2012	2013	2014	2015	2016	2017
Real estate prices (annual change in %, deflated)		6	-10,3	-1,1	-6,1	-0,5	0,1	0,8	-3,5
Credit flows to the private sector (% of GDP)		14	3,5	2,4	2,8	4,4	4,4	3*	2,6
Private sector debt (% of GDP)		133	81,5	86,4	83,7	85,1	87,2	87,6*	87,3
Public debt (% of GDP)		60	32,0	38,3	40,3	45,8	46,6	48,8	47,8
Liabilities of the financial sector (annual percent change)		16,5	9,6	9,9	4,9	7,9	8,0	3,7	3,9
Unemployment rate (3-year moving average)		10	31,9	31,5	30,4	29,3	27,7	25,9	24,1
Activity rate (3-year change in percentage points)	-0,2		0,5	-0,2	0,3	1,0	0,8	-1,2	-0,9
Long term unemployment rate (3-year change in percentage points)		0,5	-2,8	-0,8	-2,8	-2,5	-4,2	-4,7	-6
Youth unemployment (3-year change in percentage points)		2	-1,2	-1,1	-1,7	-2,1	-6,6	-3,6	-6,3

* Corrected for the write-offs in credits.

Source: National institutions, IMF, Eurostat; NBRM calculations using available data. However, some indicators do not correspond fully with the requirements under this approach. Shaded fields point to misalignments relative to the threshold. The terms 3-year and 5-year percent change pertain to a change relative to the third and the fifth previous year.

The Macedonian current account deficit, as a three-year moving average, in the period 2011-2017 was maintained below the minimum vulnerability threshold (-4% of GDP), i.e. ranged within the allowable limits. Since 2011, the net international investment position of the country has been enhancing (with certain improvement in 2014) and in 2017, it reached -58.1% of GDP. This level is well below the vulnerability threshold of -35% of GDP. It should be borne in mind that the net international position on the liabilities side also includes foreign direct investment, which makes up nearly half of the increase in total liabilities abroad in the last several years. In this light, when analysing the converging countries, just because of the effect of foreign direct investment, under the EC's approach, other indicators should also be considered, such as net external debt, which covers only net debt instruments. At the end of 2017, the net external debt of the Republic of Macedonia was 28.5% of GDP (27.2% of GDP in 2016).

In the period 2013-2017, the three-year change in REER indicates a moderate appreciation of about 2% (determined mainly by the NEER), which is within the allowable range. Export market share of the economy in the world exports, as a five-year change, after the fall in 2012-2013, as a consequence of the crisis, registered a rapid annual growth in the period 2014-2017. These developments stem from the improved export performance, reflecting the structural changes in the economy in recent years, given the gradual improvement of external environment. Nominal unit labour costs, as a three-year change, in 2017 saw rapid growth (amid wage growth and falling productivity in 2017), yet moving in the safe zone. *Generally speaking, in the area of external imbalances, the Macedonian economy shows potential vulnerability in the area of external liabilities, with arguments for relativization of the issue.*

Analysing the internal imbalances, the annual changes in banks' loans to the private sector in the period since 2011 have been moderate and constantly below the vulnerability threshold (14% of GDP). In 2017 this indicator was 2.6% of GDP, which is still significantly below the threshold. In 2017, financial sector liabilities recorded an annual growth of 3.9%, which is similar to last year and below the threshold (16.5%). Real estate prices in the period 2015-2016 registered small positive changes, while in 2017, they decreased again (by 3.5% annually). The total domestic and foreign debt of the private sector (loans from domestic banks and abroad) is also constantly below the vulnerability threshold. In 2017, it remained relatively sound and accounted for 87.3% of

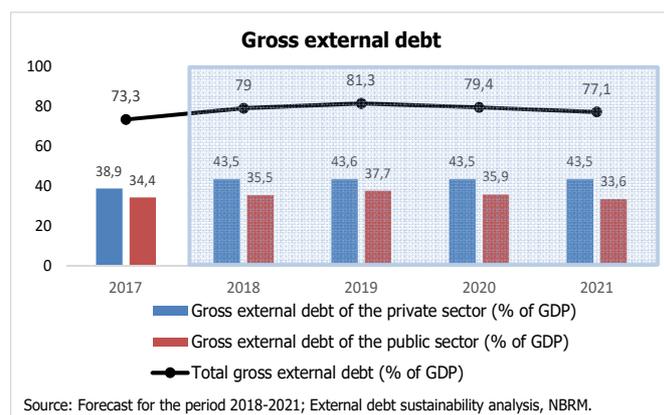
⁶⁶ Alert Mechanism Report, European Commission, February 2012.

GDP, well below the threshold of 133% of GDP. Public debt is also below the threshold (47.8% in 2017, vis-a-vis the threshold of 60% of GDP), which is a slight deceleration compared to last year.

The unemployment rate, as a three-year moving average, although abating in recent years, has constantly been well above the threshold of 10%. Within the labour market, in 2015, the activity rate, youth unemployment rate (aged 15 to 24) and long-term unemployment rate (unemployed for more than one year) were introduced. Some of these indicators for the Macedonian economy in 2017 registered favorable changes (reduction of youth and long-term unemployment), within the safe zone. Only the activity rate reduced for two consecutive years, over the threshold. *Hence, concerning internal imbalances, the Macedonian economy shows vulnerability to total unemployment rate and activity rate.*

Annex 2: External debt sustainability analysis

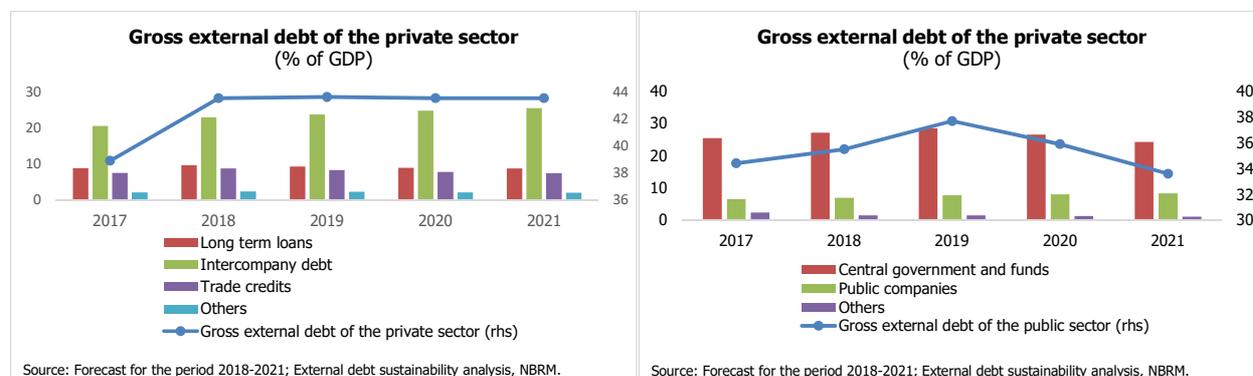
According to the analysis of the external debt sustainability⁶⁷, the gross external debt at the end of 2018 is estimated at 79% of GDP, which indicates an increase relative to the previous year by 5.7 p.p. of GDP. The estimated increase of the external debt in 2018 mainly reflects the assessment for higher private sector debt by 4.6 p.p. of GDP. Additionally, an increase by 1.1 p.p. is estimated for the external debt of the public sector, amid new Government Eurobond issuance at the beginning of the year. In 2019 an additional increase of the external debt is estimated, considering the announcement for new public sector borrowings, while in 2020 and 2021 it is expected to decrease amid higher amount of repayments (for maturing Eurobonds). Thus, the level of external debt in 2021 would be higher than the actual in 2017 by 3.8 p.p., due to the expected increase in private sector debt by 4.6 p.p., while public debt would be lower by 0.8 p.p. of GDP.



Within the analysed period, all flows are in favour of external debt reduction, especially automatic debt dynamics (which includes the effects of the real GDP growth and the changes in the prices and nominal effective interest rate) and non-debt capital flows. Additionally, the primary current account deficit (excluding interest payments) acts in the same direction, since it is estimated to maintain at a low level in the next three-year horizon. It should be noted that in the next three-year period an increase in the foreign exchange reserves is expected (at

slower pace compared to 2018) as well as their maintenance at the adequate level.

Within the external public debt, in 2021 relative to 2017, only share of the debt of the public enterprises is expected to increase (by 1.7 p.p. of GDP) considering the expected borrowings for infrastructure projects, opposite to the expected decline at the other institutional segments. Within the private sector external debt only the intercompany debt relative to GDP is expected to increase by 2021 compared to 2017 (by 4.9 p.p. of GDP), which would be partly offset by slight decline at the other categories.



The stress tests indicate that the expected debt dynamics on a medium run, is however, especially sensitive to shocks with the primary current account and the economic growth. However, the structure of the external debt is in favour of lower vulnerability, considering relatively high share of about 40% in the overall forecasting horizon of intercompany debt and trade credits, as more flexible and less risky types of debt.

⁶⁷ Source: Calculations and analysis of NBRM, based on the IMF approach. The basic scenario assumes average GDP growth in the period 2019-2021 of 3.8% and it is based on the Fiscal strategy of the Republic of Macedonia 2018-2020 and the presented balance of payments forecast (October, 2018), thus it is worth to point out that balance of payments statistics does not fully correspond to the external debt statistics.

Annex 3: Summary data

Table 1a. Macroeconomic prospects

	ESA Code	2017	2017	2018	2019	2020	2021
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	9.68	0.2	2.8	3.2	4.0	5.0
2. GDP at market prices	B1*g	10.01	3.7	6.7	5.8	6.5	7.5
Components of real GDP							
3. Private consumption expenditure	P3	6.51	0.7	2.4	2.4	2.7	2.8
4. Government consumption expenditure	P3	1.45	-2.5	0.9	1.0	1.0	1.0
5. Gross fixed capital formation ⁶⁸	P51	3.16	0.8	-3.3	4.2	5.5	6.8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	:	:	:	:	:	:
7. Exports of goods and services	P6	5.29	8.1	10.5	8.5	8.7	9.5
8. Imports of goods and services	P7	6.74	6.4	5.3	6.8	6.9	7.0
Contribution to real GDP growth							
9. Final domestic demand		11.13	0.3	0.6	3.0	3.6	4.1
10. Change in inventories and net acquisition of valuables	P52+P53	:	:	:	:	:	:
11. External balance of goods/services	B11	-1.44	-0.1	2.2	0.2	0.4	0.9

Source: SSO and calculations of the Ministry of finance

Table 1b. Price developments

		2017	2018	2019	2020	2021
1. GDP deflator	%, yoy	3.4	3.7	2.4	2.4	2.4
2. Private consumption deflator	%, yoy	1.4	1.7	2.0	2.0	2.2
3. HICP	%, yoy	:	:	:	:	:
4. National CPI	%, yoy	1.4	1.5	2.0	2.0	2.0
5. Public consumption deflator	%, yoy	2.7	3.5	3.2	2.4	2.0
6. Investment deflator	%, yoy	4.3	8.3	2.1	2.4	2.7
7. Export price deflator (goods & services)	%, yoy	4.8	1.5	1.7	2.1	2.1
8. Import price deflator (goods & services)	%, yoy	2.8	1.9	1.4	1.8	2.0

Source: Calculations of the Ministry of Finance and NBRM

Table 1c. Labour market developments⁶⁹

	ESA code	2017	2017	2018	2019	2020	2021
		Level	Rate of change				
1. Population (thousands)			2,074.5	2,076.6	2,078.7	2,080.7	2,082.8
2. Population (growth rate in %)			0.1	0.1	0.1	0.1	0.1
3. Working-age population (persons, thousands)			1,679.9	1,681.2	1,684.1	1,687.8	1,693.9
4. Participation rate			56.8	57.0	57.3	57.8	58.3
5. Employment (persons, thousands)			740.6	755.6	771.3	788.6	809.1
6. Employment, hours worked			:	:	:	:	:
7. Employment (growth rate in %)			2.4	2.0	2.1	2.2	2.6
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate			22.4	21.2	20.1	19.1	18.1
11. Labour productivity, persons		805.0	-2.1	0.8	1.1	1.7	2.3
12. Labour productivity, hours worked			:	:	:	:	:
13. Compensation of employees	D1		:	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

⁶⁸ Data refers to gross capital formation.

⁶⁹ ILO definition (15+) is used for the labour market indicators.

Table 1d. Sectoral balance

% of GDP	ESA	2017	2018	2019	2020	2021
1. Net lending/borrowing vis-à-vis the rest of the world	B9	-1.5	3.5	4.0	0.5	-0.3
of which:						
- Balance of goods and services		-14.0	-13.0	-12.9	-12.9	-12.3
- Balance of primary incomes and transfers		13.0	12.5	11.5	11.2	10.5
- Capital account		-0.5	4.0	5.4	2.2	1.5
2. Net lending/borrowing of the private sector	B9/EDP B9	1.3	5.7	7.0	2.8	1.7
3. Net lending/borrowing of general government		-2.8	-2.2	-3.0	-2.3	-2.0
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Source: NBRM and MoF

Table 1e. GDP, investment and gross value added

	ESA	2017	2018	2019	2020	2021
GDP and investment						
GDP level at current market prices (in bn Denars)	B1g	616.6	657.8	695.7	740.9	796.6
Investment ratio (% of GDP)		33.0	32.4	32.5	33.0	33.7
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-13.5	:	:	:	:
2. Industry (excluding construction)		1.8	:	:	:	:
3. Construction		-4.4	:	:	:	:
4. Services		2.4	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

Table 1f. External sector developments

Euro billion	2017	2018	2019	2020	2021
1. Current account balance (% of GDP)	-1.0	-0.5	-1.5	-1.7	-1.6
2. Export of goods	4.1	4.6	4.9	5.4	5.8
3. Import of goods	5.9	6.5	6.9	7.4	7.9
4. Trade balance	-1.8	-1.9	-2.0	-2.0	-2.1
5. Export of services	1.4	1.5	1.7	1.8	1.9
6. Import of services	1.1	1.0	1.2	1.3	1.3
7. Service balance	0.4	0.5	0.5	0.5	0.6
8. Net interest payments from abroad	:	:	:	:	:
9. Other net factor income from abroad	-0.4	-0.4	-0.5	-0.5	-0.6
10. Current transfers	1.7	1.7	1.8	1.9	1.9
11. Of which from EU	:	:	:	:	:
12. Current account balance	-0.1	-0.1	-0.2	-0.2	-0.2
13. Capital and financial account	-0.1	0.4	0.6	0.3	0.2
14. Foreign direct investment	0.2	0.4	0.3	0.4	0.4
15. Foreign reserves*	2.3	2.9	:	:	:
16. Foreign debt*	7.4	8.2	:	:	:
17. Of which: public*	3.5	3.7	:	:	:
18. O/w: foreign currency denominated	:	:	:	:	:
19. O/w: repayments due	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	61.6	61.6	61.6	61.6	61.6
21. Exchange rate vis-à-vis EUR (annual average)	61.5	61.5	:	:	:
22. Net foreign saving (lines 21-25: percentages of GDP)	:	:	:	:	:
23. Domestic private saving	:	:	:	:	:
24. Domestic private investment	:	:	:	:	:
25. Domestic public saving	:	:	:	:	:
26. Domestic public investment	:	:	:	:	:

Source: National Bank of the Republic of Macedonia

* Data for 2018 are as of September 2018

Table 1g. Sustainability indicators

	Dimension	2014	2015	2016	2017	2018
1. Current Account Balance*	% of GDP	-0.5	-2.0	-2.9	-1.0	-0.5
2. Net International Investment Position**	% of GDP	-53.1	-56.0	-57.7	-58.1	-57.4
3. Export market share*	% growth	13.7	2.0	12.9	3.9	8.4
4. Real Effective Exchange Rate**	% growth	1.0	-0.3	1.1	-0.5	1.8
5. Nominal Unit Labour Costs**	% growth	-1.1	0.1	3.6	4.9	5.9
6. Private sector credit flow***	% of GDP	4.4	4.4	3.0	2.6	:
7. Private sector debt***	% of GDP	85.1	87.2	87.6	87.3	:
8. General Government Debt	% of GDP	38.1	38.1	39.9	39.5	41.0

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

*Forecast for 2018

** Data for 2018 are as of September 2018

*** Data for 2016 is adjusted for write-offs of non-performing loans

Table 2a. General government budgetary prospects

	ESA	2017	2017	2018	2019	2020	2021
		Level (bn denars)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-17.453	-2.8	-2.2	-3.0	-2.3	-2.0
2. Central government	S1311	-17.276	-2.8	-2.7	-2.5	-2.3	-2.0
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-0.565	-0.1	0.5	-0.4	0.0	0.0
5. Social security funds	S1314	0.388	0.1	-0.1	-0.1	0.0	0.0
General government (S13)							
6. Total revenue	TR	191.365	31.0	31.2	32.2	31.4	30.4
7. Total expenditure	TE	208.818	33.9	33.4	35.2	33.7	32.4
8. Net borrowing/lending	EDP.B9	-17.453	-2.8	-2.2	-3.0	-2.3	-2.0
9. Interest expenditure	EDP.D41	8.434	1.4	1.2	1.3	1.3	1.3
10. Primary balance		-9.019	-1.5	-1.0	-1.7	-1.0	-0.7
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (11 = 11a+11b+11c)		112.560	18.3	18.7	18.7	18.4	17.9
12a. Taxes on production and imports	D2	82.944	13.5	13.5	13.3	13.1	12.7
12b. Current taxes on income and wealth	D5	26.916	4.4	4.8	5.0	4.9	4.8
12c. Capital taxes	D91	2.700	0.4	0.5	0.4	0.4	0.4
13. Social contributions	D61	52.890	8.6	8.5	9.0	8.9	8.7
14. Property income	D4	2.733	0.4	0.6	0.6	0.6	0.6
15. Other (15 = 16-(12+13+14))		23.182	3.8	3.4	3.9	3.6	3.2
16 = 6. Total revenue	TR	191.365	31.0	31.2	32.2	31.4	30.4
p.m.: Tax burden (D2+D5+D61+D91-D995)		165.450	26.8	27.2	27.7	27.3	26.6
Selected components of expenditures							
17. Collective consumption	P32	63.337	10.3	10.3	10.5	10.1	9.5
18. Total social transfers	D62 + D63	94.690	15.4	15.3	15.5	15.0	14.4
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	94.690	15.4	15.3	15.5	15.0	14.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41	8.434	1.4	1.2	1.3	1.3	1.3
20. Subsidies	D3	16.650	2.7	3.4	3.0	2.8	2.7
21. Gross fixed capital formation	P51	25.707	4.2	3.2	4.9	4.6	4.6
22. Other (22 = 23-(17+18+19+20+21))		:	:	:	:	:	:
23.=7. Total expenditures	TE	208.818	33.9	33.4	35.2	33.7	32.4
p.m. compensation of public sector employees	D1	40.931	6.6	6.4	6.4	6.2	5.8

Source: Ministry of Finance

Table 2b. General government budgetary prospects

	ESA	2017	2018	2019	2020	2021
		Level (bn denars)				
Net lending (B9) by sub-sectors						
1. General government	S13	-17.45	-14.72	-20.73	-17.16	-16.11
2. Central government	S1311	-17.28	-17.70	-17.32	-16.91	-15.95
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-0.57	3.3	-3.0	0.0	0.0
5. Social security funds	S1314	0.39	-0.35	-0.4	-0.3	-0.2
General government (S13)						
6. Total revenue	TR	191.37	205.30	223.97	232.85	242.40
7. Total expenditure	TE	208.82	220.02	244.70	250.01	258.50
8. Net borrowing/lending	EDP.B9	-17.45	-14.72	-20.73	-17.16	-16.11
9. Interest expenditure	EDP.D41	8.43	7.84	9.24	9.64	10.24
10. Primary balance		-9.02	-6.88	-11.50	-7.52	-5.87
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (11 = 11a+11b+11c)		112.56	123.02	130.34	136.30	142.54
12a. Taxes on production and imports	D2	82.94	88.50	92.60	96.85	101.28
12b. Current taxes on income and wealth	D5	26.92	31.52	34.73	36.45	38.26
12c. Capital taxes	D91	2.70	3.00	3.00	3.00	3.00
13. Social contributions	D61	52.89	56.22	62.32	65.74	69.68
14. Property income	D4	2.73	4.02	4.40	4.40	4.40
15. Other (15 = 16-(12+13+14))		23.18	22.05	26.92	26.41	25.78
16 = 6. Total revenue	TR	191.37	205.30	223.97	232.85	242.40
p.m.: Tax burden (D2+D5+D61+D91-D995)		165.45	179.23	192.65	202.04	212.23
Selected components of expenditures						
17. Collective consumption	P32	63.34	67.85	73.03	74.56	75.50
18. Total social transfers	D62 + D63	94.69	100.73	107.68	111.15	115.11
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	94.69	100.73	107.68	111.15	115.11
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41	8.43	7.84	9.24	9.64	10.24
20. Subsidies	D3	16.65	22.38	20.54	20.45	21.15
21. Gross fixed capital formation	P51	25.71	21.22	34.22	34.21	36.50
22. Other (22 = 23-(17+18+19+20+21))		:	:	:	:	:
23.=7. Total expenditures	TE	208.82	220.02	244.70	250.01	258.50
p.m. compensation of public sector employees	D1	40.93	42.12	44.42	46.09	46.09

Source: Ministry of Finance

Table 3. General government expenditure by function

Percentage of GDP	COFOG	2017	2018	2019	2020	2021
1. General public services	1	4.1	3.5	3.5	:	:
2. Defence	2	0.9	1.0	1.1	:	:
3. Public order and safety	3	2.3	2.3	2.3	:	:
4. Economic affairs	4	3.2	4.1	4.2	:	:
5. Environmental protection	5	0.1	0.1	0.2	:	:
6. Housing and community amenities	6	2.2	1.6	2.7	:	:
7. Health	7	4.9	4.9	5.0	:	:
8. Recreation, culture and religion	8	0.9	0.7	0.6	:	:
9. Education	9	3.7	3.8	3.9	:	:
10. Social protection	10	11.6	11.6	11.8	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	33.9	33.4	35.2	33.7	32.4

Source: Ministry of Finance

Table 4. General government debt developments

Percentage of GDP	ESA	2017	2018	2019	2020	2021
1. Gross debt		39.5	41.0	43.3	43.2	41.4
2. Change in gross debt ratio		:	1.5	2.3	-0.1	-1.8
Contributions to change in gross debt						
3. Primary balance		1.5	1.0	1.7	1.0	0.7
4. Interest expenditure (incl. FISIM)	EDPD.41	1.4	1.2	1.3	1.3	1.3
5. Stock-flow adjustment		-2.8	-0.8	-0.7	-2.4	-3.8
of which:						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other		:	:	:	:	:
p.m. implicit interest rate on debt		3.6	3.2	3.4	3.2	3.2
Other relevant variables						
6. Liquid financial assets		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

Source: Ministry of Finance

Table 5. Cyclical developments

Percentage of GDP	ESA	2017	2018	2019	2020	2021
1. Real GDP growth (%)	B1g	0.2	2.8	3.2	4.0	5.0
2. Net lending of general government	EDP.B.9	-2.7	-2.7	-2.5	-2.3	-2.0
3. Interest expenditure	EDP.D.41	1.4	1.2	1.3	1.3	1.3
4. One-off and other temporary measures		:	:	:	:	:
5. Potential GDP growth (%)		2.7	2.5	2.2	2.0	1.9
Contributions (percentage points):						
- labour		1.3	1.3	0.8	0.5	0.3
- capital		1.7	1.5	1.5	1.5	1.6
- total factor productivity		-0.3	-0.2	-0.1	0.0	0.0
6. Output gap		-2.3	-2.0	-1.0	1.0	4.1
7. Cyclical budgetary component		-0.7	-0.6	-0.3	0.3	1.3
8. Cyclically-adjusted balance (2-7)		-2.0	-2.1	-2.2	-2.6	-3.3
9. Cyclically-adjusted primary balance (8-3)		-0.6	-0.9	-0.9	-1.3	-2.0
10. Structural balance (8-4)		:	:	:	:	:

* Data pertains to central government budget

Source: Ministry of Finance

Table 6. Divergence from previous programme

	2017	2018	2019	2020	2021
1. GDP growth					
Previous programme	1.6	3.2	3.5	4.0	:
Latest programme	0.2	2.8	3.2	4.0	5.0
Difference (p.p.)	-1.4	-0.4	-0.3	0.0	:
2. General government net lending (% of GDP)					
Previous programme	-2.9	-2.7	-2.5	-2.3	:
Latest programme	-2.8	-2.2	-3.0	-2.3	-2.0
Difference (p.p.)	0.1	0.5	-0.5	0.0	:
3. General government gross debt (% of GDP)					
Previous programme	39.2	42.4	44.6	42.5	:
Latest programme	39.5	41.0	43.3	43.2	41.4
Difference (p.p.)	0.3	-1.4	-1.3	0.7	:

Source: Calculations of the Ministry of Finance

Table 7. Long-term sustainability of public finances

Percentage of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	34.8	33.7	31.7	29.7	27.8	26.2
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	8.6	9.0	8.1	6.9	5.9	4.9
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	4.5	4.9	5.3	5.7	6.2	6.7
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	:	4.6	4.8	5.1	5.3	5.4	5.5
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	0.7	1.3	1.3	1.3	1.1	0.8
Total revenues	:	32.4	31.4	30.2	29.1	27.9	26.9
of which: property income	:	:	:	:	:	:	:
of which: from pensions contributions (or social contributions, if appropriate)	:	6.0	5.6	5.6	5.6	5.6	5.6
Pension reserve fund assets	:	:	:	:	:	:	:
of which: consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	:	2.2	1.7	1.5	1.6	1.6	1.7
Real GDP growth	:	3.4	4.0	3.0	3.0	3.0	3.0
Participation rate males (aged 20-64) ⁷⁰	:	77.7	78.6	80.5	82.1	83.5	83.8
Participation rate females (aged 20-64)	:	50.4	53.0	57.3	61.7	66.1	71.4
Total participation rate (20-64)	:	64.2	66.0	69.0	72.0	74.8	77.6
Unemployment rate	:	32.2	19.7	14.6	10.2	6.9	4.7
Population aged 65+ over total population	:	11.7	13.8	16.4	19.6	23.5	28.3

Source: Calculations of the Ministry of Finance

Table 7a. Potential liabilities

% of GDP	2018	2019
Public guarantees	9.7	:
Of which: related to the financial sector	1.3	:

Source: Ministry of Finance

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

	Dimension	2017	2018	2019	2020	2021
Short-term interest rate	Annual average	-0.3	-0.3	-0.2	0.2	0.3
Long-term interest rate	Annual average	0.3	0.5	0.7	0.9	1.0
USD/EUR exchange	Annual average	1.13	1.18	1.15	1.15	1.15
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	61.57	61.60	61.60	61.60	61.60
Global GDP growth, excluding EU	Annual average	3.9	4	3.8	3.8	3.8
EU GDP growth	Annual average	2.4	2.1	1.9	1.8	1.8
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU (y-o-y)	Annual average	5.5	4.8	4	3.7	3.7
Oil prices (Brent, USD/barrel)	Annual average	54.401	71.9	72.284	69.396	66.753

Source: European Commission, Economic Forecast Autumn 2018 and European Central Bank

⁷⁰ Labour market calculation refer to the 15-64 age group

Table 9. Selected employment and social indicators

	Data source	2015	2016	2017	2018*	2019*
1. Labour market participation rate (%) total (aged 15+)	SSO	57.0	56.5	56.8	:	:
- male	SSO	68.9	69.2	69.3	:	:
- female	SSO	44.9	43.8	44.3	:	:
2. Employment rate (%) total (aged 15+)	SSO	42.1	43.1	44.1	44.9	45.8
- male	SSO	50.5	52.3	53.6	:	:
- female	SSO	33.7	33.8	34.6	:	:
3. Unemployment rate (%) total (aged 15+)	e	26.1	23.7	22.4	21.2	20.1
- male	e	26.7	24.4	22.7	:	:
- female	e	25.1	22.7	21.8	:	:
4. Long-term unemployment rate (%) of total unemployment	SSO	21.3	19.2	17.4	:	:
- male	SSO	22.1	20.1	17.6	:	:
- female	SSO	20.1	17.8	17.2	:	:
5. Youth unemployment (15-24 yrs.) rate (%)	e	47.3	48.2	46.7	:	:
- male	e	49.7	47.9	45.7	:	:
- female	e	43.3	48.8	48.6	:	:
6. Young people (aged 15-24) not in employment, education or training (NEET), in %	e	24.7	24.3	24.9	:	:
7. Early school leavers, in % (aged 18-24)	e	11.4	9.9	8.5	:	:
8. Participation rate in early childhood education and care	e	:	:	:	:	:
9. GINI coefficient	SSO	33.7	33.6	32.5	:	:
10. Inequality of income distribution S80/S20, %	SSO	6.6	6.6	6.4	:	:
11. Social protection expenditure in % of GDP	MF	11.3	11.3	11.6	11.6	11.8
12. Health expenditure in % of GDP	MF	5.0	4.9	4.9	4.9	5.0
13. At-risk-of-poverty before social transfers and pensions, % of the population	SSO	40.5	41.6	40.7	:	:
14. Poverty rate	SSO	21.5	21.9	22.2	:	:
15. Poverty gap	e	:	:	:	:	:
Other indicators used in the EU Social Scoreboard						
16. Real adjusted GDHI - per capita in PPS (Index 2008=100)	:	:	:	:	:	:
17. Impact of social transfers (other than pensions) on poverty reduction	e	13.3	14.8	:	:	:
18. Self-reported unmet need for medical care	e	2.9	2.9	:	:	:
19. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)	e	37	34	32	:	:

*Data for 2018 and 2019 is forecast

Table 10a: Costing of structural measures (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Measure 1: Increasing the competitiveness of the electricity market					
Year 2019	140.000	300.000	-	30.000	470.000
Year 2020	160.000	300.000	-	30.000	490.000 ⁷¹
Year 2021	-	-	-	-	-
Measure 2: Promotion of renewable energy sources and improvement of energy efficiency					
Year 2019	18.500	30.000	2.287.000	-	2.335.500
Year 2020	-	-	TBD	-	-
Year 2021	-	-	-	-	-
Measure 3: Facilitating Macedonia-Serbia cross-border crossing					
Year 2019	-	-	-	-	-
Year 2020	-	-	-	1.300.000	1.300.000
Year 2021	-	-	-	3.836.000	3.836.000
Measure 4: Implementation of an intelligent transport system along Corridor 10					
Year 2019	-	-	-	TBD	TBD
Year 2020	-	-	-	TBD	TBD
Year 2021	-	-	-	TBD	TBD
Measure 5: Improving of irrigation system					
Year 2019	-	3,801,870	-	25.682.410	29.484.280
Year 2020	-	1,500,000	-	45.291.124	46.791.124
Year 2021	-	-	-	30.832.638	30.832.638
Measure 6: Consolidation and defragmentation of agricultural land					
Year 2019	-	1.230.000	-	-	1.230.000
Year 2020	-	1.000.000	-	-	1.000.000
Year 2021	-	1.340.000	-	-	1.340.000
Measure 7: Agricultural cooperatives					
Year 2019	-	960.000	-	2.080.000	3.040.000
Year 2020	-	-	-	1.060.000	1.060.000
Year 2021	-	-	-	2.860.000	2.860.000
Measure 8: Financial support of investments					
Year 2019	-	-	12.000.000	-	12.000.000
Year 2020	-	-	12.000.000	-	12.000.000

⁷¹ The funds are intended for activities of the market operator

Year 2021	-	-	12.000.000	-	12.000.000
Measure 9: Financial support for micro, small and medium enterprises					
Year 2019	-	-	-	2.500.000	2.500.000
Year 2020	-	-	-	3.000.000	3.000.000
Year 2021	-	-	-	3.000.000	3.000.000
Measure 10: Increasing competitiveness in the tourism and hospitality sector					
Year 2019	300.000	2.000.000	-	12.700.000	15.000.000
Year 2020	-	-	-	-	-
Year 2021	-	-	-	-	-
Measure 11: Harmonization of the Public Procurement Legal framework with the Acquis					
Year 2019	-	30.000	-	200.000	230.000
Year 2020	-	30.000	-	-	30.000
Year 2021	-	30.000	-	-	30.000
Measure 12: Development of a National E-Services Portal					
Year 2019	72.000	822.000	-	210.500	1.104.500
Year 2020	48.000	350.000	-	762.000	1.160.000
Year 2021	18.000	350.000	-	1.062.000	1.430.000
Measure 13: Reducing the informal economy					
Year 2019	-	200.000	-	-	200.000
Year 2020	-	500.000	-	-	500.000
Year 2021	-	300.000	-	-	300.000
Measure 14: Improving Infrastructure and Access to Finance for Research, Development and Innovation					
Year 2019	-	-	-	18.000.000	18.000.000
Year 2020	-	-	-	13.000.000	13.000.000
Year 2021	-	-	-	12.000.000	12.000.000
Measure 15: Trade facilitation					
Year 2019	-	51.500	-	-	51.500
Year 2020	-	-	-	-	-
Year 2021	-	-	-	-	-
Measure 16: Further development of the qualification system					
Year 2019	-	2.704.761	100.000	-	2.804.761
Year 2020	-	2.830.761	100.000	-	2.930.761
Year 2021	-	2.174.000	100.000	-	2.274.000
Measure 17: Youth guarantee					
Year 2019	-	2.100.000	2.100.000	-	4.200.000
Year 2020	-	2.100.000	2.100.000	-	4.200.000
Year 2021	-	2.100.000	2.100.000	-	4.200.000

Measure 18: Enhancement of financial benefits in the field of social protection					
Year 2019	-	-	36,856,190	-	36,856,190
Year 2020	-	-	-	-	-
Year 2021	-	-	-	-	-

Table 10b: Funding of structural reform measures (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Measure 1: Increasing the competitiveness of the electricity market								
Year 2019	-	-	470.000	-	-	-	-	470.000
Year 2020	-	-	490.000	-	-	-	-	490.000 ⁷²
Year 2021	-	-	-	-	-	-	-	-
Measure 2: Promotion of renewable energy sources and improvement of energy efficiency								
Year 2019	553.500	-	-	TBD	1.800.000	-	-	2.335.500
Year 2020	TBD	-	-	TBD	TBD	-	-	-
Year 2021	-	-	-	-	-	-	-	-
Measure 3: Facilitating Macedonia-Serbia cross-border crossing								
Year 2019	-	-	-	-	-	-	-	-
Year 2020	-	-	-	-	1.300.000	-	-	1.300.000
Year 2021	-	-	-	-	3.836.000	-	-	3.836.000
Measure 4: Implementation of an intelligent transport system along Corridor 10								
Year 2019	-	-	-	-	-	TBD	-	TBD
Year 2020	-	-	-	-	-	TBD	-	TBD
Year 2021	-	-	-	-	-	TBD	-	TBD
Measure 5: Improving of irrigation systems								
Year 2019	18.061.889	-	-	3,500,000	301.870	7.620.521	-	29.484.280
Year 2020	39.313.469	-	-	1,500,000	-	5.977.655	-	46.791.124
Year 2021	23.352.915	-	-	-	-	7.479.723	-	30.832.638
Measure 6: Consolidation and defragmentation of agricultural land								
Year 2019	330.000	-	-	900.000	-	-	-	1.230.000
Year 2020	340,000	-	-	660,000	-	-	-	1.000.000
Year 2021	340,000	-	-	1,000,000	-	-	-	1.340.000
Measure 7: Agricultural cooperatives								

⁷² These funds are planned for activities related with market operator

Year 2019	1.060.000	-	-	1.980.000	-	-	-	3.040.000
Year 2020	1.060.000	-	-	0	-	-	-	1.060.000
Year 2021	1.060.000	-	-	1.800.000	-	-	-	2.860.000
Measure 8: Financial support of investments								
Year 2019	12.000.000	-	-	-	-	-	-	12.000.000
Year 2020	12.000.000	-	-	-	-	-	-	12.000.000
Year 2021	12.000.000	-	-	-	-	-	-	12.000.000
Measure 9: Financial support for micro, small and medium enterprises								
Year 2019	2.500.000	-	-	-	-	-	-	2.500.000
Year 2020	3.000.000	-	-	-	-	-	-	3.000.000
Year 2021	3.000.000	-	-	-	-	-	-	3.000.000
Measure 10: Increasing competitiveness in the tourism and hospitality sector								
Year 2019	3.000.000	-	-	12.000.000	-	-	-	15.000.000
Year 2020	-	-	-	-	-	-	-	-
Year 2021	-	-	-	-	-	-	-	-
Measure 11: Harmonization of the Public Procurement Legal framework with the Acquis								
Year 2019	230.000	-	-	-	-	-	-	230.000
Year 2020	30.000	-	-	-	-	-	-	30.000
Year 2021	30.000	-	-	-	-	-	-	30.000
Measure 12: Development of a National E-Services Portal								
Year 2019	404.500	-	-	600.000	100.000	-	-	1.104.500
Year 2020	210.000	-	-	950.000	-	-	-	1.160.000
Year 2021	180.000	-	-	1.250.000	-	-	-	1.430.000
Measure 13: Reducing the informal economy								
Year 2019	-	-	-	200.000	-	-	-	200.000
Year 2020	-	-	-	500.000	-	-	-	500.000
Year 2021	-	-	-	300.000	-	-	-	300.000
Measure 14: Improving Infrastructure and Access to Finance for Research, Development and Innovation								
Year 2019	14.100.000	-	-	-	-	3.900.000	-	18.000.000
Year 2020	13.000.000	-	-	-	-	-	-	13.000.000
Year 2021	12.000.000	-	-	-	-	-	-	12.000.000
Measure 15: Trade facilitation								
Year 2019	51.500	-	-	-	-	-	-	51.500
Year 2020	-	-	-	-	-	-	-	-
Year 2021	-	-	-	-	-	-	-	-
Measure 16: Further development of the qualification system								
Year 2019	1.444.761	-	-	1.360.000	-	-	-	2.804.761

Year 2020	1.494.761	-	-	1.436.000	-	-	-	2.930.761
Year 2021	688.000	-	-	1.586.000	-	-	-	2.274.000
Measure 17: Youth guarantee⁷³								
Year 2019	4.200.000	-	-	-	-	-	-	4.200.000
Year 2020	4.200.000	-	-	-	-	-	-	4.200.000
Year 2021	4.200.000	-	-	-	-	-	-	4.200.000
Measure 18: Enhancement of financial benefits in the field of social protection								
Year 2019	36.865.190	-	-	-	-	-	-	36.865.190
Year 2020	-	-	-	-	-	-	-	-
Year 2021	-	-	-	-	-	-	-	-

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020

Stage of reform implementation: 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

	Measure 1: Harmonization of the Public Procurement Legal framework with the Acquis	Stage of reform implementation (1-5)
Activities planned for 2018	1. Adopt a new PPL with a package of by-laws harmonized with the new directives and upgrade of the public procurement software.	4
Description of implementation and explanation if partial or no implementation	2. The new PPL was adopted by the Parliament of the Republic of Macedonia on 28 January 2019. The bylaws will be drafted within 6 months of the adoption of the Law.	
	Measure 2: Improvement of Internal financial control	Stage of reform implementation (1-5)
Activities planned for 2018	1. Reassessment of policies in the area of public internal financial control. Preparation of a new strategic document "Public Internal Financial Control Policies for the period 2018-2020" (PIFC Policy Paper 2018-2020) that will ensure sustainability of the strengthened managerial accountability and improve efficiency in public financial management through strengthening internal controls, strengthening internal audit, i.e. raising administrative capacities in the public sector at all levels.	4
Description of implementation and explanation if partial or no implementation	1.The draft version of the text is prepared and will be sent to the relevant departments in Ministry of Finance for comments and remarks and then to SIGMA and EC.	
	Measure 3: Increasing the competitiveness of the electricity market	Stage of reform

⁷³ The Annual Budget of EARM is part of the Central Budget, although it is 100% is financed by the social contribution for employment (insurance in case of unemployment)

		implementation (1-5)
Activities planned for 2018	1. Adoption of the Energy Law and secondary legislation (bylaws)	4
	2. Unbundling and certification of the transmission system operator in accordance with the Third Energy Package	4
	3. Establishing a national balancing market and non-discriminatory and cross-border market exchange of balancing services	3
	4. Adoption of Action plan for phasing out price regulation	5
	5. Procurement of technical support and provision of a trading, clearing and settlement platform	5
	6. Corporate plan for the company holding the activity-organized electricity market	3
	7. Establishment of a company (power exchange)	1
	8. Designing trading strategies, portfolios and risk management solutions, taking into account the generations in each user	1
	9. Code of conduct (compliance with legal and regulatory requirements)	1
Description of implementation and explanation if partial or no implementation	1. The Energy Law entered into force on June 5, 2018 - full implementation. Part of the bylaws have been adopted, and part are under preparation. The deadline for full implementation of the bylaws is 18 months starting from June 5 - the date of entry into force of the Energy Law.	
	2. Regarding the separation procedure, the Government of the Republic of Macedonia adopted decision for transfer of shares from AD MEPSO to the Ministry of Transport and Communications. Within 30 days from the day of the transfer of the shares, the electricity transmission system operator starts the certification procedure. Prior to initiating certification procedure, the electricity transmission system operator shall set up new company - market operator within 30 days from the day of subscription to the Central Depository. The process for obtaining a license is ongoing. Rules for certification has already been adopted. The procedure for assigning compliance officer is in progress.	
	3. According Article 68 paragraph 4 of the Energy Law, the operator of the electricity transmission system organizes and manages the balance of services market. Within 90 days after the entry into force of the Energy Law, the electricity transmission system operator should adopt the balancing rules. The Balancing Rules are expected to be approved by the Energy Regulatory Commission in the first quarter of 2019.	
	4. Pursuant the new Energy Law, price regulation has been abandoned. The tariff system for the sale of electricity to consumers provided by the universal supplier and supplier of last resort was adopted. After the adoption of the Universal Supplier Rules, as well as the choice of the universal supplier, price regulation is no longer applicable.	
	5. The time periods depend of the parties involved in the Technical Assistance for Macedonia for establishment of institutional set-up for organized market day-ahead. The establishment of independent company - market operator is essential activity in order to enable timely execution of the planned activities within the Project for establishing organized market day-ahead.	
	6. The Energy Community Secretariat has organized technical assistance for Macedonia for establishment of institutional set-up for organized day-ahead market, prepared by BORZEN-operator of the Slovenian electricity market and BSP-Slavic electricity market and NEMO (market-oriented). This draft model for organized electricity market was presented to the Government on May 30th. 2018. Part of this draft model for organized electricity market is also time frame for implementation. Activities are ongoing.	
	7. With Government decision will be regulated the work of the organized electricity market operator, as well as the necessary technical, personnel and financial conditions that the aforementioned operator should fulfil.	
	8. This activity will start with implementation after establishment of the Market operator.	
	9. This activity will start with implementation after establishment of the Market operator.	
	Measure 4: Promotion of renewable energy sources and improvement of energy efficiency	Stage of reform implementation (1-5)

Activities planned for 2018	1. Adoption of the Law on Energy Efficiency	4
	2. Bylaw regulation prescribing procedures for acquiring the right to feed-in premiums	4
	3. Preparation of tender documentation for a public announcement with a model of a Feed-in Premium Agreement	3
	4. Publication of a public announcement for bidding on the amount of the feed-in premium for determined locations.	1
	5. Preparation of the Strategy for the renovation of buildings by 2030	1
	6. Further harmonization of the legislation for application of energy services contracts	3
Description of implementation and explanation if partial or no implementation	1. With technical assistance, draft version of the new Law on Energy Efficiency was prepared, and it was published on 07.12.2018 in the Single National Electronic Registry of Regulations (ENER). The Law is planned to be adopted by the Parliament of the Republic of Macedonia by the end of the first quarter of 2019.	
	2. With technical assistance, the draft version of the Decree on measures for support of renewable energy sources is in the process of elaboration. It is planned to be adopted in the first quarter of 2019. Funds in the amount of EUR 500,000 are planned for realization of the measures for support of renewable energy sources.	
	3. Technical assistance is provided for the preparation of the tender documentation. The Ministry of Economy in 2019 plans EUR 30,000 for software for record keeping of agreements for premium, signed by renewable energy producers.	
	4. After adoption of the Annual programme for the measures for support of renewable energy sources for 2019, the tender will be prepared and published next year. For these activities, the Ministry of Economy has planned funds in amount of 500.000 Euro for support of renewable energy production.	
	5. After adoption of the new Law for Energy Efficiency, with technical assistance, the preparation of the Strategy for reconstruction of buildings 2030 will start.	
	6. With technical assistance the Energy services contracts model for public sector was prepared. The framework of legislation for energy services contracts will be covered in the New Law for Energy Efficiency and the accompanying by-laws.	
	Measure 5: Facilitating Macedonia-Serbia cross-border crossing	Stage of reform implementation (1-5)
Activities planned for 2018	1. Preparation of the Urban Planning Documentation, Architectural-Urban Design, Infrastructure Design, Feasibility Study, Environmental and Social Assessment, Preliminary and Main Designs, Tender Documentations for Works, Goods and Services.	5
	2. Preparation of the GAF Investment Grant	5
Description of implementation and explanation if partial or no implementation	Grant Investment Application Form is sent to the WBIF Steering Committee on November, 30 th 2018. Approval of the Application will be at the end of 2019, and if the Application is approved the works are envisaged to start mid of 2020.	
	Measure 6: Improving of irrigation systems	Stage of reform implementation (1-5)
Activities planned for 2018	1. Continuing construction works on dam Konsko;	5
	2. Starting construction activities on dam Rechani;	3
	3. Starting construction activities on irrigation system Raven – Rechica;	5
	4. Finishing technical documentation for construction on dam on Slupchanska River, and starting procedure for issuing construction permit;	5

	5. Continuation of discussions and acting upon EIB's recommendations for loan approval for construction of II stage - irrigation and III stage - energy of HS Zletovica;	3
	6. Starting construction activities for irrigation system in South Vardar valley project II stage;	5
	7. Preparation of technical documentation for construction of small irrigation systems up to 300 ha and construction work should start on three irrigation systems.	5
Description of implementation and explanation if partial or no implementation	1. Construction works are underway according to contract.	
	2. The construction works for the dam have not started yet, because a procedure for obtaining a building permit is underway.	
	3. Building permit has been issued and construction works have started.	
	4. Preparation of tender documentation is underway.	
	5. Preparation of tender documentation is underway.	
	6. The procedure for selecting a contractor is underway.	
	7. Preparation of tender documentation is underway.	
	Measure 7: Consolidation and defragmentation of agricultural land	Stage of reform implementation (1-5)
Activities planned for 2018	1 Adopt a revised and improved legal framework for the consolidation of agricultural land	4
	2. Strengthening the capacities of MAFWE, especially the regional units and the Sector for Consolidation of Agricultural Land exchange and identification of land parcels	4
	3. Preparation of 12 feasibility studies (analysis of the current state) of selected micro locations as potential consolidation areas	4
	4. Selection and training of service providers for the preparation of consolidation plans and infrastructure plans	3
	5.Preparation of procedure and methodology for preparation of consolidation plans and plans for infrastructure	5
	6. Preparation of 9 consolidation plans for selected consolidation areas	1
	7.Implementation of the consolidation procedures in the pilot regions in CC Konce and CC Egri	4
Description of implementation and explanation if partial or no implementation	1. Selection and training of service providers for the preparation of consolidation plans and infrastructure plans started with delay in 2018 due to the fact that the previous phase of the consolidation process, the preparation of feasibility studies delayed with the start. The reasons for this are the complex administrative procedures of the implementing	
	2. Preparation of 9 consolidation plans for selected consolidation areas did not started in 2018 due to the fact that the previous phase of the consolidation process, the preparation of feasibility studies delayed with the start. The reasons for this are the complex administrative procedures of the implementing	
	Measure 8: Agricultural cooperatives	Stage of reform implementation (1-5)
Activities planned for 2018	1. Encouraging the process of market-oriented association of farmers in agricultural cooperatives;	0
	2. Providing continuous financial support for cooperatives (continuous implementation of measures from the previous period)	2
	3. Support for investments in processing, finalization and marketing of agricultural products	2
Description of implementation	1. No implementation due to delay in the procedure of amending the Law on agricultural cooperative	

and explanation if partial or no implementation	2. Public Call is announced for applying for using the funds from the Program for Financial Support of the Rural Development for 2018 for measure 131 "Economic Association of Agricultural Holdings for joint agricultural activities" . The measure will continue in 2019.	
	3. The activities are carried out with the support of the EU funded project "Support to agricultural cooperatives in the Republic of Macedonia". Public Call is announced for declaring interest in the development of agricultural cooperatives.	
	Measure 9: Supporting activities for attracting FDIs and investments by domestic companies	Stage of reform implementation (1-5)
Activities planned for 2018	1. Introduction of a legal, financial and organizational framework for the implementation of the support activities.	5
	2. Supporting new FDIs and domestic companies that will invest in new green-field investments within the existing "support packages" (ex. tax exemptions) implemented in investment projects in the zones.	5
	3. Support for the purchase of assets of companies insolvent or in liquidation.	3
	4. Support for investment projects with a major impact on the domestic economy.	3
Description of implementation and explanation if partial or no implementation	1. On 8.5.2018 the Law on Financial Support of Investment was adopted (Official Gazette No. 83), which established the legal, financial and organizational framework for formalizing the support and implementation of the measures from the first and second pillars of the Economic growth Plan.	
	2. In the first quarter of 2018, the total foreign direct investments in the Republic of Macedonia amount to over EUR 235 million.	
	3. In 2018, a total of 182 companies submitted a request for utilization of funds through the Law on Financial Support of Investments. After the conducted evaluation, about 100 companies were positively assessed and signed an Agreement for granting financial support	
	4. In 2018 a total of 182 companies submitted a request for utilization of funds through the Law on Financial Support of Investments. After the conducted evaluation, about 100 companies were positively assessed and signed an Agreement for granting financial support	
	Measure 10: Support for Investments	Stage of reform implementation (1-5)
Activities planned for 2018	1. Introduction or improvement (revision) of the legal, financial and organizational framework for the implementation of the support activities.	5
	2. Support for investment for development.	3
	3. Support to growth of SMEs.	4
	4. Support for the transfer and / or establishment of I & R departments and innovation departments in companies established in the country.	3
Description of implementation and explanation if partial or no implementation	1. On 8.5.2018 the Law on Financial Support of Investment was adopted (Official Gazette No. 83), which established the legal, financial and organizational framework for formalizing the support and implementation of the measures from the first and second pillars of the Economic growth Plan.	
	2. In 2018, a total of 182 companies submitted a request for utilization of funds through the Law on Financial Support of Investments. After the evaluation, about 100 companies were positively assessed and signed an Agreement for granting financial support.	
	3. At the first call in 2018 conducted by FITR, applied 244 companies with projects totalling about EUR 53 million. In the first public call, 993% of the funds (EUR 16 million) are allocated for innovation grants (117 companies), while 7% of the funds are intended for support on "gazelles" (16 companies).	
	4. In 2018 a total of 182 companies submitted a request for utilization of funds through the Law on Financial Support of Investments. After the evaluation, about 100 companies were positively assessed and signed an Agreement for granting financial support.	
	Measure 11: Improving the competitiveness of domestic companies on the market	Stage of reform implementation (1-5)

Activities planned for 2018	1. Financial support for companies that will improve their competitiveness on the market.	3
	2. Support in finding partners and access to new markets.	3
Description of implementation and explanation if partial or no implementation	1. In 2018, a total of 182 companies submitted a request for utilization of funds through the Law on Financial Support of Investments. After the evaluation, about 100 companies were positively assessed and signed an Agreement for granting financial support.	
	2. In 2018, a total of 182 companies submitted a request for utilization of funds through the Law on Financial Support of Investments. After the evaluation, about 100 companies were positively assessed and signed an Agreement for granting financial support.	
	Measure 12: Increasing competitiveness in Tourism & Hospitality Sector	Stage of reform implementation (1-5)
Activities planned for 2018	1. Establish a destination management process.	4
	2. Implementation of large infrastructure and small investment sub-grants under the grant scheme.	4
	3. Strengthening the capacities for implementation of the activities of the key government institutions, as well as the private sector and civil society organizations in order to play an active role in the development of tourism in Macedonia.	4
	4. Improved access to international markets (the Ohrid destination to build at the export level).	4
	5. Improved destination management for access to international markets for paragliding (destination Krusevo).	5
	6. Improved tour guide services and their visibility for travel agencies.	4
Description of implementation and explanation if partial or no implementation	1. In the first half of 2018, after the first call from the Program for Local and Regional Competitiveness in Tourism and after the implementation of the evaluation and approval procedures, projects totalling approx. 2.1 million Euros were approved. An evaluation of the applications from the second call is currently underway, which is expected to conclude contracts totalling about EUR 15 million, which will be realized in the course of 2020.	
	2. In the first half of 2018, after completing the first call from the Program for Local and Regional Competitiveness in Tourism and following the implementation of the evaluation and approval procedures, projects totalling approx. 2.1 million Euros were approved. An evaluation of the applications from the second call is currently underway, which is expected to conclude contracts totalling about EUR 15 million, which will be realized in 2020.	
	3. In the first half of 2018, after the completion of the first call from the Program for Local and Regional Competitiveness in the Tourism and after the implementation of the evaluation and approval procedures, projects totalling approx. 2.1 million Euros were approved. An evaluation of the applications from the second call is currently underway, which is expected to conclude contracts totalling about EUR 15 million, which will be realized in 2020.	
	4. A Partnership was established between the Macedonian Faculty of Tourism and Hospitality and the World Tourism Forum Lucerne (STFL), established with Swisscontact, which will enable the exchange of ideas, programs and joint collaboration of various projects with other universities that are part of STFL, as well as increasing awareness of the tourism profession and industry nationally.	
	5. Organized event "When in Krusevo". 400 adventurers visited the event. Through the implementation of the event it turned out that the destination can be developed by giving priority to a specific type of tourism and attracting visitors and bringing revenue to the destination. Both the public and private sector in Krusevo pointed out the development of adventure tourism as a sector that should help the economic development of the destination. The Destination Management Working Group supported the organization of the event "When in Krusevo". About 3,000 tourists visited the destination with 400 participants in adventure activities.	
	6. In the first half of 2018, after completing the first call from the Program for Local and Regional Competitiveness in Tourism and following the implementation of the evaluation and approval procedures, projects totalling approx. 2.1 million Euros were approved. An evaluation of the applications from the second call is currently underway, which is expected to conclude contracts totalling about EUR 15 million, which will be realized in 2020.	
	Measure 13: Development of a National E-Services Portal	Stage of reform implementation (1-5)
Activities planned for 2018	1. Entering data on services from remaining laws in the Catalogue of services;	3-4

	2. Qualitative analysis on data entered in the catalogue (administrative guillotine);	1
	3. Revision and amendments of the Law on electronic management and its bylaws;	4
	4. Adoption on the Law on e-services and its bylaws;	4
	5. Development of new electronic services;	5
	6. Launch and promotion of the National e-services Portal;	4
	7. Training for public sector employees - users of the portal.	1
Description of implementation and explanation if partial or no implementation	1. Data for all services from primarily 50 selected laws that were entered in 2017, needed to be improved and extended with more fields than originally planned, due to the need for better description of the services and based by the obstacles met during the first filling-in process.	
	2. Reports from the software solution for Catalogue are being developed, specifically the ones that will be used for the analysis. Stakeholders, partners, experts and involved parties that will be responsible for the analysis, are being identified.	
	3. The Law on electronic management will be joined with the Law on e-services into the Law on electronic management and e-services. It is written, communicated and discussed with the society, and is in the process of its adoption in the parliament. Respective by-laws are in the preparation stage.	
	4. Same as above	
	5. New electronic services have been developed and will be available on the National portal for e-services.	
	6. Last planned activities are being executed.	
	7. Preparations in developing some training materials and guidelines are done.	
	Measure 14: Improving infrastructure and access to finance for research, development and innovation	Stage of reform implementation (1-5)
Activities planned for 2018	1. Co-financing grants for technology extension	5
	2. Co-financed grants for the establishment, operation and investment of business-technology accelerators	5
	3. Technical assistance to support innovative business	4
	4. Apply innovative solutions in the public sector and organize thematic challenges	4
Description of implementation and explanation if partial or no implementation	1. a) The Rulebook for the support instrument - Co-financing grants for technology extension received no-objection by the World Bank b) The Rulebook for the support instrument - Co-financing grants for technology extension received consent by the Government of RM and was adopted by the Management Board of FITD c) An open call for submission of project proposals under the support instrument Co-financing grants for technology extension has been launched on 29.05.2018 and was closed on 27.07.2019 d. 4 projects have been awarded financing. The total budget of the awarded projects is 3.200.000 EUR out of which 1.400.000 EUR is Fund's co-financing.	
	2. a) The Rulebook for the support instrument – Co-financing grants for establishment, operations and investment of business-technology accelerators received no-objection by the World Bank b) The Rulebook for the support instrument - Co-financing grants for establishment, operations and investment of business-technology accelerators received consent by the Government of RM and was adopted by the Management Board of FITD c) An open call for submission of project proposals under the support instrument Co-financing grants for establishment, operations and investment of business-technology accelerators has been launched on 29.05.2018 and was closed on 27.07.2019 d. 3 accelerators have been awarded financing. The total budget of the awarded projects is 2.000.000 EUR out of which 1.500.000 EUR is Fund's co-financing.	
	3. "A Canvas for Innovation: a way forward to strengthening the national innovation ecosystem": is a project financed under the European Union Integration Facility (EUIF) tool, available under IPA II 2014-2020 which started at the beginning of 2018 and which includes development of feasibility study for design	

	<p>of technical assistance for enhancing RDI in the private sector. During 2018 FITD continued to provide technical assistance to the grant beneficiaries. Also for the first time, technical assistance in four thematic areas (preparation of applications, innovation management, market research and IPR) was outsourced by FITD to provide advisory support potential applicants for applying for the FITD funds.</p> <p>4. As part of this program four challenges have been launched in 2018: - O2 challenge: financing projects for reduction of pollution in urban areas in the Republic of Macedonia, in cooperation with the Ministry of Environment and Physical Planning; - Challenge for young researchers: financing of innovative projects by students and teachers in primary and secondary schools in the Republic of Macedonia, in cooperation with the Ministry of Education and Science - PristApp – Challenge: financing the design of information system for management in the area of travel and freight traffic, in cooperation with the Ministry of Transport and Communications - #Obrokzsite (Meal for everyone): financing of projects for use and distribution of food-waste, in cooperation with the Ministry of Labour and Social Affairs.</p>	
	Measure 15: Trade facilitation	Stage of reform implementation (1-5)
Activities planned for 2018	1. Ratification of the Additional protocol 5	5
	2. Implementation of Additional protocol 5	3
Description of implementation and explanation if partial or no implementation	<p>1. The Protocol is ratified in Macedonia, Moldova, Montenegro, Albania, Bosnia and Herzegovina and Serbia. Additional Protocol 5 was ratified by Macedonia in January 2018 and applied with Montenegro and Moldova on April 18, 2018, with Albania on June 14, 2018, and Bosnia and Herzegovina on June 24, 2018. The ratification procedure was completed in Serbia on September 25, 2018, but no information has yet been received from the Depository. Kosovo is also expected to ratify it.</p> <p>2. Ratification between 5 parties is fulfilled, other 2 pending for ratification or information from Depository. The relevant institutions are revising the existing MoU's according to AP 5; Draft Validation Rules for the Mutual Recognition of the AEO has been prepared and are expected to be adopted in November at the CEFTA bodies; Activities within Joint Facilitation Committee Macedonia – Serbia include signature of the documents for mutual recognition of border documents (veterinary and sanitary certificates), as well as Market Access Conformity Documents</p>	
	Measure 16: Further development of the qualification system	Stage of reform implementation (1-5)
Activities planned for 2018	1. Development of 10 qualifications according to the demands of the workers and new technologies in the companies	5
	2. Establishment of 3 sectoral commissions for qualifications	5
	3. Implementation and operationalisation of the system for the observatory of skills. Linking it to the information systems of all involved institutions and downloading data from them. Conducting training for using the MES trainings for skills that are involved in the process of creating educational policies.	3
	4. Development of 5 special programs for adult education and training for additional qualification and retraining for easier employment in new companies and mobility of workers.	5
	5. Increasing the number of employers who cooperate with higher education institutions, as well as secondary vocational schools in order to ensure quality practical work for students and students in enterprises and the opportunity for recognizing the workforce by the company, where practical work .	5
Description of implementation and explanation if partial or no	1. A total of 40 qualifications were developed (passed through the entire quality assurance process and are approved) and there are additional 20 qualifications that are prepared and need to pass through the quality assurance process during the approval process.	

implementation	2. A total of 5 Sectorial Qualifications Committees have been established.	
	3. The software development for the Observatory of Skills is fully completed. The private and public web portals have been developed. Web services for electronic data exchange have been developed, as well as the alternative module for data exchange with institutions that do not have the possibility for electronic exchange. All pre-defined statistical reports that will be publicly available, as well as the statistical reports that will be used for the needs of the MoES, have been prepared. An electronic data exchange with the state universities has been established, the data from them have been undertaken and an analysis has been made. At the moment the Universities are improving the quality and validity of the data for the students, so that the statistical reports from the Skills Observatory are relevant. In order to monitor the status of students after the completion of education, an electronic connection was also made with the system of the Employment Agency of the Republic of Macedonia, from which data on the employment status of graduates are taken. Activities for collecting data from private universities are underway.	
	4. 11 new adult education programs have been developed and five adult education programs have been redesigned, and a total of 49 special programs have been verified.	
	5. The number of employers where the practical training is carried out is a total of 973, and with 473 Memoranda of Cooperation were signed.	
	Measure 17: Upgrading the active measures included in the Operational Plan for Active Employment Programs and Measures and Labour Market Services	Stage of reform implementation (1-5)
Activities planned for 2018	1. Detailed analysis of active measures and programmes that have been implemented over the past years in order to detect shortcomings and develop improved active measures.	5
	2. Preparation and adoption of the Operational plan for 2018	5
	3. Development and implementation of the Occupational outlook.	5
Description of implementation and explanation if partial or no implementation	1. Prior to the preparation of the 2018 Operational Plan, MLSP conducted a thorough analysis on the effects of active labour market measures implemented in previous years, such as the number of participants, the effect of the measure etc. These findings were used in the design of the 2018 plan.	
	2. The Government of the Republic of Macedonia adopted the Operational Plan for Active Programs and Measures for Employment and Services on the Labour Market for 2018 on 27 February 2018.	
	3. The activities are being implemented in accordance to the Work plan. So far, 18 occupations have been developed, while 9 are in the process of development. According to the Work plan, 72 occupation will be developed until 2021.	
	Measure 18: Youth guarantee	Stage of reform implementation (1-5)
Activities planned for 2018	1. Youth Guarantee will be piloted in 3 employment centres	5
Description of implementation and explanation if partial or no implementation	1. In 2018 the implementation of this measure is piloted in three pilot employment centres – Gostivar, Strumica and Skopje, by including young people not in employment, education or training (NEET) that are registered as unemployed people (inflow) in 2018 for the first time. For successful implementation of this activity, coordinated and joint action is necessary between many government institutions, social partners and civil society organizations. In the past period of implementation (01.03 – 10.12.2018), 4377 people (2206 women) were included in Youth Guarantee, out of which, in a period of 4 months after being registered as unemployed, 1411 people were employed and 273 people are included in active programs and employment measures which will increase their employment opportunities. For 1556 unemployed people, the period of 4 months has not expired yet and they are covered with different types of employment services.	
	Measure 19: Enhancement of financial benefits in the field of social protection	Stage of reform implementation (1-5)
Activities planned for 2018	1. Analysis and preparation of proposals for redefining the social protection system.	5
	2. Drafting a new Law on Social Protection, consultative process with stakeholders and preparation of bylaws.	4

	3. Start of activities for changing and upgrading the existing software solution for administering financial entitlements, where in addition to entitlements, social services will also be covered.	3
Description of implementation and explanation if partial or no implementation	1. A working group in the Ministry of Labour and Social Policy and expert support from four local experts, together with an international expert, prepared a proposal for the reform of the social protection system. This document is based on a comparative analysis of social protection systems in different countries, an analysis of the existing social protection system in the Republic of Macedonia and the identified strengths and weaknesses of the system, as well as a financial analysis and cost estimate for the introduction of the program.	
	2. Starting from June 2018, activities are ongoing on the drafting of a new Law on Social Protection by a working group, with the involvement of professors from the Institute for Social Work and Social Policy. It is planned to hold public consultations with stakeholders, with representatives of the institutions for social protection, local self-government units, associations and organizations. The received opinions are reviewed, the text of the Law has been finalized and is in parliamentary procedure.	
	3. An analysis of the existing software solution and business processes for the new rights of social and child protection was carried out, and they were submitted to the company for preparation. For the rights of social protection, initial testing was carried out. At the moment, the right to social protection and the development of the rights to child protection are being completed. While the new software solution has developed business processes for two social rights according to the version of the law that was in July. Service groups have been created, questionnaires have been made for several services and a framework and activities will be established. Two SWCs and members of the working groups from the CSW were visited. The activities are currently stalled because it is about the changes in the old software. After completing these activities it can continue to the new software.	

Annex 4: Contribution from consultations with stakeholders ERP 2019-2021

The Economic reform program 2019-2021 represents a joint result from the collaboration among several institutions, and the overall preparation is coordinated by the Ministry of Finance.

Content of the Economic Reform Programme	Institution	Person in charge
1. Overall Policy Framework and Objectives	Ministry of finance	Andrija Aleksoski Vesna Cvetanova Bojana Ilievska
1.1. Measures taken to implement the targeted policy guidelines adopted at the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey in May 25,2018	All institutions in charge	
2. Macroeconomic framework		
2.1. Recent economic developments	Ministry of finance National Bank of the Republic of Macedonia	Nedzati Kurtishi Aneta Krstevska
2.2. Medium-term macroeconomic scenario	Ministry of finance National Bank of the Republic of Macedonia	Nedzati Kurtishi Lenche Tagasovska Violeta S. Petreska Aneta Krstevska
2.3. Alternative scenario and risks	Ministry of finance National Bank of the Republic of Macedonia	Nedzati Kurtishi Aneta Krstevska
3. Fiscal framework		
3.1. Fiscal strategy and medium-term objectives	Ministry of finance	Maja Argirovska
3.2. Budget implementation in 2018	Ministry of finance	Biljana Minoska
3.3. Medium-term budgetary outlook	Ministry of finance	Maja Argirovska
3.4. Structural deficit	Ministry of finance	Nedzati Kurtishi
3.5. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments	Ministry of finance	Sanja M. Mancheva
3.6. Sensitivity analysis	Ministry of finance	Nedzati Kurtishi Sanja M. Mancheva
3.7. Fiscal governance and budgetary frameworks	Ministry of finance	Maja Argirovska
3.8. Sustainability of public finances	Ministry of finance	Nedzati Kurtishi
4. Structural reform priorities in 2019-2021		
4.1. Identification of key obstacles to growth and competitiveness	Ministry of finance	Vesna Cvetanova
4.2. Summary of reform priorities	Ministry of finance	Andrija Aleksoski Vesna Cvetanova Bojana Ilievska
4.3. Structural reform priorities by area		
4.3.1. Energy and transport market reform	Ministry of Economy Ministry of Transport and Communication	Valentina Stardelova Zhaneta Petrovska Goran Temovski Biljana Zdraveva Jasminka Kirkova
4.3.2. Sectoral development		
4.3.2.1. Agricultural sector development	Ministry of Agriculture, Forestry and Water Economy	Maja Lazareska Joveska Lile Simonovska Kiril Georgievski Stojan Gacov Aleksandar Mitrevski
4.3.2.2. Industry sector development	Ministry of finance	Vesna Cvetanova

	Cabinet of the DPM in charge of economic affairs	Dane Josifovski
4.3.2.3. Services sector development	Cabinet of the DPM in charge of economic affairs	Maja Barikj
4.3.3. Business environment and reduction of the informal economy	Public Procurement Bureau Ministry for information society and administration Ministry of labour and social policy	Aleksandar Argirovski Rozalinda Stojova Goran Veleski
4.3.4. Research, development and innovation and Digital economy	Fund for Innovation and Technical Development Ministry for information society and administration	Katarina Krecheva Solza Kovachevska
4.3.5. Trade-related reforms	Ministry of Economy	Illir Shabani
4.3.6. Education and skills	Ministry of Education and Science	Biljana Trajkovska Nadica Kostoska
4.3.7. Employment and labour markets	Ministry of labour and social policy Employment Agency of RM	Goran Veleski Biljana Zivkovska
4.3.8. Social inclusion, poverty reduction and equal opportunities	Ministry of labour and social policy	Dushan Tomshikj Sofija Spasevska
5. Budgetary implications of structural reforms	All institutions in charge	
6. Institutional issues and stakeholder involvement	Ministry of finance	Andrija Aleksoski Vesna Cvetanova Bojana Ilievska
7. Annexes	All institutions in charge	

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

During the preparation of this program a consultation process with stakeholders was conducted at national level: the business community, the universities, ZELS, local authorities, social partners, civil society and other stakeholders. The consultation process was conducted in accordance with the ERP 2019 Guidelines.

An initial meeting with stakeholders was held on June 11 and 12, 2018 with the following agenda:



High-level conference

Economic Reform Programmes – a key element of the "fundamentals first" approach and the economic governance in the EU's Semester Light process

Agenda

**Venue: Skopje Marriott Hotel
Plostad Makedonija 7
1000 Skopje**



**This project is funded
by the European Union**

11 June 2018	
09:30 – 10:00	Registration of participants and welcome coffee
10:00 – 10:05	Opening remarks
10:05 – 10:45	<p><i>High-level panel: Economic Reform Programmes – a key element of the "fundamentals first" approach and the economic governance in the EU's Semester Light process, moderated by Mr. Viktor Mitevski, Ministry of Finance</i></p> <p>a. Achievements in the ERP process with special emphasis on Joint conclusions from May 2018, Mr. Dragan Tevdovski, Minister, Ministry of Finance</p> <p>b. ERP and EU Semester Light process, Mr. Samuel Žbogar, Head of the Delegation of the European Union</p> <p>c. Key challenges, priorities and the way forward for the ERP 2019 – 2021, Ms. Marzena Kisielewska, Head of the OECD South-East Europe Division</p> <p style="text-align: center;"><i>General Discussion</i></p>
10:45 – 11:00	<i>A new reform agenda for more competitive South East Europe</i>
11:00 – 11:45	<p><i>Launch of the OECD Competitiveness Outlook 2018</i></p> <p>Key findings and recommendations from the 2018 edition of the OECD SEE Competitiveness Outlook, which are most valuable for the ERP 2019 – 2021, Mr. Jakob Fexer, Project Manager of the Competitiveness Outlook, OECD</p> <p>Mr. Bert Brys, Head of Unit, OECD Centre for Tax Policy, Complementary presentation on the specific tax challenges which arise from the Competitiveness Outlook analysis and country specific recommendations.</p>
11:45 – 12:00	Coffee Break
12:00 – 13:30	<p><i>Round table discussion: Overall Country Growth Diagnostic, a prerequisite to facilitate a sustainable economic growth, job creation, financial stability and sound public finances, moderated by Ms. Jovana Avramovska, Ministry of Finance</i></p> <p>a. Reforms needed to support long-term growth and competitiveness</p> <p>b. Industrial Policy</p> <p>c. Identification of key obstacles to competitiveness and inclusive growth</p> <p>d. Overall Growth</p> <p>Speakers:</p> <p>Mr. Bojan Shimbov, Economist, World bank Office Skopje</p> <p>Mr. Ricardo Pinto, EU Project Team Leader</p> <p>Mr. Vanco Uzunov, University Professor, Faculty of Law, Ss Cyril and Methodius University</p> <p style="text-align: center;"><i>General Discussion</i></p>

12 June 2018

*Discussion with OECD and EC on diagnostics and reform measures
How to strengthen the analytical part, what measures should remain or newly included in
ERP?*

08:30 – 09:00	Registration of participants and welcome coffee
09:00 – 09:10	Welcome and introductory remarks Mr. Andrija Aleksoski , National ERP coordinator, Ministry of Finance Ms. Marzena Kisielewska , Head of the OECD South-East Europe Division
09:10 – 09:40	Presentation of ERP 2019 - 2021 Guidance Note and Work plan Mr. Andreas Papadopoulos , Adviser Economic Governance, DG NEAR Mr. Willem Noe , Policy Officer D.3, DG NEAR Ms. Vesna Cvetanova , Assistant Head of Department, Ministry of Finance Ms. Bojana Ilievska , Head of Unit, Ministry of Finance
09:40 – 10:40	Assessment of the sectoral diagnostics and reform measures in the ERP 2018-20; overall consistency check, suggestions for improvements in next ERP cycle Ms. Anita Richter , OECD, Project Manager Mr. Filip Stefanovic , OECD, Policy Analyst
10:40 – 11:20	Overview of chapter 4 of the ERP, what measures should remain in the next ERP Mr. Andreas Papadopoulos , Adviser Economic Governance, DG NEAR Mr. Willem Noe , Policy Officer D.3, DG NEAR
11:20 – 12:00	Presentation of monitoring mechanisms and selection of performance indicators (how line ministries should select indicators, present few examples on one or more measures from ERP 2018 Ms. Anita Richter , OECD, Project Manager Mr. Filip Stefanovic , OECD, Policy Analyst

In the period from November 23 to December 7, 2018, the draft ERP 2018 was published on the Ministry of Finance's website and at the same time, a public announcement and invitation were posted for the stakeholders to actively contribute to the process of the document preparation by providing opinions on the document content and proposals for its improvement <https://finance.gov.mk/en/node/7644>.

On November 30, 2018 a public debate among the institutions participating in the preparation of the document, representatives of the European Delegation in Skopje and the stakeholders was held in the Ministry of Finance.

At the public debate held on November 30, 2018, the stakeholders confirmed the high level of quality of the document, which according to their perceptions is constantly improving, especially in the part of the diagnosis, the risks and the plan of costs, and there is continuous progress in regard to the proposed measures to improve competitiveness and growth. The measure for reducing the informal economy, which was proposed for the first time in the Economic reform program, was particularly welcomed. No comments or proposals were received in written during the public consultation process.

Economic reform programme 2019-2021

Public consultation for draft Economic Reform Program 2019 - 2021

INVITATION FOR PUBLIC CONSULTATION FOR DRAFT ECONOMIC REFORM PROGRAM 2019 - 2021

We are glad to present you the Structural Reform Priorities from the draft Economic Reform Program 2019 - 2021 (ERP 2019), which the Government of the Republic of Macedonia would submit to the European Commission at 31 Jan. 2019, the latest. Here you can find the text of the draft ERP 2019 Reform Priorities.

By regular preparation of the ERP, the Government of The Republic of Macedonia joined the EC approach for supporting the growth and competitiveness through economic governness as a key pillar in accession process, in order to provide better reporting for national economic policy plans, including the needs for structural reforms.

The draft ERP 2019 is prepared through established national consultation process, centrally coordinated by the Ministry of Finance and supported by OECD expert assistance and assistance provided through TAIDK instrument, financially supported by EU. The document closely follows the instructions of the Guidance for Economic Reform Programs issued by EC in April 2018.

Having in mind the significance of the document and the need for high quality preparation, we undertake the public consultation process with broad involvement of the stakeholders. Therefore, we invite the business community, universities, local authorities, social partners, civil society and all other stakeholders for active contribution in document preparation process.

Please submit your comments and proposals in written no later than 7 Dec. 2018 the latest, at the following e-mail addresses:

andrja.aleksoski@finance.gov.mk National ERP Coordinator, and

vesna.cvetanova@finance.gov.mk

We would like to invite you for consultation meeting on 30 Nov. 2018 beginning at 10:00, in the premises of Ministry of Finance. For logistical purposes please confirm your participation until 28 Nov. 2018 the latest, at the above mentioned e-mail addresses.

[PDF](#) Economic Reform Program 2019-2021

[PDF](#) Guidelines for the Economic Reform Program

ФИНАНСИСКА
ЕДУКАЦИЈА

ВОДИЧ
ЗА ПОДОВОРО ИНФОРМИРАЊЕ
НА ФИЗИЧКИТЕ ЛИЦА
ЗА ДАНОКОТ НА
ДОДАДЕНА ВРЕДНОСТ



ECONOMIC GROWTH AND
BUDGET DEFICIT



Ministry

Public Financial Management Reform
Programme 2018-2021

Projects