



Pre-accession Economic Programme 2012 -2014

Macroeconomic policy,
Public finances
and Structural reforms

Ministry of Finance of the Republic of Macedonia

Skopje, January 2012



The 2012 – 2014 Pre-accession Economic Programme has been adopted by the Government of the Republic of Macedonia, on its 40th Session, held on the 23rd of January, 2012.



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List of abbreviations

ACCMIS	Automated Court Case Management and Information System
AEC	Agency for Electronic Communications
CA	Customs Administration
CB bills	Central Bank bills
CCN	Common Communication Network
CDPS	Customs Declaration Processing System
CEA	Center for Economic Analyses
CEB	Council of Europe Development Bank
CEFTA	Central European Free Trade Association
CSI	Common System Interface



EARM	Employment Agency of the Republic of Macedonia
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECVET	European Credit System for Vocational Education and Training
EFTA	European Free Trade Association
EIB	European Investment Bank
EIICM	European Information and Innovation Center in Macedonia
ELEM	Macedonian Power Plants
EQARF	European Quality Assurance Reference Framework
ESA	European System of Accounts
ESFRI	European Strategy Forum on Research Infrastructures
ESC	Economic and Social Council
EU	European Union
EURES	European Employment Services
EXIM	Single Window for Licenses for Import, Export and Transit of Goods and Tariffs Quotas in the Republic of Macedonia
FDI	Foreign Direct Investments
FP	Framework Programme
FX	Foreign Exchange
GDP	Gross Domestic Product
GIS	Geographic Information System
GFS	Government Finance Statistics
GRECO	Group of States against Corruption
GS	Government Securities
HACCP	Hazard Analysis Critical Control Point
HPP	Hydro Power Plants
IAIS	International Association of Insurance Supervisors
ICT	Information and communication technologies
IFIs	International financial institutions
IOSCO	International Organization of Securities Commissions
IPA	The Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IT	Information Technology
ISCO	International Standard Classification of Occupations
ISO	International Organization for Standardization
KfW	Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)
LDBIS	Legal Database Information System
LGU	Local Government Units
MAPAS	Agency for Supervision of Fully Funded Pension Insurance
MSEI-10	Macedonian Stock Exchange Index
MBDP	Macedonian Bank for Development Promotion
MEPSO	Electricity Transmission System Operator of Macedonia
SEC	Macedonian Securities and Exchange Commission
Mw	Mega Watt
NCTS	New Computerized Transit System
NECC	National Entrepreneurship and Competitiveness Council
NEER	Nominal Effective Exchange Rate
NGA	Next Generation Access Network
NGN	Next generation network



NGO	Non-governmental Organization
NPAA	National Programme for Adoption of the Acquis
PDPL	Programmatic Development Policy Loan
PIFC	Public internal financial control
PCL	Precautionary Credit Line
p.p.	Percentage Point
REER	Real Effective Exchange Rate
RIA	Regulatory Impact Assessment
ROAA	Return on Average Assets
ROAE	Return On Average Equity
SAA	Stabilization and Association Agreement
SEE	Southeastern Europe
SEETO	South East European Transport Observatory
SMEs	Small and Medium-Sized Enterprises
TAIB	Transition Assistance and Institution Building
TARIC	Tariff and Regulation of the Community
TARIM	Customs Tariff Database
TIDZ	Technological and Industrial Development Zones
TFP	Total Factor Productivity
UNDP	United Nations Development Programme
UNERR	Unique National Electronic Registry of Regulations
USAID	United States Agency for International Development
VAT	Value Added Tax
VET	Vocational Education and Training
VoIP	Voice over Internet Protocol
XBRL	eXtensible Business Reporting Language



Preface

Honourable,

In line with the determined practice in the European system of multilateral fiscal surveillance, Republic of Macedonia has prepared the sixth Pre-Accession Economic Programme, covering the period 2012-2014. The Programme is predecessor of the Convergence Programmes the Member States prepare within the Stability and Growth Pact. By preparing the Programme, Republic of Macedonia prepares itself for gradual integration in the multilateral fiscal surveillance within the Economic and Monetary Union and the Europe 2020 Strategy.

Continuity in fulfilling the obligation of the Republic of Macedonia as an EU candidate country to prepare and submit to the European Commission medium-term Pre-Accession Economic Programme reflects the readiness of Macedonian administration to respond to the challenges for gradual integration and coordination of the economic policies as future country - EU Member State.

2012-2014 Pre-Accession Economic Programme reflects the commitments and the devotion of the Government of the Republic of Macedonia to the strategic commitment to integration in the EU, thereby retaining the focus on acceleration of the economic growth to the end of reducing unemployment and improving the living standard of all citizens.

Success of economic reforms implemented in the past period confirmed and acknowledged by many renowned international institutions is an impetus to dynamise the process of economic convergence and achieve the strategic commitments of Government of the Republic of Macedonia to a greater extent. Already undertaken measures supported with subsequent ambitious projects are a driving force, verifying the commitment to stimulate and maintain functional, competitive and market economy.

Dialogue with the expert services of the European Commission, institutionalised through the regular meetings of the Sub-Committee on Economic and Financial Issues and Statistics within the Stabilisation and Association Committee contributes to achieving common goal – providing enhanced structures for monitoring the implementation of the set reforms. Improved analytical capacity of the institutions involved in the preparation of this document is additional confirmation for the purposefulness of the profound cooperation with the European Commission.

This year's Pre-Accession Economic Programme is based upon the already set objectives of the economic policy of the Government of the Republic of Macedonia, thereby elaborating the macroeconomic trends and projections, the aim of the fiscal policy, as well as the key structural reforms to be undertaken in the period 2012-2014. The Programme presents the medium-term expectations in the real, financial, external and monetary sector, public finance, as well as the public debt management, including the activities for harmonising the Macedonian legislation with the *Acquis Communautaire*, thereby reflecting the recommendations in the last European Commission's Progress Report.



Throughout the years, Pre-Accession Economic Programme has grown into process, summarising the commitments of the expert Macedonian administration and the devotion of the Government to fulfill the obligations arising from the accession to the EU. The preparation process of the document provided for connecting the strategic planning and budgeting, clear vision of the medium-term priorities and obligations, taking into account the Government Programme (2011-2015), the National Programme for the Adoption of the Acquis, the Stabilisation and Association Agreement and the national and sectoral strategies. Strategic aspect of the Programme as a document reflects the medium-term framework of the economic challenges on the way towards strengthening the functionality of Macedonian economy capable to cope with the competitive pressure in the EU surrounding.

Republic of Macedonia continues to meet all obligations envisaged in the first stage of Chapter 5 (Movement of workers, establishment, rendering services, capital) of the Stabilisation and Association Agreement. Therefore, in October 2009, the European Commission proposed shifting to the second stage of the Association, in line with Article 5 of SAA. Full SAA implementation means full harmonisation of the national legislation with the Acquis Communautaire, as well as functionality of the institutions. In line with the SAA postulates, in 2011, Republic of Macedonia and the European Union established trade association, requiring to strengthen and adjust to the competitive forces on the European market, to the end of using the benefits of the trade liberalisation.

Being fully committed, through an intensive dialogue with the business community and all concerned economic actors, Government of the Republic of Macedonia will continue to be strongly devoted to joint creation and implementation of economic growth policy to result in further profound development of Macedonian economy and positioning on the European market it deserves.

Yours sincerely,

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



PART I

General Macroeconomic Framework and Objectives



1.1. General Macroeconomic Framework and Objectives

2012 - 2014 Pre-Accession Economic Programme (hereinafter: PEP) is in line with the 2011 - 2015 Government Programme, which was adopted by the Parliament of the Republic of Macedonia in July 2011, as well as with many national strategic documents: National Programme for the Adoption of the Acquis, Fiscal Strategy, separate strategies of the participating institutions. Taking into account the above-mentioned, PEP is coherent strategic document, presenting the national economic policy of the Republic of Macedonia. The Programme refers to the achieved economic trends, it presents the projections for the next three years and the key structural reforms, which will be implemented so as to improve the quality of the functional market economy, making it able to cope with the competitive forces following the accession to the European Union (the EU).

Unlike the previous PEP, which was prepared in conditions of slight recovery and gradual stabilisation of the domestic economy, PEP 2012-2014 has been prepared in conditions of moderate economic activity growth. In line with the priorities of the Government of the Republic of Macedonia, macroeconomic policy in the coming medium-term period will be focused on maintaining financial and macroeconomic stability and increase of the economy competitiveness on permanent basis, job creation, improvement of the living standard and the quality of life of the population, mainly by enhancing the business environment, conducting tax and customs policy aimed at supporting the development of the economic entities, encouraging investment activity and attracting Foreign Direct Investments (FDI), developing the human capital and the economic infrastructure of the country.

The average real Gross domestic product (GDP) growth in the Republic of Macedonia for the period 2012 -2014, is expected to range between 3% - 4.7%. It is worth mentioning that projecting the macroeconomic trends on the medium term has become considerably difficult at present given the large uncertainty and downward risks of the global economic trends and daily changes in international capital markets, mainly as a result of the Eurozone debt crisis. Thus, further decrease of economic activity in the EU which is the largest trading partner of the Republic of Macedonia is expected to reduce the foreign demand for macedonian products, and therefore slower growth in exports and production in the country. Taking into consideration that the process of preparing the PEP and the deadline for its submission to the European Commission (EC), corresponds to enormous uncertainty of the global economic trends, the Government of the Republic of Macedonia in the 2012 - 2014 PEP decided to opt-out for a more cautious medium-term macroeconomic and fiscal scenario, thus presenting the projections of the macroeconomic indicators in intervals which illustrate the expectations for the period of 2012 - 2014.

Objectives of the fiscal policy in the coming three-year period will remain focused on maintaining macroeconomic stability and supporting macedonian economy by conducting prudent fiscal policy with reasonable and non-distorsive rates of budget deficit and government debt under the Maastricht criterion, improving the quality of



public finance, mainly by intensifying capital investments aimed at improving infrastructure and physical capital, hereby supporting the policy of stable Denar exchange rate and maintaining low government debt.

Main goal of the monetary policy for the period 2012 – 2014 remains to be maintenance of price stability. Thereby, in order for this goal to be achieved, strategy of targeting nominal Denar exchange rate to the Euro will continue to be applied, aimed at realising the most favourable macroeconomic climate for long-term sustainable economic development.

National priority of the Republic of Macedonia for acquiring full-fledged EU membership remains to be main driving force of the reform activities in the Republic of Macedonia. Thus, the Government of the Republic of Macedonia will stay committed to implementing the agenda of structural reforms, which, taking into account the specific qualities and the priorities of the Republic of Macedonia, is based upon the EU Strategy (“Europe 2020”). Planned reform activities are a continuation of the so-far efforts aimed at modeling the Republic of Macedonia as competitive and integrated economy, whereby the key areas are enhancing the business environment, supporting the entrepreneurship of small- and medium-sized enterprises (SMEs), as main promoters of dynamic economic growth and unemployment reduction, enhancing the human capital and providing stronger connection between supply and demand on the labour market and increased support of the export. In addition, economic policy is aimed at implementing reforms in order to create efficient, effective and professional public administration, strengthening the legal security, strengthening the supervisory capacities of the regulatory bodies, as well as increasing the productivity in the agriculture.

PEP 2012 – 2014 comprises of three main parts. First part analyses the recent macroeconomic developments and medium-term macroeconomic scenario for the period 2012 - 2014, the second one presents policies for public finance management, including medium-term expectations of the Budget of the Republic of Macedonia and public debt management. This part also includes institutional features of public finance. The third part presents the reform agenda and the reform priorities for the following three years.



PART II

Macroeconomic Trends



2.1. Economic Overview

2.1.1. Recent Macroeconomic Trends

International economic environment. What was characteristic for the global economy in 2010 was the exiting from one of the deepest global recessions in the last 80 years. Thus, the global economy in 2010 experienced growth of 5% compared to the drop of 0.6% in 2009 (Table 2.1). Realised growth was mainly due to the strong growth of the trade volume, the consumption growth, as well as the improvement of the perceptions for risk at investors.

Expectations for recovery of the global economy, the stimulating packages for support of the real sector, as well as the increased level of demand at the emerging economies, contributed for significant increase of the volume of trade, which experienced significant growth of 12.3% on annual basis in 2010, considered to be as the highest realised level in the last ten years.

Improvement of the macroeconomic climate of the countries in the world was accompanied by slight increase of the general price level, thus the average inflation rate amounted to 2.1% in 2010. In fact, the increase of global economic activity led to increase of the demand of oil and primary products. Thereby, the crude oil price experienced annual growth of 27.9%, while prices of primary products surged by 26.2% compared to the level in 2009. In parallel to the increase of the price of both the oil and the primary products, the price of food also increased by 11.6% on annual basis. In addition, in 2010, prices of metals increased by 48.1% compared to the level in 2009. As for metals, the price of iron (83.9% on annual basis) was the most evident, followed by the price of platinum (49.7%), nickel (48.6%) and copper (45.9%).

As for the expectations for the next medium-term period, the EC in its Autumn Economic Forecast Report as of November 2011, pointed out to worsened outlook for the economic growth in the world, in particular in the Eurozone. In fact, deterioration of the fiscal position of the countries, in particular of those from the peripheral part of the Eurozone, has significant negative effect on the investment confidence and the private consumption. EC notes that the unfavourable external surrounding leads to reducing the international trade, while the need for urgent fiscal consolidation at Eurozone countries limits the domestic demand. Such trend is expected to continue in the next several quarters as well, thus, the potential for economic growth and increase of the employment rate are to a great extent limited. First signs of improving the economic growth are envisaged for the second half of 2012, however with insignificant effect on the unemployment reduction. Hence, global growth rate of 3.5% is envisaged, i.e. 3.6% for 2012 and 2013 respectively, while the economic growth rate of the EU is projected at 0.6% for 2012 and 1.5% for 2013 (Table 2.1). As for the Autumn Report, EC forecasted reduction of global trade by 5.8% in average in the coming medium-term period, and the effects from the debt crisis will be also felt on the labour market, where the unemployment rate in the EU will retain at the level of around 10%.



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

	2009	2010	2011f	2012f	2013f
GDP Growth					
World	-0.6	5.0	3.7	3.5	3.6
EU	-4.2	2.0	1.6	0.6	1.5
Eurozone	-4.2	1.9	1.5	0.5	1.3
USA	-3.5	3.0	1.6	1.5	1.3
Developing countries and emerging economies	3.0	7.3	6.0	5.9	5.9
International trade growth	-12.1	12.3	6.4	5.1	5.9
Unemployment rate					
EU	9.0	9.7	9.7	9.8	9.6
Eurozone	9.6	10.1	10.0	10.1	10.0
USA	9.3	9.6	9.0	9.0	8.8
Inflation					
EU	1.0	2.1	3.0	2.0	1.8
Eurozone	0.3	1.6	2.6	1.7	1.6
USA	-0.4	1.6	3.2	1.9	2.2
Increase of oil prices (EUR)	44.6	60.5	79.4	75.8	72.8

Source: European commission, European Economic Forecast, November 2011 *f- projections

*European Economic Forecast does not include projections for 2014.

The inflation rate in the EU in the past period was driven by the increase of the price of food, energy sources, base metals and raw materials, as well as by the increase of the indirect taxes and regulated prices at some of the EU Member States. However, in the next medium-term period, EC forecasts reduction of the effect of these factors and together with the slowdown of the economic activity, it is envisaged for inflation rates to reduce to 2% in 2012, i.e. 1.8% in 2013, compared to the forecast of 3% for 2011.

Recent economic trends in the Republic of Macedonia. Gradual recovery of global economy had positive transferable effects on the activity in the domestic economy as well. Following the moderate drop by 0.9% in 2009, real GDP increased by 1.8% in 2010. Economic activity obtained impetus in the second quarter of the year, when the continuity of positive performance at export was coupled by gradual recovery of the domestic demand as well. Thus, GDP experienced real growth of 1.5% on annual basis in the second quarter, followed by growth of 2.1% in the next quarter and 3.8% in the fourth quarter (Table 2.2.) in conditions of favourable global climate and increased utilisation of domestic export potential. Significant impact on the growth in 2010 was also enabled through the entrance of new FDIs and the growth of public capital investments.

Domestic investment consumption and increased production of new industrial capacities, in conditions of gradual recovery of export demand and favourable trends in prices of metals on the global markets, contributed for continuation of the trend of economic recovery. Thus, the first three quarters of 2011 were characterized with



average GDP real growth of 4.1%, i.e. growth rate of 5.3% in the first, 5% in the second and 2.3% for the third quarter driven mainly by investments and private consumption.

Table 2.2. GDP growth rates (production and expenditure methods)

	2009	2010	2010				2011			
			I	II	III	IV	I	II	III	Average
GDP	-0.9	1.8	-0.4	1.7	1.8	3.5	5.3	5.0	2.3	4.1
GDP by production method										
Agriculture	2.7	4.2	5.1	4.4	3.8	3.9	2.7	2.8	6.0	4.0
Industry	-10.7	1.3	-3.7	1.5	3.9	3.1	15.8	14.1	-0.4	9.4
Construction	4.4	2.1	-1.8	-17.8	6.9	19.6	21.6	23.4	12.3	18.3
Services	3.1	2.0	1.8	2.1	0.8	3.2	2.0	4.8	1.6	2.8
GDP by expenditure method										
Final consumption	-3.7	1.4	2.2	3.4	3.5	-3.0	2.0	6.1	0.0	2.7
Personal	-4.7	1.6	1.8	5.4	3.7	-3.7	3.9	7.7	1.8	4.5
Public	0.5	0.4	3.1	-4.5	3.2	0.2	-5.3	-0.6	-7.9	-4.7
Gross capital formation	-1.5	-7.0	-42.9	2.3	1.8	7.8	59.4	-8.5	42.5	24.7
Export of goods and services	-16.2	23.4	9.5	17.4	25.0	40.1	37.9	13.9	3.4	16.2
Import of goods and services	-15.0	11.3	-8.5	14.7	21.1	17.4	38.1	7.3	12.3	17.7

Source: State Statistical Office

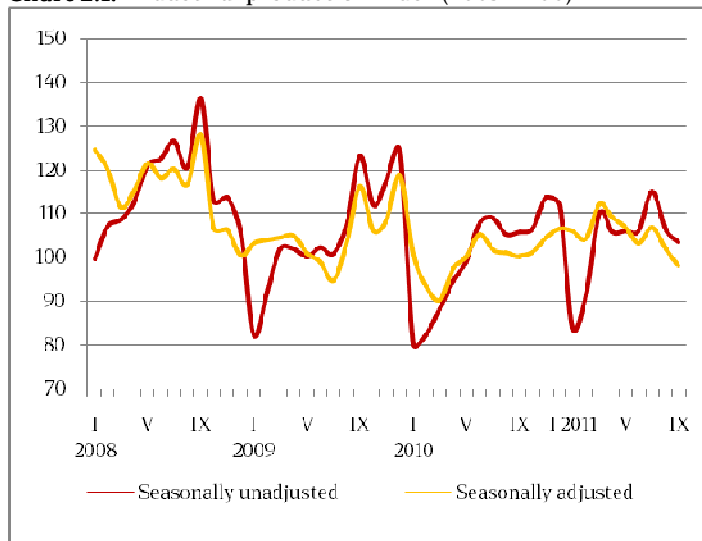
Analysing GDP from the expenditure side, in the first three quarters of 2011, final consumption increased by 4.2% in real terms. Thereby, growth was to a great extent driven by the gross investment, increasing by 24.7%. Growth of the gross investment was concentrated in Q1 and Q3 when they increased by impressive 59.4%, i.e. 42.5% respectively, while in Q2 they declined by 7.9%. Personal consumption increased by 4.5% in real terms, while public consumption dropped by 4.7%. Export of goods and services increased by 16.2% in real terms, there was certain slowdown of growth which in the Q3 of 2011 amounts 3.4% (following the growth of 37.9% in Q1 и 13.9% in Q2). Such dynamics at export was also accompanied by the import of goods and services, which following the growth of 38.1% in Q1, increased by 7.3% in Q2, i.e. 12.3% in Q3, by which average growth rate amounted to 17.7%.

According to the production side of GDP, highest increase of the activity in first three quarters of 2011 was seen in the construction sector by 18.3%. High performance of budget capital expenditures had significant contribution to growth of the activity in the construction. During 2011, higher utilisation of the capacities of business entities in the industry resulted in growth of industrial production, amounting to 9.4% in the first three quarters of 2011, being driven by the growth of the processing industry. As for the services sector, highest increase in the first half of 2011 was seen in the sector - trade, increasing by 8.2%. Agriculture experienced moderate growth of 4%.



Industry. Consequences from the global economic crisis over industry, as export-oriented sector, although with significantly smaller intensity, was still felt during 2010 as well, where there was reduction of the physical production volume by 4.8% compared to the previous year (Chart 2.1). Analysed by sectors, the drop of industrial production was driven mainly by negative developments in the processing industry sector (sector with highest share in the industrial production structure – 83.7%), decreasing by 7.5%. Only electricity, gas, steam and air-conditioning supply sector experienced production increase by 14.4% in 2010.

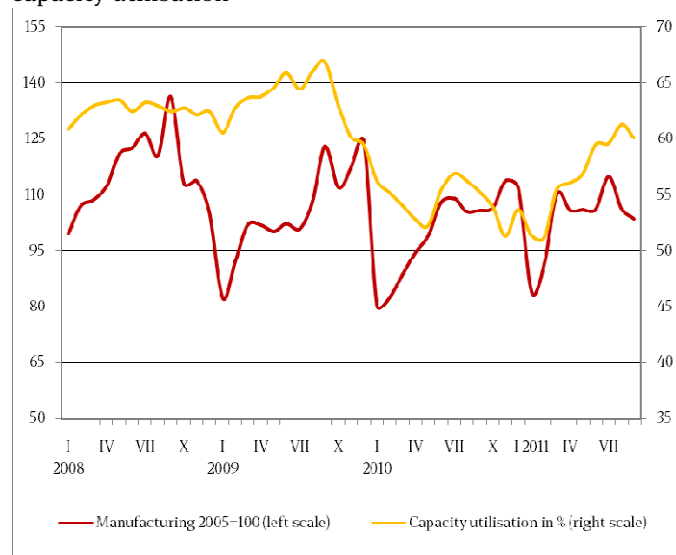
Chart 2.1. Industrial production index (2005 = 100)



Source: SSO and calculations of the Ministry of finance

Data on the industrial production in 2011 point out to a certain overcoming of the negative effects from the economic crisis over Macedonian industry. When analyzing the data for the first three quarters of 2011, two distinct periods of developments in the industrial production index can be noted. Namely, in the first five months of 2011, the industrial production index grew more intensively and registered a double-digit growth of 11.8% (yoy) on a cumulative basis. Growth of the industrial production in the first five months of 2011 was mainly driven by the positive achievements in the processing industry, which recorded a cumulative growth of 16.1% and mining, which registered cumulative growth of 14.2%. The second period refers to the following four months (from June to September 2011) and is characterized by slowing pace of growth, i.e. decline in the industrial production mostly as a result of the high comparison base from 2010, but also due to the reduced foreign demand. Thus, the average growth in these four months amounted to 0.6%, mainly due to the decline of industrial production in the mining sector and stone extraction (-4.5%) and reduced growth in the processing industry (3.8%).

Chart 2.2. Processing production index and level of capacity utilisation



Source: SSO and calculations of Ministry of Finance



Trends in processing industry are relatively good approximation of overall trends in the economy, due to its importance and connection to other sectors in the economy. In 2010, the level of utilisation of industrial capacities significantly oscillated (Chart 2.2.), however, in the first five months of 2011 there were upward trends and increase in the level of utilization of the capacities. In June 2011, a single drop was observed, but in the following three months, the level of utilization of the capacities gradually returned to the level of May 2011.

External sector. In 2010, current account deficit reduced to 2.2% of GDP, shrinking by 4.6 p.p. of GDP compared to the previous year. Such current account adjustment was induced by the further growth of net inflows through private transfers and favorable foreign trade developments. In 2010, net inflows from current transfers went up by 2.8 p.p. of GDP, reflecting the higher net purchase on the currency exchange market. In 2010, the trade deficit went down by 2.2 p.p. of GDP, amid faster recovery of exports compared to imports. Observing other current account components, lower positive contribution was also made by the higher services surplus (of 0.5 p.p.), while the income deficit widened on annual basis (by 0.7 p.p.). In 2010, net-inflows on the capital and financial account (without official reserves) equaled 1.9% of GDP. Analyzing the structure, most of net inflows originate from FDI and borrowings from abroad. On net basis, FDI account for 2.3% of GDP, registering an annual growth of 0.3 p.p. of GDP. At the end of 2010, gross foreign reserves equaled Euro 1,714.5 million, which is by Euro 117 million more compared to the preceding year, ensuring roughly 4-month import coverage of the year ahead.

External sector developments in early 2011 were driven by the revival of domestic economy, movements of primary commodity prices on the global markets and gradual stabilization of the expectations of economic agents. Cumulative current account deficit went up to 2.9% of the projected GDP in the first nine months of 2011 (Table 2.3.), largely due to the 23.2% annual trade deficit enlargement in the period under observation. Additionally, the higher income deficit also tended to enlarge the current account deficit. Current transfers are almost the same as the year before, due to the higher official transfers and the somewhat lower private transfers. Net inflows from private transfers in the first nine months of 2011 were lower by merely 1.9%, reflecting the high base effect of the last year when they reached their historic peak. On the other hand, the services surplus registered a threefold increase.

Net inflows on the capital and financial account of the balance of payments made up 3% of GDP in the January-September 2011 period, ensuring full financing of the current account deficit and additional foreign reserves accumulation. FDI constituted 2.4% of GDP, being at the level of these inflows during 2010 (2.3% of GDP).

In the January-September 2011 period, the cumulative trade deficit¹ enlarged by 21.8% on annual basis, given the increase of both the exports and the imports of 32.5% and 28.4%, respectively, due to the changes in global primary commodity prices and the gradual revival of domestic economy and moderate strengthening of external demand.

¹ According to the foreign trade statistics, where the imports are presented on c.i.f. basis.



Greatest contribution to the trade deficit enlargement was made by the widened trade deficit in energy (16.8 p.p.) and intermediary products (9,9 p.p.). Analyzing the trade of the Republic of Macedonia by trading partner in the January - September 2011 period, the trade with EU boosted significantly by 33.2%, accounting for 57.3% of the total trade of the Republic of Macedonia. Trade deficit with the EU surged by 41.8% primarily reflecting the enlargement of trade deficit with the Great Britain, Greece, Italy and Bulgaria. Note that since 2009, exports to Greece keep on decreasing but the total exports of the Republic of Macedonia to the EU went up by 31.5% in the first nine months of 2011, indicating that the higher exports to other EU member states has offset the lower exports to Greece.

Table 2.3. Balance of payments' current account (in EUR millions)

	2005	2006	2007	2008	2009	2010	I-IX 2011
Current account, net	-122,5	-23,4	-421,1	-862,2	-457,0	-150,5	-219,7
Trade balance	-858,5	-1,001.5	-1,181.0	-1,762.5	-1,559.6	-1,467.9	-1,240.7
- Exports f.o.b.	1,642.9	1,914.0	2,472.2	2,692.6	1,932.6	2,492.8	2,353.6
- Imports f.o.b.	-2,501.4	-2,915.5	-3,653.2	-4,455.1	-3,492.2	-3,960.7	-3,594.3
Services, net	-29,2	17,4	28,3	9,3	16,5	49,4	100,0
Income, net	-88,1	-21,2	-280,8	-94,4	-47,3	-99,1	-103,6
Current transfers, net	853,3	981,9	1,012.4	985,5	1,133.4	1,367.1	1,024.6
- Official, net	53,4	58,8	24,3	49,4	35,3	32,0	41,7
- Private, net	799,9	923,1	988,2	936,1	1,098.1	1,335.1	982,9

Source: National Bank of the Republic of Macedonia

The Denar real effective exchange rate (REER) measured by CPI in the January-September 2011 period registered annual depreciation of 0.4%, due to the higher foreign effective inflation compared to domestic inflation. On the other hand, REER based on PPI registered 2.3% annual appreciation, mainly due to the faster growth of prices of domestic producers compared to the prices of foreign producers amid slight NEER appreciation.

Chart 2.3. Capital inflows, net external reserves (in Euro million)

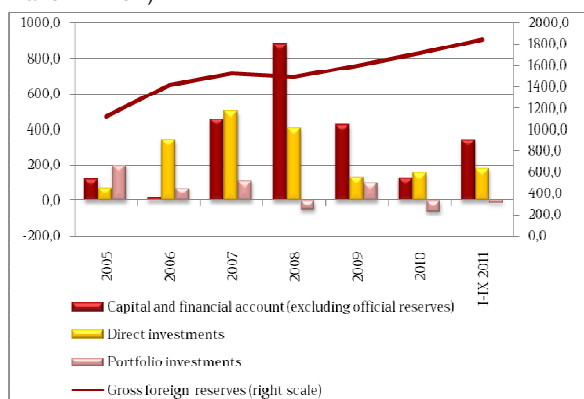
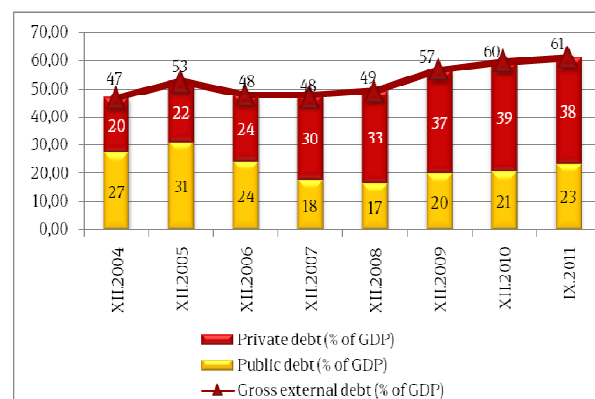


Chart 2.4. Gross External Debt



Source: National Bank of the Republic of Macedonia



As of September 30th, 2011, foreign reserves stood at 1,848.4 million, which is an increase of Euro 133.9 million compared to the end of 2010. Foreign reserves are maintained at adequate level ensuring import coverage of roughly 4-months of the year ahead.

At the end of September 2011, gross external debt (Chart 2.4.) reached Euro 4,623 million. In the first nine months of 2011, gross external debt increased by 11,8% and reached 61% of the GDP forecasted for 2011 (59.5% at the end of 2010). Most debt indicators, according to the World Bank methodology, show that the Republic of Macedonia is low indebted country. Most of the registered growth of total external debt (contribution of 45%) is due to the long-term government debt with the IMF, by drawing down funds from the Precautionary Credit Line (PCL). In the period January - September 2011, the growth of private sector debt comprised roughly 28% of the total debt growth, primarily attributable to higher trade loans and to a lower extent, loans and intercompany credits. Observing maturity structure, long-term debt still makes the largest contribution to the growth (73%) and its share in the total debt remains 68%.

Labour market. As for the labour market, certain positive dynamics was noticed, which can be considered as a reflection of the recovery of the economy from the global economic crisis. Activity rate for 2010 amounted to 56.9%, being higher by 0.2 p.p. compared to the previous year, employment rate amounted to 38.7%, while unemployment rate amounted to 32%, experiencing slight decrease by 0,2 p.p. compared to 2009. At the end of 2010, active population in the Republic of Macedonia amounted to 954,928 persons, 659,557 out of which were employed, while 295,371 persons were unemployed (Table 2.4.).

Growth of economic activity in the first three quarters of 2011 was accompanied by positive developments on the labour market. According to the Labour Force Survey, number of employed persons in the first three quarters was higher by 2,6% compared to the same period of the previous year. Such growth was accompanied by decrease of the number of unemployed persons by 2.7% on annual basis. The number of inactive population remained unchanged, while there is certain increase of 0.5% can be noted in the working age population. Such developments in the labor market caused for the employment rate in the first three quarters of 2011 to increase to 39.1%, an increase of 0.8 p.p. over the same period in 2010. Unemployment rate decreased to 31.2% from 32.4% in the same period of the previous year. In fact, on net basis, increase in the number of employed persons in the analysed period was a result of the increase of working posts in the private sector, where number of employees increased by 5.3% on annual basis.

In 2010, average net salary surged by 3% in nominal terms and by 1.4% in real terms, while gross salary registered lower nominal, i.e. real growth rate of 1%, i.e. -0.6% respectively, as a result of the additional reduction of the social insurance rates. Average net salary in the first three quarters of 2011 was higher by 1.7% in nominal terms compared to the same period in 2010, while average gross salary was higher by 1.5%. Inflation in the same analyzed period conditioned negative real growth of net salary of 2.3% and drop of gross salary by 2.5%.



Table 2.4. Labour market developments

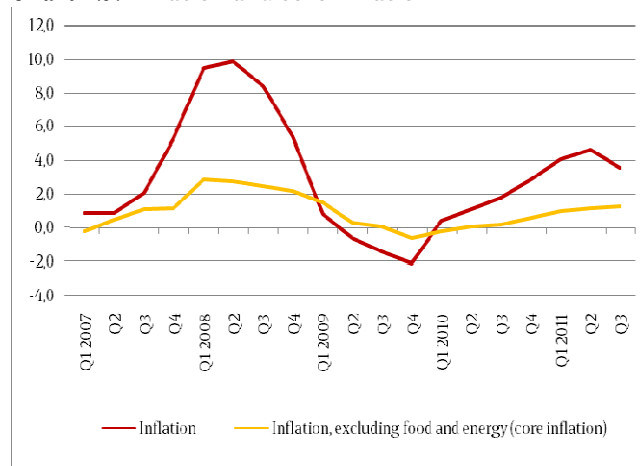
	2009	2010	2010				2011		
			I	II	III	IV	I	II	III
Working age population	1,638,869	1,648,522	1,644,423	1,648,132	1,649,507	1,652,026	1,653,275	1,655,188	1,657,216
Labour force	928,775	938 294	925,613	923,323	949,313	954,928	944,216	936,256	942,395
Employed	629,901	637 855	615,962	627,129	648,773	659,557	649,575	642,809	648,617
Unemployed	298,873	300 439	309,651	296,194	300,540	295,371	294,641	293,448	293,778
Activity rate	56.7	56.9	56.3	56.0	57.6	57.8	57.1	56.6	56.9
Employment rate	38.4	38.7	37.5	38.1	39.3	39.9	39.3	38.8	39.1
Unemployment rate	32.2	32.0	33.5	32.1	31.7	30.9	31.2	31.3	31.2
Young population	55.1	53.7	57.1	55.0	51.9	50.5	52.5	54.6	54.2
Women	32.8	32.3	33.5	33.2	31.0	31.5	30.3	30.9	29.7
Employed by sectors*									
Agriculture	116,668	121,771	109,821	121,442	128,825	126,995	118,837	122,698	123,973
Industry	146,328	144,290	143,047	141,803	143,650	148,658	156,476	152,401	152,546
Construction	40,749	40,953	39,515	41,504	42,427	40,366	35,873	41,646	44,629
Services	326,157	330,842	323,579	322,379	333,872	343,537	338,389	326,064	327,469
Employed by type of ownership									
Private	514,816	470,024	448,976	453,660	482,668	494,793	493,788	481,903	482,862
Other	115,086	167,831	166,986	173,469	166,105	164,764	155,788	160,906	165,755

* As for the data by sectors, starting Q1 2011, the new National Classification of Activities (NCA Rev.2), being harmonised with the international NACE Rev.2, was applied.

Source: State Statistical office

Inflation. In 2010, average inflation rate equaled 1.6%, determined by supply side factors, in particular the growing energy and food prices on the global market. Domestic inflation structure analysis shows that energy prices made paramount contribution of 1.4 p.p. to the average annual consumer price growth. Growth of domestic prices of oil derivatives contributed with 0.6 p.p. to the growth of total inflation, the higher electricity prices contributed with 0.6 p.p., and the growth of price of central heating contributed with 0.2 p.p. Changes in the price of food component of inflation index

Chart 2.5. Inflation and core inflation



Source: National bank of the Republic of Macedonia



contributed with 0.1 p.p. in 2010. Given the slow recovery of the economy and its functioning below the potential, no inflation pressures were registered through the demand channel. This could also be perceived through the average core inflation², which equaled 0.2% in 2010. The dynamics analysis shows growing inflation trajectory in the second half of 2010, when the growth of global energy prices was accompanied by an increase of food prices, when the annual inflation equaled 3%.

The growing inflation trend continued in early 2011. In the first three quarters of 2011, the average inflation rate equaled 4.1%. The inflation pace was driven by supply side factors, primarily import and regulated prices. The food component of inflation index made major contribution of 2.6 p.p., and energy prices made 1.1 p.p. contribution to the average annual growth of consumer prices. Observing the energy component, the growth of domestic prices of oil derivatives contributed with 0.5 p.p. to the growth of total inflation, higher electricity prices made 0.3 p.p. contribution, while the remaining is attributable to the growth of price of central heating. Dynamics analysis shows that the inflation stabilized in the second quarter of 2011, due to the stabilization of oil and food prices on the global markets, and that the inflation gradually slowed down in the June-September period, resulting in annual inflation of 3.4% in September. In the January - September 2011 period, the core inflation was relatively stable and equaled 1.2% on average.

Monetary policy. In 2010, monetary policy changes acted towards its relaxation through gradual reduction of the key interest rate facilitated by the stable foreign exchange market developments. Such monetary response was also underpinned by the perceptions for slow recovery of domestic demand and moderate revival of the credit market. Exchange rate expectations were stable, confirmed by the favorable pace of private transfers and currency propensities in terms of new savings. Moreover, the core inflation was low and stable during the year. In such macroeconomic environment, after the initial decrease in November 2009 (by 0.5 p.p.), in 2010, the National Bank of the Republic of Macedonia decreased the core inflation rate on seven occasions (by 4.5 p.p., cumulatively), reducing it to 4% in December, which is the lowest level ever. The gradual stabilization of macroeconomic environment and of the expectations of domestic agents, and favorable external sector trends brought about further positive trends in monetary aggregates. The annual growth of the broadest money supply equaled 12.2% in 2010 (6% the year before). After the reduction in 2009, as a response to external shocks, in 2010, Denar deposits were the major determinant for the growth of total deposits. At the end of 2010, private sector loans went up by 7.1% compared to the end of the preceding year. Monetary policy changes towards reduction of the key interest rate transmitted over banking sector interest rates, that decreased in 2010 (Denar lending and deposit interest rates went down by 1.3 p.p. and 0.8 p.p., respectively).

In the first three quarters of 2011, the National Bank made no changes in its monetary policy stance, taking into account the performances and expectations for the movements of major macroeconomic variables in the period ahead. Banking system

² Core inflation excludes the food and energy price effect.



remained sound and stable. Inflationary pressures by import and regulated prices were exhausted by mid-year, when the annual inflation rate started its downward trend. Core inflation remained stable, indicating further maintenance of stable inflation expectations. Foreign exchange market developments were relatively stable, and foreign reserves were preserved at solid level. Inflows from private transfers, although lower at the beginning of the year, considerably recovered in the third quarter. Such developments tended to preserve the National Bank key interest rate at 4%, as determined in December 2010.

According to the current exchange rate targeting strategy, and given the growth of net foreign assets, monetary policy instruments were aimed to sterilize excess liquidity. In September 2011, reserve requirement rate for household deposits over 2-years maturity was reduced to 0% (in effect as of January 2012), expecting to stimulate long-term savings and to create additional liquidity in the banking system.

Chart 2.6. Interest rates (in%)p.a.

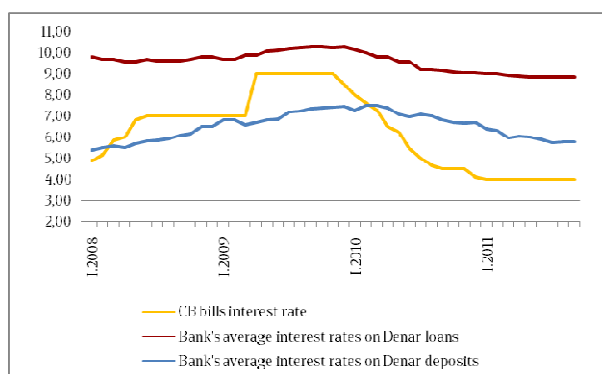
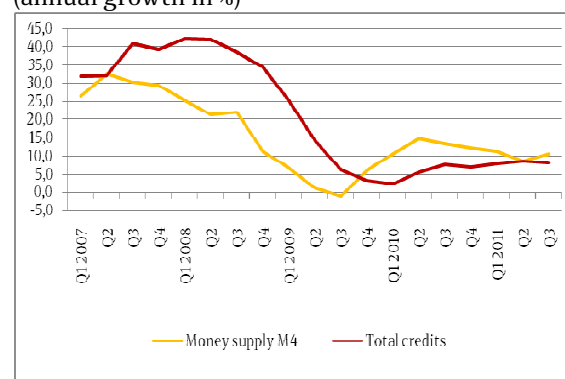


Chart 2.7. Money supply M4 and total credits (annual growth in %)



Source: National bank of the Republic of Macedonia

The gradual recovery of economy and stabilization of the expectations of domestic agents in the first half of 2011 enabled the positive trends in the monetary and credit aggregates to continue. At the end of September 2011, the growth of broadest money supply M4 equaled 10.5%. Total private sector deposits with banks increased by 10.5% on annual basis, with the growth of Denar deposits (13%) being faster compared to the growth of foreign currency deposits (8.2%). The average share of foreign currency deposits in the total deposits is stable (51%) and still higher than its level before the crisis (in 2008, this share was roughly 45% on average), indicating that it takes long to make a switch in the currency propensities of savers. Sector-by-sector analysis indicates faster growth of total household deposits of 14.3% than in the corporate deposits which increased by 4.7%. Observing maturity, long-term deposits registered more intensive growth, contributing to gradual increase of their share in total deposits (17% in September 2011).

Typical for the first three quarters of 2011 is the moderate annual growth of lending activity of the banking sector of 8.1% at the end of September. Such developments were registered considering the recovery of domestic economy, the improvement in financial conditions of the private sector, and accordingly, higher readiness of the banks to lend. The third quarter reported slowdown of the credit growth, partially



reflecting the worsened banks' perceptions due to the increased risks in the Euro area. Observing the currency, the first three quarters of 2011 reported faster annual growth of foreign currency loans (25.9%), compared to the growth of Denar loans (2.7%). Such developments in the loan currency structure are partially due to the approach of determining liquidity ratios³, and the lower interest rates on foreign currency loans, which is particularly relevant from the viewpoint of the need to cut the costs during crisis. Observing by sector, corporate loans registered faster growth of 8.6%, contributing with around two thirds to the annual growth of total credits, and the growth of household credits equaled 7.4% on annual basis. Such sector structure of credit supply supports the recovery of private sector investments.

In the January-September 2011 period, interest rates of the banking sector moderately decreased, due to the improved perceptions and expectations regarding risks by banks, as well as the lesser financial restrictions. Interest rate on total Denar credits of 9% in December 2010 reduced to 8.8% in September 2011. Simultaneously, the average deposit interest rate of 6.7% in December 2010 reduced to 5.8% in September 2011. The faster reduction of deposit interest rate brought about wider interest spread to 3 p.p. Interest rates on foreign currency loans in September 2011 remained at the level of December (7.4%), while interest rates on foreign currency deposits equaled 2.7%, which is by 0.3 p.p. less in the period under observation.

2.1.2 Recent financial sector developments

Banking sector. As of September 30th, 2011, in the banking system of the Republic of Macedonia there are 17 banks, 13 of which with dominant foreign ownership and 8 of them foreign bank subsidiaries. In the third quarter of 2011, bank activities kept on growing. As of September 30th, 2011, the total assets equaled Denar 321.2 billion, and their annual growth rate equaled 11.6% (12% as of September 2010). Deposits of nonfinancial entities are the major driver of the assets growth. Preferences to save in domestic currency continued in 2011. The sector-by-sector analysis indicates further domination of household deposits in the total deposits. Loans extended to nonfinancial entities are dominant category in the assets of the banking system.

In the third quarter of 2011, financial intermediation measured through the ratio of total assets, loans, and deposits, to GDP equaled 71.2%, 44.2% and 50.1%, respectively, which is by 2.4 p.p., 0.2 p.p. and 1.7 p.p., respectively, higher compared to the same period of the preceding year.

Indicators for the banks' credit portfolio quality somewhat improved compared to September 2010. The share of nonperforming loans in the total loans reduced to 9.8%, from 10.6% on September 30th, 2010. Average risk level of banks' credit portfolio for the period of one year reduced by 0.2 p.p., equaling 6.6% as of September 30th, 2011.

³ Liquidity risk regulation of March 2009 required from banks to meet certain liquidity ratios for Denar and for foreign currency liquidity. In September 2011, the regulation was amended requiring from banks to maintain a single liquidity ratio for Denar and foreign currency liquidity, thus simplifying liquidity management by the banks, and preserving the liquidity of banking system at satisfactory and stable level. Liquidity ratios are being determined for two maturity buckets, i.e. for receivables and payables that fall due in the next 30 and 180 days.



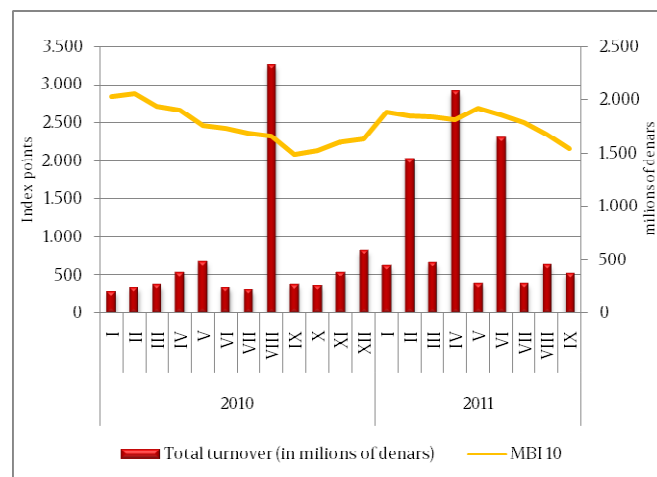
Nonperforming loans were fully covered by impairment (101.9% on September 30th, 2011). Liquidity of the banking system is stable, and relatively high. Within a year, bank liquid assets went up by 18.9% and equaled Denar 93.3 billion at the end of September 2011. The share of liquid assets in the total bank assets equaled 29,9%, ensuring 58.8% coverage of household deposits. Currency risk and interest rate risk in the banking book are considered less important risks in the total bank risk profile, and they are within the given regulatory limits.

Banks keep on maintaining high and stable solvency. During the crisis and post crisis period, banks had no need of support by the government in terms of liquidity and capital. At the end of September 2011, capital adequacy ratio equaled 16.7%. Tier 1 ratio equaled 14%. The results of stress testing conducted by the National Bank show satisfactory resilience of the overall banking system and of individual banks to various shocks. At the end of September 2011, the banking system presented a profit of Denar 257 million. Return on assets and return on equity equaled 0.1% and 1%, respectively (at the end of September 2010: 0.5% and 4%, respectively).

Capital market. In 2010, Securities and Exchange Commission of the Republic of Macedonia (SEC) approved 6 issues of shares, all of them via private offer. Total value of approved issues amounted to Denar 4,298 million.

In 2010, total of 4 investment fund management companies operated, managing 6 open-end investment funds, together with 2 custodian banks. Total value of funds of open-end investment funds amounted to Denar 166 million, whereby their average yield ranged between 3% and 14%. As of 31st of December 2010 inclusive, 34 companies were listed on Macedonian Stock Exchange (MSE), and their total market capitalisation amounted to around Denar 30,442 million. Macedonian

Chart 2.8. Total turnover and MSEI-10



Source: Macedonian Stock Exchange

Stock Exchange Index (MSEI-10) amounted to 2,278.92 index points. In 2010, turnover realised on MSE amounted to around Denar 5,843 million.

In the first three quarters of 2011, 9 approvals for issuance of securities were issued in the total amount of Denar 2,619 million. In the analysed period, there were 19 authorised market participants. During the same period, total of 4 investment fund management companies operated, managing 8 open-end investment funds. Total value of funds of open-end investment funds amounted to Denar 254 million. In the same period, total of 8 private fund management companies operated, managing 13 private funds in the total amount of Denar 811 million. In the first three quarters of 2011,



turnover realised on MSE amounted to around Denar 7,447 million. In the same period, total of 32 companies were listed on MSE, while MSEI-10 amounted to 2,164.01 index points on 30th September 2011.

Insurance sector. The insurance market in the Republic of Macedonia has a minor participation in the financial system. The assets of the insurance undertakings represent 3.7% (in 2009: 4%) of the financial sector's total assets. The relative fall of 0.3% is due to the growth in the other segments of the financial system, especially the banking system. The information regarding the insurance penetration rate in 2010 show that the total gross written premium is 1.5% of the GDP, while the density rate is Denar 3,154 per capita, similar to the related countries in the region. By December 2010, 15 insurance undertakings, 15 insurance brokerages and 16 insurance agencies have been active on the market. The last year indications regarding the entrance of two international insurance groups in the life insurance sector have been realized, which is of great importance. The non-life insurance is a dominant category within the gross written premium, with 94.1%. The life insurance participates with 5.9%, but has a dynamic growing trend (Table 2.5).

Table 2.5. Gross premium and structure (in Denar million)

	2005	2006	2007	2008	2009	2010	I-IX 2011
Gross premium	5,105	5,445	6,109	6,421	6,183	6,480	5,163
Premium structure							
Non-life	97.8%	97.8%	97.2%	95.8%	95.5%	94.5%	94.1%
Life	2.1%	2.1%	2.8%	4.1%	4.4%	5.4%	5.9%

Source: Insurance Supervision Agency

There is a relative high market concentration in the insurance undertakings, although this trend is continually falling. By the end of the third quarter of 2011, 4 insurance undertakings have had more than 10% market share, while the first 5 have had 59.8%. Fourteen insurance undertakings are in dominant ownership of foreign investors, who own 81% of the total capital, and only 1 insurance undertaking is totally owned by domestic shareholders. Nine of the insurance undertakings are formed by international insurance groups seated in the EU, which represents an additional advantage for implementation of EU practices in the insurance undertakings' operations.

By the third quarter of 2011, the amount of gross written premium was Denar 5,163 million, of which, 306.5 million (5.9%), refers to life insurance operations, while Denar 4,852 million (94.1%), refers to non-life insurance operations. Compared to the same period last year, the GWP has grown in both insurance groups. In the non-life insurance group, the GWP grew for 8.6%, while the GWP growth in the life insurance groups was higher (33%). The total growth of the GWP in both insurance groups was 9.8%.

Analyzed by insurance lines of business, the most prevalent category in the non-life insurance group (47.3%) was the compulsory MTPL insurance with growth of 7.9% by the end of the third quarter of 2011 compared to the same period last year). Then follow: the property insurance (19.4%) with a growth of 38.1%, the motor (casco) vehicle insurance (12.6%) with a fall of 1.7%, and the accident insurance (8.2%) with a fall of 6.9%. The



situation in the life insurance group is really impressive where a growth of 33% has been noticed.

Fully-funded pension insurance. At present, fully-funded pension insurance market comprises 2 mandatory and voluntary pension fund management companies, which manage one mandatory and one voluntary pension fund. As of 30th September 2011 inclusive, the number of members in the second pillar amounted to 289,224 (24% out of which were voluntary and 76% were mandatory members). As of 30th September 2011 inclusive, net funds in the second pillar amounted to around Denar 15 billion, being an increase in the funds by 30% compared to September 2010. As of 30th September 2011, around 15% of the funds of mandatory pension funds were invested abroad, while 85% were invested in domestic financial instruments. As of the third quarter of 2011 inclusive, the third pillar comprised 9,958 members, 30% out of which were individual members, while 70% were participants in professional pension schemes. Funds of voluntary pension funds amounted to around Denar 86 million on 30th September 2011.

Leasing. As of 30th September 2011, there are 11 licensed leasing companies on the financial leasing market in the Republic of Macedonia, ten out of which are active. Foreign capital (95.5%) account for the most in the ownership structure of the leasing sector. According to the data on the values of the balanced categories, at the end of the third quarter of 2011, there were signs of recovery of the leasing sector compared to the end of 2010, when despite the tendencies of recovery of the overall financial system, the leasing sector has still felt the negative consequences of the global financial crisis. Thus, value of total assets of leasing companies was Denar 9,276 million on 30th September 2011, increasing by 9.7% compared to end-2010. Total capital value of leasing companies was Denar 251 million, increasing by 91% compared to 31st December 2010.

After 2 years of negative developments, on 30th September 2011, leasing companies realised total operating profit in the amount of Denar 91 million. During the three quarters of 2011, 836 new contracts were concluded, being by more than a half of the number of new contracts concluded throughout 2010. These achievements show that 2011 will be favourable for the leasing sector. Legal entities continued to retain the dominant share in the structure of newly concluded contracts (legal entities participated with 68% in the total value of newly concluded contracts). During the first three quarters of 2011, movables were exclusively financed through financial leasing.

2.2 Medium-term macroeconomic scenario

Medium-term macroeconomic scenario. Macroeconomic policy of the Republic of Macedonia is based upon the current economic situation in the country and the assessments for the economic trends in Europe and worldwide. It is aimed at achieving the strategic priorities determined under the Programme on Government Operations of the Republic of Macedonia to the end of achieving stable economic growth and competitiveness of the economy on permanent basis, job creation, higher living standard and better quality of life of the population.



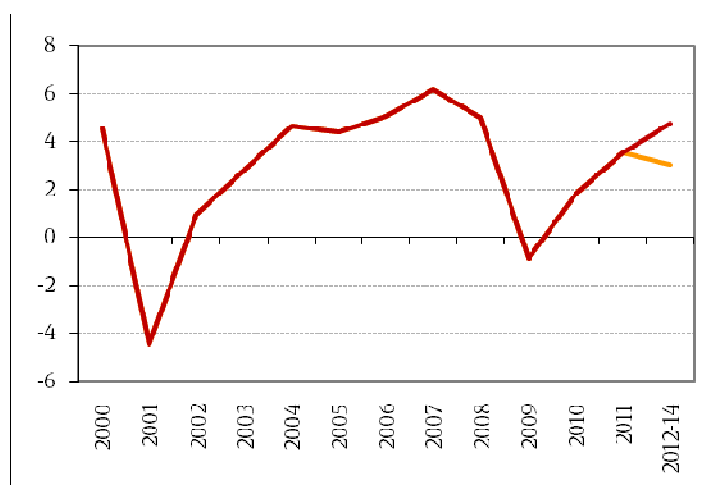
Macroeconomic policy in the period 2012-2014 provides conditions for increased economic activity through prudent fiscal policy, which, in coordination with the monetary policy, will contribute to achieving sustainability of the external position of the country and ensuring inflation level to underpin economic activity of the country. Macroeconomic policy in the period to come will be in function of sustainable economic growth of the Republic of Macedonia through sustainable level of public debt and moderate level of budget deficit, in combination with stable foreign exchange rate.

In the coming medium-term period, macroeconomic policy will be focused on further business climate improvement and creation of equal opportunities for economic growth and development of all participants in the economic processes, tax and customs policy aimed at supporting development of economic entities, encouraging investment activity and attracting FDIs, developing human capital and economic infrastructure of the country.

Taking into account the developments on the international markets as a result of the debt crisis in the Eurozone, in 2012, the foreign factors are expected to have more negative contribution to the economic growth. In the remaining years of the analysed period, however, stabilization of the global economy and gradual enhancing of the confidence of investors are expected, which will lead to a certain intensification of foreign trade and financial flows in the country.

Gross domestic product. Real GDP growth in the Republic of Macedonia for the period 2012-2014 is projected to range between 3% - 4.7%. Due to the projected slowdown in EU, it is expected that it will have negative impact on the GDP growth in 2012. However, the recovery in the global environment in the next two years is expected to contribute positively to the economy, leading to higher economic growth.

Chart 2.9. Real GDP growth rates



Source: SSO and projections by the Ministry of Finance

Analysing GDP from the production side, the highest growth during the analysed period is expected in the construction sector, which is expected to range at an interval between 7% and 9.2%, underpinned to a great extent by the planned infrastructure projects for improvement of transport network in the country, improvement of educational, health infrastructure and similar.

Industry, following the recovery in 2011, is expected to continue with the positive growth in the next medium-term period as well, thus the real growth rate is expected to



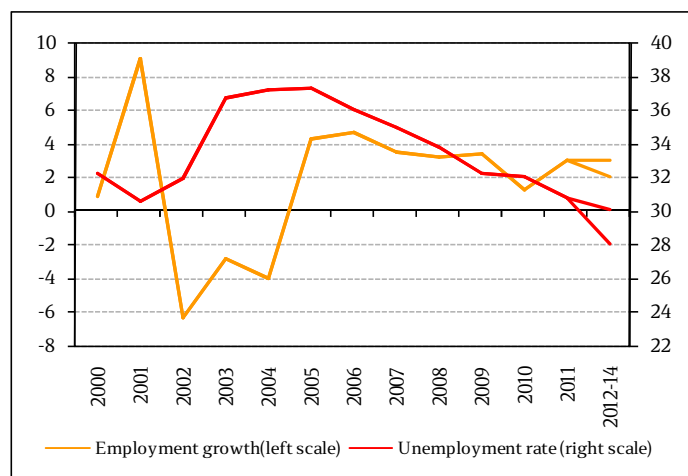
range between 2% - 5.8%. Services sector, participating mostly to GDP creation, is actually the driving force of economic growth with a contributing to growth by 1.2 and 1.9 p.p. in the analyzed period. Amongst services, the highest growth rate ranging between 3.3% - 5% is expected in the trade sector. Projections for the value added growth in the sector - Transport, storage and communications range between 3% - 4.5%. Real growth in the agriculture sector, which is expected to be also underpinned by the increased subsidies for support of agriculture, including the funds from the Budget of the Republic of Macedonia and funds from the fifth IPA component, is projected between 2.5% - 3.5% in the analysed period.

Analysed according to the expenditure side, economic growth in the period 2012-2014 is expected to be driven by domestic demand. Gross capital formation, following the recovery in 2011, is expected to register growth rates between 7% - 8.7% in the next analysed period. Fiscal policy, through the planned increase in capital expenditures, is expected to significantly contribute to the growth of investments in the economy. Public investments will be focused on infrastructure, where a number of projects in the field of road and railway infrastructure are envisaged, connecting the Republic of Macedonia with the main trade partners, as well as investments as regards energy aimed at increasing domestic generation of energy and better network connection with the neighbouring countries.

Private consumption growth in the period 2012-2014 is expected to range at an interval of 2.8% to 4%. Such projections are based upon the expected trends on the labour market, the expected trend of salary increase, projections for increase of household credits, as well as expectations for moderate increase of private transfers from abroad. Public consumption growth in the analysed period is anticipated to be more moderate, ranging between 1.5% - 2% in the analysed period.

As regards foreign trade, during the period of 2012 -2014, the projection for increase in the export of goods and services ranges between 3.2% and 8% in real terms, while the imports is expected to increase in a range between 4% - 7.2%. In the analysed period, the activity of existing and expected investments in the technological and industrial development zones, is expected to contribute positively on the dynamisation of the foreign trade growth. On longer run, certain improvement of the import structure is expected, while on shorter run, improvement of export structure is expected, given that the realisation of these investments implies higher import of investment and industrial

Chart 2.10. Employment growth and unemployment rate



Source: SSO and projections by the Ministry of finance

the realisation of these investments implies higher import of investment and industrial



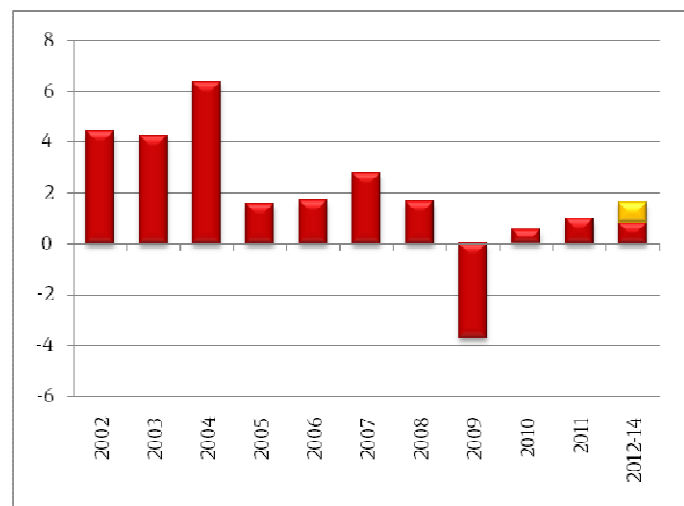
goods.

Labour market. Envisaged economic growth in the period 2012-2014 is expected to have positive effect on labour market trends. According to the projections, average annual increase of the number of employees between 2% and 3% is expected. This will, on other hand, result in decline in the number of unemployed persons ranging between 1.2% до 2.5% in the analysed period. Employment growth is also expected from the increase of labour force, projected between 1% до 1.6% in the analysed period.

Such trends imply for employment rate, during the period of 2012 - 2014 to range between 40% and 41.8%, while the unemployment rate to range at an interval of 30% to nearly 28%. In the analysed period, real increase of average gross wage is expected to range between 0.5% and 3%, while real increase of average net wage is expected to be somewhat higher, as a result of the projected gradual increase of tax allowance⁴. Accordingly, real increase in average net salary in the analysed period is projected at an interval of 0.7%, to 3.2%.

Sources of growth. Recovery of economy in 2010 and acceleration of growth in 2011 was also underpinned by the growth of total factor productivity (TFP).⁵ In the period 2012 -2014, economic growth is expected to be also underpinned by TFP growth, projected at a level between 0.8% - 1.6%. Accordingly, TFP in the analysed period is expected to contribute with around 32% to the economic growth. Labour is expected to contribute a bit more to economic growth, with 38%. Physical capital, according to the projections on investment growth, in the period 2012-2014, is expected, in average, to grow by 2.8%, contributing by 30% to total economic growth.

Chart 2.11. Total factor productivity (growth rates)



Source: SSO and projections by the Ministry of finance

Potential growth. One of the main parameters used in projecting the basic macroeconomic aggregates is the potential growth of GDP. To the end of calculating the potential output, Hordrick Prescott trend estimator was used, method belonging to the group of statistical approaches⁶. According to this method, potential GDP growth is estimated at 3.7%⁷. The estimated potential growth rate, however, should be interpreted

⁴ The tax allowance is valorised each year depending on the projected average wage growth in the country for the respective year.

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

⁶ Trend value is assessed by minimising the gap between the real production and the trend and the variability thereof for the whole sample.

⁷ Due to the economic developments, 2011 is excluded from the sample.



cautiously. Taking into account the structural changes that occurred in the past period, as well as the external shocks which the Republic of Macedonia was exposed to, together with the long period of transition, there is a great probability that the Hoderick-Prescott method produces biased results. In 2010 and 2011, in conditions of recovery of domestic economy from the global economic recession, the cyclical component of the output is in the negative zone. In the coming medium-term period, according to the lower and upper limit of the projected output growth and the assessment for the trajectory of the potential output, the output gap ranges between -0.4% and 1% of the potential output.

Inflation. In 2012, price growth is expected to slow down significantly, with forecasted rate of inflation of 2 – 2.5%. The 2012 forecast relies on the assumption of the decrease of oil and food price, and the relatively lower foreign inflation. Such assumptions are in line with the expected developments of global economy. Additionally, 2012 inflation forecast includes rise of the price of electricity and central heating early that year. In terms of lower inflation rate compared to the year before, one should have in mind the high base effect, particularly in the first half of 2011. In 2012, no pressures are expected by the domestic demand, i.e. the pace of inflation will depend mainly on supply side factors. Monetary policy, as before, will be focused on preserving stable exchange rate, as a nominal anchor to maintain price stability.

Risks to the inflation forecast for 2012 are mainly downwards, attributed to the current financial events in the Euro area. In such circumstances, there is high uncertainty for the future global price trajectory and their transmission effect on domestic prices. Furthermore, the materialization of adverse risks to the economic growth of domestic economy would bring along additional downward pressure on prices. In 2013 and 2014, the inflation is expected to be relatively low and stable, ranging around 2% - 2.5%. In a medium run, inflation will be under the influence of the changes in global primary commodity prices, and the pace of economic activity in the domestic economy.

External sector. In a medium run, the trends in the current account of the balance of payments largely depend on the recovery of global economy and the pace of domestic economic activity. The pace of trade balance is expected to have crucial influence on the pace of current account deficit. After the enlargement of trade deficit in 2011 as a result of higher imports due to the accelerated activity of the new entities established with foreign capital and the price effect of energy imports, the period ahead could expect stabilization, i.e. gradual reduction of trade deficit. In the next three-year period, one could expect gradual strengthening of the positive effects of the foreign investments from previous years and in the current period on the exports, which are expected to decrease the trade deficit.

After the widening of current account deficit in 2011, it is expected to stabilize in the next two years. In 2012 and 2013, current account deficit is expected to range around 4.7 – 5.6% of GDP, on average. The main current account components are expected to register divergent movements. Trade deficit is expected to shrink gradually, while the share of net inflows from private transfers in GDP is expected to slowdown insignificantly. Trade deficit reduction is based on the expected faster growth of



exports compared to the growth of imports. Energy trade deficit is expected to be relatively stable, in line with expected downtrend of oil prices and relatively stable electricity prices. The forecasted shrink of trade deficit is expected to result from the improvement of non-energy trade balance, with the improvement of trade balance in chemical products and food being the major generator. Note that the expected deceleration of private transfers implies that they are gradually stabilizing, after they peaked in 2010. Other current account components, i.e. services and income, are expected to remain stable in the next two years.

Chart 2.12. Balance of payments

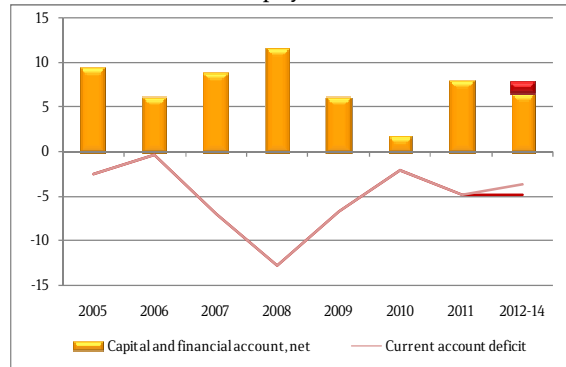
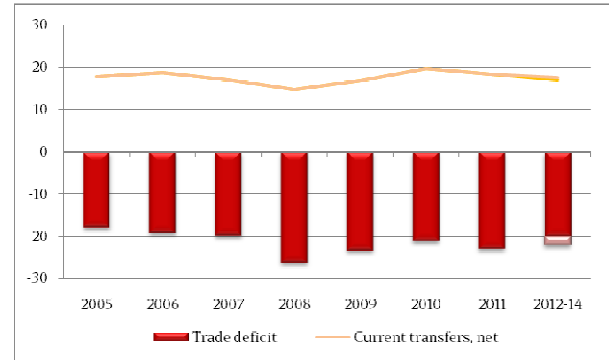


Chart 2.13. Current account structure



Source: National Bank of the Republic of Macedonia

In 2014, current account deficit is expected to constitute a level of around 4-6% of GDP. Such deficit is expected to result from the trade balance, which in 2014 is expected to equal 20% of GDP. Such path of trade deficit is in line with the expected acceleration of economic activity and strengthening of export capacity of the domestic economy, taking into account the contribution of the new companies mainly set up by foreign capital. Private transfers are expected to adjust downwardly, and to reduce to 16.7% of GDP in 2014. Income deficit is expected to increase, mainly due to expected higher outflows based on the income from FDIs. Such assumption is based on the expected growth of FDIs inflow, gradual expansion of economic activity and favorable financial performances, which is also a reason behind the expectation for greater outflow based on dividends to foreign shareholders. Services balance is expected to remain positive and stable.

The forecast of current account balance for the period of 2012 - 2014 has been accompanied by risks. Export performances of domestic companies are largely conditioned upon the developments of external demand and global prices, whose dynamics usually, and under current environment of disruption of regular streams of global economy, is additionally clouded by uncertainty. Hence, the developments of global economy are relevant risk factor to the developments of the balance of payments of the Macedonian economy in a medium run. On the other hand, it is a fact that the number of exporting companies in the economy grows steadily, which should result in export diversification and improvement of export performances in a medium run. This would simultaneously contribute to higher resilience of the economy to external shocks. In addition, service and private transfer forecast shows upward risks



taking into account the export potential of the service sector, also confirmed in 2011, and the possibility to preserve the level of private transfers.

Net inflows on the capital and financial account are expected to remain relatively stable in the period of 2012 - 2014, and to constitute around 7.4% of GDP on average, similar to the level estimated for 2011. The gradual stabilization of global financial developments, alleviation of uncertainty and improvement of the perceptions of foreign investors are factors that tend to increase private financial flows. Accordingly, FDIs are expected to increase gradually, and to approximate the level typical for the years with most favorable performances of this aspect. Such pace implies moderate growth of FDIs by roughly 2 p.p. of GDP, compared to 2011. Also, the government external debt is expected to increase significantly, according to the projected budget deficit for 2012 and the financial construction for its financing. The recovery of domestic economy is expected to induce new borrowings by private sector, and consequently, the debt of private sector is expected to increase moderately in the period of 2012 - 2014. Observing portfolio investments in a medium run, the net outflows are projected to decrease gradually.

According to the projected developments on the capital and financial account, gross foreign reserves are expected to keep on increasing in a medium run and ensuring about four month coverage import of goods and services each year ahead. Such level of foreign reserves is aimed to support the exchange rate targeting strategy. The forecast of capital inflows in the next three-year period is clouded by uncertainty, considering the high dependence on the developments and the sentiment of global financial markets, in exceptionally vulnerable times after a great financial distress. There is a risk to both private capital inflows (in spite of the prudential approach in terms of the expectations for inflows from FDIs) and to the possibility for government borrowing from abroad in a medium run.

Main risks underlying the macroeconomic scenario. The risks around the projected rates of economic growth are predominantly downward and related with the projected trajectory of foreign demand, world prices and the expected FDIs. Risks stem from the global economic developments, namely the high uncertainty associated with the duration and depth of the debt crisis in the Eurozone. Thus, further worsening the economic situation in the Eurozone would result in a greater slowdown in the external demand, therefore reducing exports and production in the country, and vice versa. Enormous uncertainty about the resolution of debt crisis in the Eurozone and its impact on growth of the EU as the most important trading partner of the Republic of Macedonia, but also on global economic growth, create uncertainty about the demand for exports, the realization of expected capital inflows to finance domestic economy, and the movement of world prices. For these reasons, the Government of the Republic of Macedonia and the National Bank will continue to closely monitor the risks, in order to react promptly with fiscal and monetary measures, respectively. Also, the Government will continue with regular analysis of the needs to implement adequate measures for reducing potential adverse impacts of the developments in the Eurozone debt crisis on the macedonian economy.



PART III

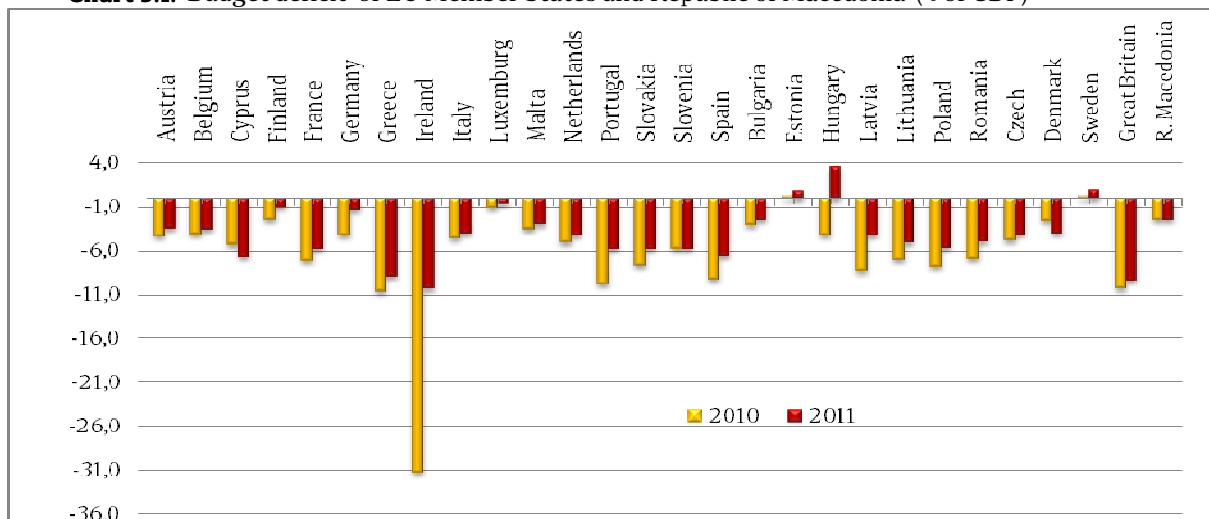
Public finances



In the past period, in the field of public finance, prudent fiscal policy with solid performance of planned budget targets was conducted, being also confirmed in the last 2011 EC Progress Report on the Republic of Macedonia. In continuity with the previous years, fiscal policy in both 2010 and 2011 was aimed at achieving reasonable balance between both strategic goals of the Government of the Republic of Macedonia referring to unconditional preserving of macroeconomic stability and encouraging economic activity by increasing the quality of public finance and strengthening the ability of private sector for growth and job creation.

Total optimality of fiscal policy in achieving these goals is assessed according to the level of budget deficit. Despite all challenges and risks from the external sector, the budget deficit in the Republic of Macedonia in 2010 was maintained at moderate level of 2.5% of GDP. This is one of the lowest budget deficits in the EU (Chart 3.1.), significantly lower than the EU average (6.6% for 2010) and under the Maastricht criteria for budget deficit of 3% of GDP at the most.

Chart 3.1. Budget deficit of EU Member States and Republic of Macedonia (% of GDP)*



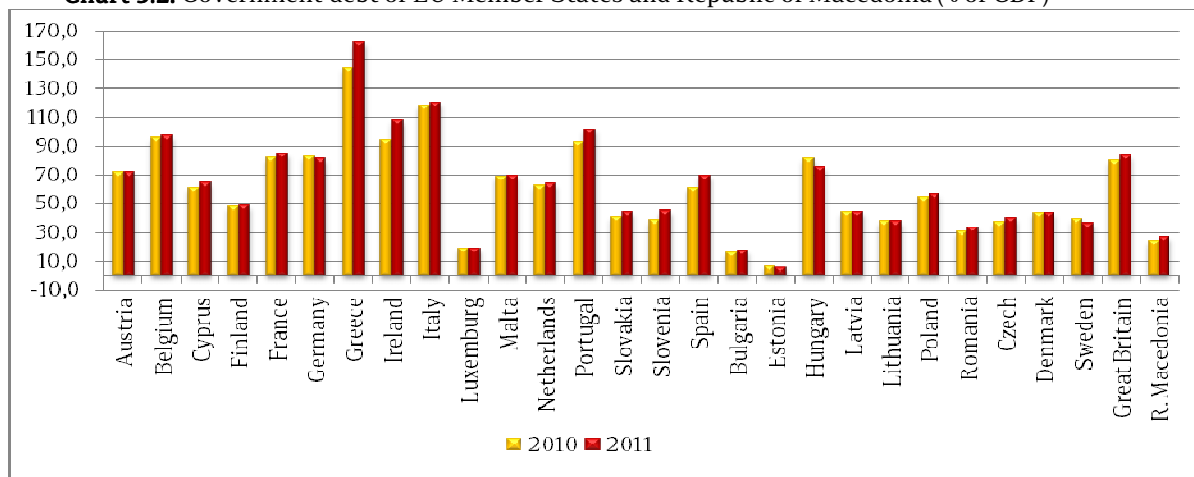
*data for 2011 are projections

Source: European Commission, European Economic Forecast and Ministry of finance, November 2011

In addition, Republic of Macedonia is among the countries with the lowest government debt (24.6% of GDP in 2010) compared to the EU Member States (80.3% in average for 2010), being shown in Chart 3.2. In November 2011, World Bank, in its latest South East Europe (SEE) Regular Economic Report (SEE RER), notices, that compared to the other countries in the region, which should be aimed at reducing budget expenditures and preventive fiscal consolidation, Republic of Macedonia is the only country in SEE6, having fiscal room for moderate indebtedness, to the end of increasing the support for the economy, if there is spillover of the effects from the debt crisis in the Eurozone in the next medium-term period, without thereby putting its ability for debt repayment in question.



Chart 3.2. Government debt of EU Member States and Republic of Macedonia (% of GDP)*



*data for 2011 are projections

Source: European Commission, European Economic Forecast and Ministry of finance, November 2011

In the period 2012-2014, fiscal policy will continue to feature further improvement of quality of public finance and disciplined budget funds management, to result in maintenance of low fiscal deficit and public debt at sustainable level. By more efficient usage of budget funds in development programs and infrastructure investments, fiscal policy will be aimed at preserving macroeconomic stability and reviving economic activity. Fiscal policy in the next medium-term period will continue to be balanced between realisation of two objectives:

- on the short run, to respond to the need to mitigate fluctuations in the business cycle, i.e. to lead to neutralisation of consequences of the global economic crisis and the debt crisis in the Eurozone by conducting counter-cyclical (in this case, moderate expansive) fiscal policy;
- on the long run, fiscal position to be driven by the need to establish sustainable level of public debt, by maintaining moderate level of budget deficit, which would not lead to increase in the level of public debt above the long-term sustainable level.

3.1. General government budget balance and debt stock

3.1.1. Actual state-of-play and medium-term expectations

Actual state-of-play in 2010. Fiscal policy in 2010 was implemented in conditions of prolonged effects of the global economic crisis, arising mainly from the debt crisis in the Eurozone. Thus, achievements in the first quarter of the year imposed a need for adjusting the fiscal policy to the trends in the economy and consolidation of public finance. Therefore, Government of the Republic of Macedonia, in July 2010, adopted the 2010 Supplementary Budget, by which revenue and expenditure projections were revised downwards by 3%, thereby keeping the same deficit target of 2.5% of GDP. Timely reaction and efficiency of fiscal policy led to realisation of the planned budget deficit, contributing to preserving macroeconomic stability.



In 2010, total budget revenues amounted to Denar 132,148 million, or 95.3% of the projected ones, increasing by 2.8% on annual basis. Within total revenues, 85% were performed on the basis of tax revenues and social contributions. Thus, tax revenues accounted for the most in total revenues (56%), followed by contributions (29%) and non-tax revenues (11%). Tax revenues were higher by 3.8% compared to last year, whereby better performance of the value added tax (VAT) revenues contributed the most thereto. Social contributions were almost at the same level compared to 2009, accounting for 96.5% of the projections.

Total expenditures of the Budget of the Republic of Macedonia in 2010 amounted to Denar 142,691 million (or 95.6% of the annual plan), increasing by 2.4% compared to 2009. Expenditures were realised according to the plan, having usual performance dynamics. Compared to 2009, expenditures related to wages and salaries and allowances decreased by 0.3%, expenditures related to goods and services were lower by 9.5%, while social transfers were higher by 3.3%. Funds in the amount of Denar 34,443 million were allocated for regular payment of pensions, while transfers to private pension funds accounted for Denar 3,171 million. Grants to local government units were regularly transferred from the Budget, whereby 3.4% of total VAT revenues from the previous year was transferred at local level. Additional Denar 12,133 million was transferred in the form of block grants for financing the transferred competences, as well as earmarked grants for financing the operating costs of local public institutions. In addition, by the end of the year, 80% of the planned agricultural subsidies for the whole year were realised. Denar 3,147 million was allocated for regular servicing of liabilities on the basis of interest, Denar 2,155 million out of which was interest on external borrowing. Lower performance than the projections was mainly recorded at goods and services (91%) and capital expenditures (87%), partially due to the weak realisation of the projects, which were planned to be financed from foreign donations or credits (directly granted to the budget users), which were not fully realised. Thus, if we focus only on capital expenditures realised through the budget account (core budget) percentage of the performance amounts to 92%, being significantly higher than last year (79%).

At the end of 2010, the Budget of the Republic of Macedonia realised deficit in the amount of Denar 10,543 million or 2.48% of GDP, i.e. the plan was fully realised. Budget financing was provided through foreign borrowing (PDPL and SDR allocation) or 49%, with 33% deposits and through domestic borrowing (GS) with 18%.

Total revenues in the general government budget (Budget of the Republic of Macedonia and the budgets of local government) amounted to Denar 142,023 million or 33.4% of GDP in 2010, while total expenditures reached the amount of Denar 152,521 million or 35.8% of GDP. Thereby, deficit of consolidated general government budget accounted for 2.47% of GDP, as a result of the central government budget deficit of 2.48% of GDP and the realised low surplus from current operations of LGU of 0.01%.

Actual state-of-play in 2011. Fiscal policy in 2011 continued to be aimed at implementing disciplined budget spending, with an emphasis to restrictiveness and rigorous control over non-productive costs, in favour of investments in capital projects.



Total revenues for 2011 are planned in the amount of Denar 148,408 million, while total expenditures are planned in the amount of Denar 159,992 million, i.e. deficit in the amount of Denar 11,584 million (2.5% of GDP) is planned. Projected deficit strives to retain the dynamics of low budget deficit, which will be aimed at encouraging the growth of domestic economy, through increased share of capital investments in the structure of the expenditure side of the Budget.

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

	2010 Budget	Realization in Jan-Sep 2011
1. Total revenues	148,408	101,856
1.1. Tax revenues and contributions	122,330	87,312
1.1.1 Tax revenues	79,981	58,149
1.1.2 Contributions	42,349	29,163
1.2. Non-tax revenues	16,071	10,051
1.3. Capital revenues	5,824	3,209
1.4. Donations	4,183	1,284
2. Total expenditures	159,992	111,247
2.1. Current expenditures	139,000	98,075
2.1.1 Salaries and allowances	23,309	17,349
2.1.2 Goods and services	17,129	10,236
2.1.3 Transfers	95,475	67,853
2.1.4 Interest	3,087	2,637
2.2. Capital expenditures	20,992	13,172
3. Deficit	-11,584	-9,391
4. Deficit financing	11,584	9,391
4.1 Inflow	19,561	14,887
4.1.3 External sources	19,361	15,430
4.1.3 Domestic source	0	1,550
4.1.4 Deposits/additional sources	-100	-2,223
4.2 Outflow	7,977	5,496
4.2.1 Repayment upon foreign borrowing	2,970	2,193
4.2.2 Repayment upon domestic borrowing	5,007	3,303

Source: Ministry of finance

In the period January-September 2011, total revenues of the Budget of the Republic of Macedonia amounted to Denar 101,856 million (22.4% of GDP), increasing by 4% compared to the same period in 2010. Within total revenues of the Budget of the Republic of Macedonia, Denar 87,312 million was realised on the basis of tax revenues and social contributions, i.e. 86% of total genuine revenues. Tax revenues accounted for the most in the structure of total revenues with 57%, followed by contributions with 28%, non-tax revenues with 10%, while capital revenues and donations accounted for 4%, i.e. 1%. Realised tax revenues amounted to Denar 58,149 million, increasing by 7.3% in the analysed period. Revenues on the basis of VAT (participating with 53.8%) had the highest share in their structure, followed by excises (19.8%) and personal income tax (11.9%). In the analysed period, there was increase in the revenues on the basis of VAT by 11.3%, profit tax by 18.5%, excises by 4.1%, personal income tax by 8.6% and other tax revenues by 5.6%. On the other hand, only import duties had lower performance by 23.2%. Higher tax revenues are in line with the projected economic growth for 2011.



In the period January-September 2011, total expenditures of the Budget of the Republic of Macedonia amounted to Denar 111,247 million (24.4% of GDP), increasing by 6.4% compared to the same period in 2010. Thereby, current expenditures amounted to Denar 98,075 million or 88.2% of the total expenditures, being by 4.7% higher compared to the same period in 2010. Observed by categories, expenditures related to wages and salaries and allowances were higher by 2.2% compared to the same period in 2010, while expenditures related to goods and services were lower by 4.3%. Transfers accounting for the most in the total budget expenditures (61% or Denar 67,853 million) were higher by 6.5% compared to the same period in 2010. They, in addition to social transfers and transfers and block grants to municipalities, also include the expenditures paid on the basis of agricultural subsidies. Payment of agricultural subsidies had significant contribution to the realisation of the deficit of the Budget of the Republic of Macedonia, in particular in the first half of the year. In the analysed period, capital expenditures were realised in the amount of Denar 13,172 million and compared to the same period in 2010, they were higher by 21%, by which their share in the total expenditures increased by 1.4 p.p., reaching 11.8%. As percentage of GDP, capital expenditures in the analysed period amounted to 2.9%, compared to 2.5% for the same period in 2010. Increased share of capital investments in total expenditures confirms the tendency of changing the budget structure in favour of investments, being aimed at improving the structure of budget spending.

In the analysed period, the repayment of principal in relation to the total debt amounted to Denar 5,496 million, while interest-related payments amounted to Denar 2,637 million. Out of the total outflows on the basis of repayment of credits, outflow for repayment of principal to domestic creditors amounted to Denar 3,303 million, while Denar 2,193 million were outflows for repayment of principal to non-resident creditors.

In the period January-September 2011, budget deficit was realised in the amount of Denar 9,391 million or 2.06% of GDP. Thus, by the end of the year, it is expected for the deficit of the Budget of the Republic of Macedonia to be realised within the projections for 2011, i.e. 2.5% of GDP.

Medium-term expectations. Taking into account that the risks involved in the macroeconomic scenario are mostly downward and related with the projected dynamics of foreign demand and world prices of primary products as well as the expected FDIs, the main objectives of the fiscal policy in the coming three-year period will remain focused on maintaining macroeconomic stability and supporting the macedonian economy by conducting prudent fiscal policy with reasonable and non-distorsive rates of budget deficit and government debt under the Maastricht criterion, improving the quality of public finance, mainly by intensifying capital investments aimed at improving infrastructure and physical capital, hereby supporting the policy of stable Denar exchange rate and maintaining low government debt.

Fiscal policy in the next medium term will be flexible in order to be able to adapt to the conditions and risks underlying the macroeconomic scenario. According to fiscal vulnerability thresholds listed in the latest World Bank SEE RER, the Republic of Macedonia is characterized by low fiscal vulnerability and also a better fiscal position



compared with the countries of the region. Thus, the main factor of confidence in fiscal policy during the analyzed period is to maintain the budget deficit below the Maastricht criterion of 3%, i.e. up to 2.5% of GDP the most.

3.1.2. Fiscal Strategy

Projected revenues in the Budget of the Republic of Macedonia⁸. The total revenues in the Budget of the Republic of Macedonia for 2012 are planned at a level of Denar 156,750 million, and when analysed as a percentage of GDP, they are kept low compared to most of the European countries. In the Budget for 2012, the existing tax rates will remain unchanged, thus the Republic of Macedonia will continue to maintain the low level of tax burden.

Total genuine revenues of the Budget of the Republic of Macedonia⁹ in 2012 are projected in the amount of around of 32% of GDP¹⁰. In the next medium-term, the share of the budget revenues as a percentage of GDP is declining which is in line with the policy of decreasing the tax burden. As continuity of the previous years, in the following mid-term as well, tax revenues account the most in the projected revenue structure, followed by revenues on the basis of social contributions, non-tax revenues and capital revenues, while the rest of the revenues are expected to be realised from the Instrument for preaccession assistance (IPA) funds. Within tax revenues, most revenues will be realised on the basis of VAT, personal income tax and excises. As regards coming three-year 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 the planned dynamics of reducing social contribution rates, as well as the effects from the implementation of the reforms in this segment. Projection of the revenues of the Budget of the Republic of Macedonia with regards to foreign donations include the donations the budget users are expected to realise for specific projects, as well as disbursements from the EU pre-accession funds.

Projected expenditures in the Budget of the Republic of Macedonia. Strict fiscal discipline as a prerequisite for economic growth will continue in the coming medium term as well. Budget expenditures in 2012 are projected at Denar 169,198 million providing funding for basic social needs in order to maintain social stability in difficult circumstances, maximum restrictiveness of current and unproductive expenditures and high growth in capital expenditure by about 29% compared to 2011.

Within the total expenditures, the structure and quality of expenditures have been significantly improved with significantly higher participation in capital expenditures by 2.9 p.p. (from 13.1% in 2011 to 16% in 2012), at the expense of current expenditures, whose share is reduced (from 86.9% in 2010 to 84% in 2012). In the period 2012 - 2014, the expenditure side of the Budget of the Republic of Macedonia is designed for the purpose of providing stable rates of economic growth, maintaining a high level of social

⁸ Core Budget and Budget of funds.

⁹ Ibid.

¹⁰ On net basis.



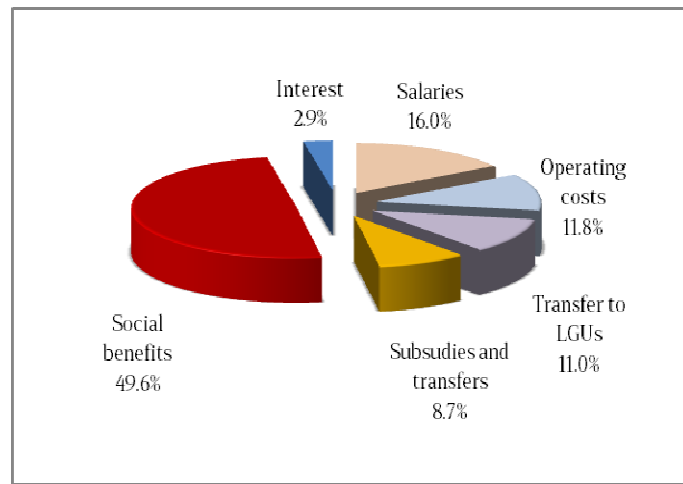
security and increasing capital expenditures to increase the competitiveness of the economy. During this period, further improving the cost structure through increased share of capital expenditure on account of reduction of current expenditures. The positive change in the structure of public expenditures is considered as necessary for achieving the projected rates of economic growth and corresponds with the determination to continue with the restrictive budgetary spending in the area of unproductive expenditures and the expected inflow of investments for financing capital projects, both from domestic and external sources. When projecting the expenditures, the following assumptions were taken into account:

- continuation of strict control over new employments;
- full and timely payment of pensions and social benefits;
- increase of subsidies in the field of agriculture, to the end of further harmonisation and support of this sector;
- provision of increased volume of funds from both domestic and foreign sources, for the purpose of completing the commenced capital projects and starting other significant infrastructure projects, which will lead towards increasing both productivity and competitiveness of the economy on the long run, while supporting the economic activity in the following mid-term-period.

For the purpose of maintaining higher economic growth rates, in the coming medium-term period, increase is envisaged in public investment. Thus, investments are planned in the field of road, railway, energy and utility infrastructure, houses of correction, improvement of conditions in education, social and health system, as well as investments in the field of culture.

In the area of road infrastructure, with funds from domestic and foreign borrowing, the Project for reconstruction and rehabilitation of regional and local roads in the country will continue to be implemented. In order to complete the Tabanovce - Gevgelija highway, a construction of new modern highway section between Demir Kapija and Smokvica is planned to begin in 2012 which is part of the project for completing the main axis of the Corridor X which passes through the Republic of Macedonia. Additionally, so as to increase the volume of revenues of the Agency for State Roads, this project envisages improvement of the toll collection. The realization of this project is supported by a loan from the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and grant through the IPA, as well as budget funds.

Chart 3.3. Current expenditure structure in 2012



Source: Ministry of finance



As regards railway infrastructure, Rail Corridor X Project, financed with EBRD loan, will continue to be implemented in the coming medium-term as well. The Project envisages repair of several sections of the Corridor X railroad of around 53 km. Main objective of the Project is improvement of the railroad tracks, reduction of costs for its maintenance and ensuring safe railway traffic. In addition, with respect to railway traffic, in the coming medium term, focus will be placed on the preparation of the Project for Construction of Eastern Part of Railway Corridor VIII on the territory of the Republic of Macedonia, to the end of connecting the Black Sea with the Adriatic Sea, which is the strategic importance of this Project. Project preparation will be supported with funds under EU WBIF instrument. In the course of 2012, activities for renewal of rolling stock for rail traffic will begin.

In addition, funds are also envisaged for reconstruction and maintenance of facilities in the field of education, child and social care, sport and culture. At the same time, funds for continuation of the current multi-annual projects are envisaged, for which, obligations in the field of health, transport and environment have been already undertaken.

At the same time, in the next medium-term period, envisaged activities for creating modern and competitive agricultural sector will continue, supported through the World Bank Agriculture Strengthening Project. In addition, the second phase of the Project, which includes irrigation of south valley of the River Vardar aimed at increasing productivity and sustainable development of agricultural production, is expected to start in the coming period, and it will be financed with KfW loan and will cover rehabilitation and modernisation of irrigation systems on an area of 3,904 ha.

With respect to the judiciary, implementation of reforms in the legal and court system and institutional support will continue, which are expected to contribute to reducing the costs for doing business and increasing the possibilities for job creation, by supporting the efforts to improve the protection of the contractual, property-related and the rights of the creditors, as well as improving the efficiency and the effectiveness of the judiciary. In addition, in the next period, reconstruction of 11 courts with extended competence will continue, as well as completion of the construction of the new Criminal Court in Skopje.

To the end of ensuring, exercising and improving human rights as regards conditions for accommodation, hygiene, health protection and leisure time of the convicted and detained persons, Project for Reconstruction of Penitentiary Institutions, financed with Council of Europe Development Bank (CEB) loan, will be implemented during the course of 2012-2014. Project realisation envisages reconstruction of 4 penitentiary institutions, thus implementing the standards envisaged in the European prison rules.

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



Strengthening of the management of funds on municipal level is supported by the Municipal Services Improvement Project (MSIP) financed by the World Bank. The project, enables for the municipalities and public utility companies to ensure funding for capital investments, according to their local economic development priorities. The needs of the municipalities for favorable financing for new capital investments as well as positive experiences in the implementation of the currently ongoing MSIP were an incentive for bringing the initiative to the World Bank for providing additional funds for the project during 2012. The main objective of the project is to ensure financial support for municipal infrastructure projects, which, through easier access to affordable and attractive credits for realization of investment projects for improvement of municipal functions, water supply services, energy efficiency (street lighting, insulation of municipal facilities), local road infrastructure (street reconstruction), utilities (supply of vehicles for public utilities) and the like. The focus of the project will be on rural municipalities that are financially weak and unable to secure financing through commercial borrowing.

To the end of continuing the reforms for improvement of protection of property and legal relations and registration of ownership rights, activities related to completion of cadastre reforms, supported under Real Estate Cadastre and Registration Project, financed by the World Bank, will continue in the course of 2012. Project realisation is expected to improve public services in the real estate cadastre and registration of ownership rights. The project will also strengthen institutional capacities and improve working conditions in the regional offices of the Property and Legal Affairs Office, and it will provide for automatization of business processes and digitalisation of the existing records to the end of creating digital archives.

For the purpose of increasing the access of homeowners, farmers and SMEs to financial protection from losses caused by natural disasters, regional project on SEE and Caucasus Catastrophe Risk Insurance Facility, to be financed with a World Bank loan, will start to be implemented in 2012. The loan will be used as contribution in "Europa Re" share capital, which is a specialised regional catastrophe risk reinsurance company owned by SEE countries. Participation in this Project will provide for creation of a new financial instrument, under favourable conditions for the enterprise sector, the farmers and the homeowners, for insurance against natural disasters, such as floods and droughts, which has not at all been developed so far. Under the instrument, number of homeowners, farmers, companies and government institutions to be insured against catastrophe risks will increase and their costs for overcoming the consequences thereof will drop. Effects from the implementation of this instrument are expected to be felt in 2012 already.

To the end of improving the conditions in the health institutions, CEB provided funds for realisation of the first phase of the Project for Rehabilitation of Health Provider Institutions. Objective of the Project is to improve health infrastructure, operational services for delivery of respective health services, as well as to introduce new and modern equipment and technology to replace most of the existing obsolete equipment. In addition, EU technical assistance under WBIF instrument will provide for



comprehensive assessments of the scope and the type of repairs, as well as financial resources for the rest of the health provider institutions, as well as the Clinical Centre. On the basis of the assessments, it is envisaged to develop Strategy for phased rehabilitation of the rest of health provider institutions and other health facilities and it will be realised by providing additional funds in the form of loans from international financial institutions.

In the coming medium term, it is envisaged to continue with the realisation of the Project for Construction of Physical Education Facilities in the Secondary Schools, to be financed with CEB loan, the objective of which is to improve the quality of physical education. At the same time, second phase of this Project will start to be realised in 2012, including renovation of around 240 primary schools throughout the territory of the country.

One of the important elements in the social development policy is to increase quality of life for low-income persons and vulnerable groups by ensuring their adequate housing. Activities and measures of the Government of the Republic of Macedonia as regards social policy are also supported by the Project for Housing Vulnerable Groups, by investing in construction of flats for low-income persons, the funds for which are provided by the CEB.

For the purpose of ensuring balanced regional development, improving the conditions and increasing the quality of life in the rural areas by providing potable water, Water Supply and Waste Water Collection Project, financed with EIB loan, started being implemented in 2011. In addition, by realizing the first phase of the Project pertaining to construction of water supply and sewerage network in the municipalities, financed by KfW, it is envisaged for water supply systems in several municipalities in the country to improve. At the same time, the Project envisages second phase to include rehabilitation of water supply and sewerage network in the municipalities.

First phase of the Project, which includes improvement of water utilisation in the River Zletovica basin, is expected to be completed in 2013. Under EIB support, second and third phase will be realised, covering the irrigation and generation of electricity from renewable energy sources by constructing small hydro power plants along the course of the River Zletovica, which will contribute to increase of energy efficiency in the country, as well as create possibilities for new employments in the regions.

In the coming period, implementation of the Project for Construction of Gas Pipeline System in the Republic of Macedonia will commence as well, the objective of which is to ensure cheap and eco-friendly energy for the needs of the economy, the public sector and the households, to result in reduction of emission of harmful gases in the atmosphere.

During the following medium term, it is envisaged that part of the pipeline system to be financed with funds from the obligations of the Russian Federation to the Republic of Macedonia and the rest is planned to be financed with loans from EIB and EBRD.

Although not part of the Central budget of the Republic of Macedonia, it is important to mention the investments in the energy sector aimed at increasing the production of



electricity from renewable sources to a level of 20% according to the flagship initiatives presented in the “Europe 2020” Strategy and the Strategy for renewable energy sources of the Republic of Macedonia – 2020. Thus, in the next medium term, the rehabilitation of 6 hydropower plants - HPPs (financed by a loan from KfW bank), which involves replacement of electrical and hydro-mechanical equipment and the necessary construction works will continue. In addition, during the following mid-term, the project of construction a Wind park in Bogdanci will continue. The project is financed by a loan from KfW Bank and its implementation is expected to contribute towards annual production of 100 GWh of wind energy, and thus increasing the installed capacity of the public company - ELEM for about 30 - 40 Mw. Also in 2012, the construction of the “Lukovo pole” dam and a supply of the Korab waters will begin. This project is financed with a loan from the World Bank. In addition, with a loan from the EBRD, the construction of a hydropower reservoir – “Boshkov Bridge” is planned to begin in 2012. The implementation of a project involving major transport system of the surface mine of Brod – Gneotino - Suvodol is financed with a loan from Deutsche Bank. The project involves purchasing of equipment for surface pit so as to ensure continuous supply of coal, thus extending the technical life of the thermal power plant (TPP) in Bitola until the year of 2030. At the same time, the revitalization and modernization of TPP - Bitola will continue, which despite improvements in technical life by 2030 will lead to reducing the emissions of greenhouse gases in accordance with relevant EU directives. Also, in order to provide reliable transmission of electricity, various projects are planned. Thus, in 2012, with loans from the World Bank, the construction of 110 kV overhead two-system (sub-station Bitola 3 to sub-station Bitola 4) will continue, in addition to the revitalization of overhead 110 kV Skopje 1 - Tetovo 1 and the construction of 400 kV overhead Stip (Republic of Macedonia) - Nis (Republic of Serbia). The construction of 400 kV overhead Bitola (Republic of Macedonia) - Elbasan (Republic of Albania) will be supported by the EBRD, once a feasibility study and assessment study of the impact on the environment is being prepared. Moreover, in the next mid-term period the public company - MEPSO plans to procure equipment, as well as to revitalize the 110 kV transmission lines that are older than 40 years.

Projected deficit and its financing. According to the projections of revenues and expenditures in the 2012 Budget of the Republic of Macedonia, the projected deficit is planned at 2.5% (Table 3.3), while in the next medium term period, the budget deficit is projected to be realized at a sustainable level of up to 2.5% of GDP.

Table 3.2. Deficit and sources of its financing (Denar million)

	2011	2012
Budget balance	-11,584	-12,449
Deficit financing	11,584	12,449
Inflow	19,661	17,871
External sources	19,361	13,991
Domestic sources	300	3,880
Outflow	8,077	5,422
Repayment upon external borrowing	2,970	3,472
Repayment upon domestic borrowing	5,107	1,950

Source: Ministry of Finance



Financing of the projected deficit will be ensured from foreign sources (favourable credits from international financial institutions (IFIs), credit lines intended for financing certain projects, Eurobonds and other type of external borrowing) and domestic sources (issues of government securities). Besides the trends and the unfavourable conditions on the capital market, Government of the Republic of Macedonia has managed to ensure financial resources in the amount of Euro 130 million through the World Bank's new instrument Policy Based Guarantee (PBG), through which the Government will provide financing under very favourable conditions.

In the course of 2012, trends on the international capital market will continue to be closely monitored. An open possibility remains to issue the third Eurobond of the Republic of Macedonia, however, at the moment the Government of the Republic of Macedonia considers the market conditions are favourable to undertake such activity. In this context, the precautionary credit line (PCL) from the International Monetary Fund (IMF) is an instrument for providing funds, in case of disruption of the economic trends caused by external factors. Foreign borrowing, as a source of financing, will be used by budget users for specific projects, as well as by the Agency for State Roads for construction and reconstruction of roads in the Republic of Macedonia.

In terms of borrowing on the domestic market, the main effort in the next medium term will be further developing of the domestic market of securities, and in this regard, special emphasis will be placed on the extension of the maturity of the existing portfolio of government securities through the issuance of long-term securities, i.e. through issuance of 5, 7 and 10-year government bonds on a quarterly basis. Special interest in investing in long-term securities issued by the Republic of Macedonia are expected from pension companies, as well as from commercial banks and insurance companies. Also, in order to improve liquidity in the domestic market for government securities in the following medium-term period, a series of measures and actions have been planned that relate to the gradual reduction of the share of government securities with a foreign currency clause in the total amount of issued securities, targeting a positive annual net-borrowing and the re-opening of the already held auctions of government securities.

Local government budget In the coming mid-term period, municipalities are expected to continue the trend of improved collection of own revenues, together with the increased revenues on the basis of VAT grant (general grant), to amount to 4% in the course of 2012. In parallel to such increase, existing formula on VAT revenue distribution will be analysed, in terms of including additional factors for VAT grant distribution and preparation of several models for distribution with higher level of equalisation. Additional increase of own revenues of the municipalities is expected to be realised from the concession fee for utilisation of water resources for electricity generation, distributed in the following proportion: 50% to the central government budget and 50% to the local authorities.



Own revenues of municipalities are expected to stabilise in the coming medium term, fully including tax base of natural persons and legal entities and re-assessing the value of real estate. Additional impetus to the surge of own revenues of municipalities in 2013 is expected to be achieved through the increase of the percentage of revenues on the basis of VAT grants to 4.5%.

Government of the Republic of Macedonia is committed to successfully implementing this process within the fully established legal and institutional framework of the local government, coupled with developed, accountable and functional municipalities. Such approach will ensure adequate solutions for a more dynamic local economic development, higher employment rate and better living standard and quality of life of the macedonian citizens.

3.1.3. Structural Deficit

Economic activity, over time, registers an upward tendency, however, when moving towards the trend line, the economy usually fluctuates above and below the long-term trend. Such cyclical trends in the economy are reflected in the fiscal trends as well, through automatic stabilisers, due to which the real fiscal position of the country is actually blurred. Hence, to have a clearer picture of the fiscal position, we calculate and analyse the cyclically adjusted budget deficit.

Table 3.3 Aggregate fiscal indicators and production gap

	2010	2011	2012 - 2014
Primary budget balance	-1.7	-1.9	up to -1.8
Total budget balance	-2.5	-2.5	up to -2.5
Production gap	-1.0	-0.7	-0.4 to 1.0
Cyclical component of the budget	-0.3	-0.2	-0.1 to 0.3
Cyclically adjusted primary balance	-1.4	-1.6	-1.7 to 2.0
Cyclically adjusted total balance	-2.2	-2.3	-2.4 to -2.8

Source: Calculations and projections of Ministry of Finance

Economic growth in 2010 and expectations in 2011 show negative production gap, which implies for the cyclical budget component to be negative. As a result, cyclically adjusted budget deficit is lower than the one realised in 2010, i.e. the projected one in 2011 (Table 3.3).

On the basis of the projected growth in the period 2012 - 2014 and its structure, i.e. estimates of the production gap, a negative cyclical component of the budget for the lower limit of the projected economic growth is estimated, while the cyclical component of the budget is positive for the upper limit. The latter, reflects a cyclically adjusted deficit higher than projected, being still below 3% of GDP in the analyzed period. According to the estimates, cyclically adjusted primary budget deficit is not expected to exceed 2% of GDP on the medium term.



3.1.4. Public Debt Management

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

In order to ensure sources of financing the needs of the state with the lowest costs on medium- and long-term, at the same time maintaining sustainable level of risk, 2012 – 2014 Fiscal Strategy of the Republic of Macedonia defines the following medium-term ceilings:

- maximum level of government debt in the coming three years not to exceed 30%-35% of GDP;
- maximum level of total public debt in the coming three years not to exceed 40%-45% of GDP;
- amount of guaranteed public debt in the coming three years not to exceed 10% of GDP;
- share of euro-denominated debt in the total public debt in foreign currency not to be below 70%.

At the end of the third quarter in 2011, government debt of the Republic of Macedonia¹¹ amounted to Euro 1,944.2 million, i.e. 26.3% of GDP, being significantly lower than the level set in the Maastricht Criteria, according to which general government debt must not exceed 60% of GDP. On the other hand, at the end of the third quarter, total public debt of the Republic of Macedonia¹², pursuant to the Law on Public Debt (Official Gazette, no. 62/2005, 88/2008 and 35/2011) and GFS Methodology amounted to Euro 2,644.1 million, accounting for 35.7% of GDP and, compared to end 2010, it increased by 0.3 p.p. During the analysed period, domestic public debt accounted for 32.9% in the total public debt, while external debt accounted for 67.1%. Share of domestic public debt dropped by 6.7 p.p. compared to the share of the external public debt. Change in the domestic-external public debt ratio is primarily due to the reduced level of debt of the National Bank on the basis of the issued treasury bills, as well as the amortisation of structural bond.

¹¹Government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, including the debt of municipalities, municipalities within the City of Skopje and the City of Skopje.

¹²Public debt comprises all financial liabilities incurred on the basis of borrowing by the Republic of Macedonia, including the debt of municipalities, municipalities within the City of Skopje and the City of Skopje, debt of public enterprises and companies fully or predominantly owned by the state, municipalities, municipalities within the City of Skopje and the City of Skopje and debt of the National Bank.



Table 3.4. Stock of public debt (in EUR million)

	2005	2006	2007	2008	2009	2010	30.09.2011
External public debt	1,441.2	1,223.0	1,027.9	1,115.7	1,373.8	1,484.3	1,774.6
Government debt	1,245.4	1,025.2	877.2	921.2	1,105.3	1,173.8	1,430.4
Central Bank	52,7	42,4	0,0	0,0	71,7	76,4	75,3
Public enterprises	143,2	155,4	150,6	194,5	196,8	234,1	269,0
Domestic public debt	750,4	806,5	899,9	754,5	755,0	973,7	869,5
Government debt	603,7	648,4	552,8	465,9	492,0	537,0	513,8
Central Bank	146,7	155,3	344,3	285,2	260,4	422,5	333,7
Public enterprises	н/п	2,8	2,8	3,5	2,7	14,3	22,1
Total public debt according to GFS Methodology and pursuant to Public Debt Law	2,191.6	2,029.5	1,927.8	1,870.2	2,128.8	2,458.0	2,644.1
Total public debt as % of GDP	46.9	38.8	32.3	27.8	31.6	35.4	35.7
Government debt	1,849.1	1,673.6	1,430	1,387.1	1,597.3	1,710.8	1,944.2
Government debt as % of GDP	39.5	32.0	24.0	20.6	23.7	24.6	26.3

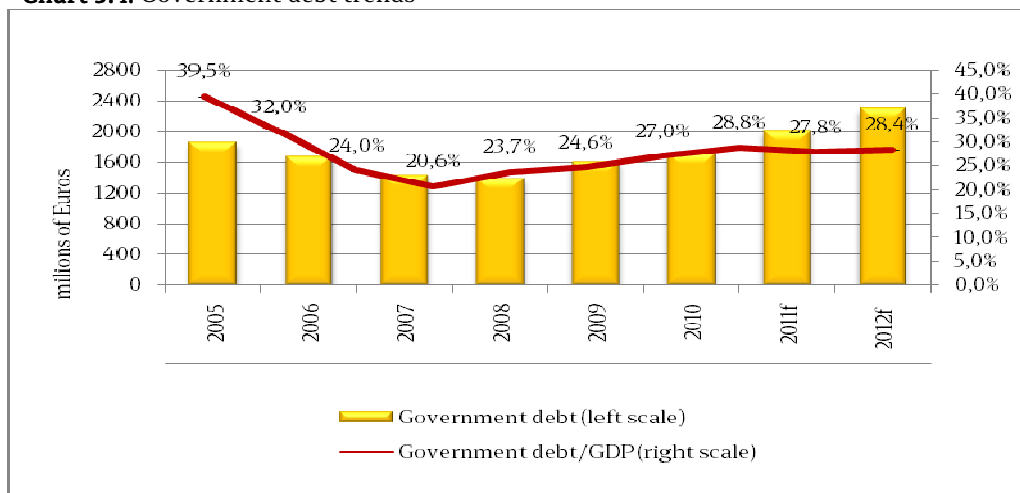
Source: Ministry of Finance and National Bank of the Republic of Macedonia

From the point of view of interest structure, changes were observed at the total public debt. In fact, in the period January – September 2011, increase of variable interest rate debt by around 4 p.p. was noticed. Hence, ratio between fixed interest rate debt and variable interest rate debt was 41 to 59 respectively. Increase in variable interest rate debt was a result of increase of the level of debt of the National Bank. From currency point of view, foreign currency debt participates with 81% and, compared to end-2010, it dropped by 3 p.p.

During 2012, moderate increase of investment activity is projected, by using credit support from abroad. During the following mid-term period of 2012 - 2014, new investments in the energy sector, road and rail infrastructure, water supply and sewerage network, sports facilities, construction of social housing, as well as investments in education are expected, aimed at increasing the productivity and strengthening competitiveness of the economy in the long run. In addition, in the next medium term period, greater investment in the energy sector are expected, which would be realized through borrowing of the public enterprises in the energy sector. Nevertheless, in the following medium term, the government debt is projected at a level around 28% of GDP, with a firm determination not to jeopardize the long-term sustainability of the level of indebtedness of the country and debt ceilings stated in the Fiscal strategy.



Chart 3.4. Government debt trends

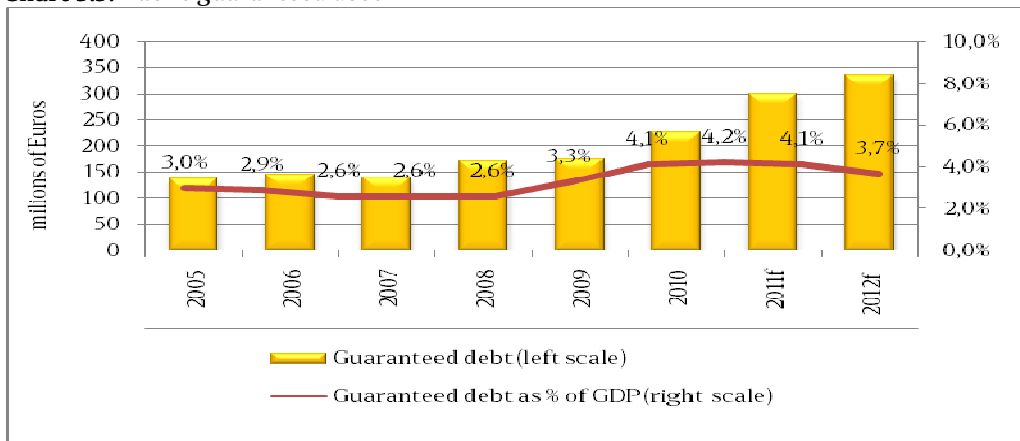


f-projection

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

Issued sovereign guarantees are contingent liabilities for the Budget of the Republic of Macedonia, which, as of 30th September 2011 inclusive, amounted to EUR 294,2 million, accounting for 11.1% of the total public debt, i.e. 4% of GDP. As of September 2011 inclusive, issued sovereign guarantees increased by 0.7 p.p. in relation to GDP (Chart 3.5.), compared to the level at the end of 2010. In the period 2012 - 2014, significant change of the level of guaranteed debt to GDP is not expected, i.e. the projections of the guaranteed debt are within the current values.

Chart 3.5. Public guaranteed debt



f-projection

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

Primary Government Securities Market In the first three quarters in 2011, 43 auctions of government securities were carried out, i.e. 27 auctions of 3-month treasury bills and one re-opening, 14 auctions of 6-month treasury bills and 2 auctions of 5-year government bonds. Total amount offered for sale at the auctions was Denar 42,705.8 million, demand was in the amount of Denar 38,951.4 million, and the amount realised was Denar 38,951.4 million.

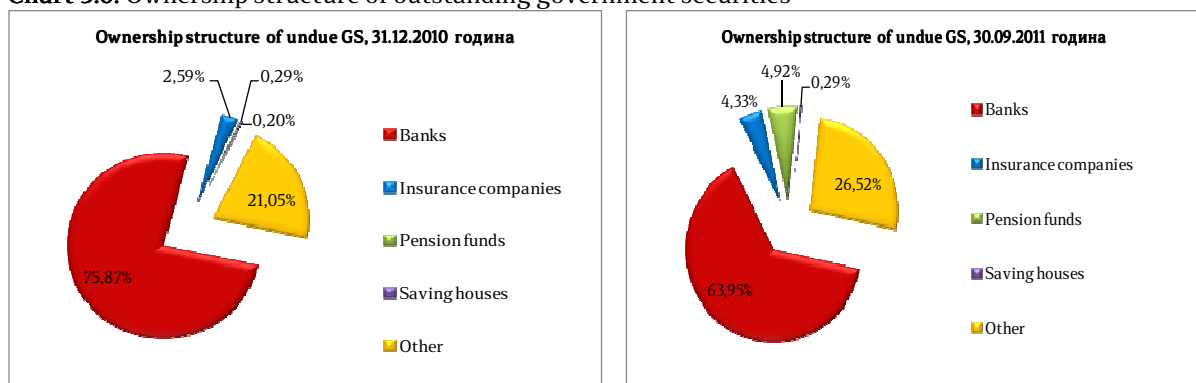


As of September 2011 inclusive, stock of outstanding government securities (short- and long-term) amounted to Denar 20,482.6 million, Denar 19,604.9 million out of which as treasury bills, and the rest as government bonds.

In the period January – September 2011, interest rates on government securities remained unchanged. During the analysed period, interest rate on 3-month treasury bills, depending on whether they included foreign currency clause or not, were 4.1% and 4.2% respectively, while interest rate on 6-month treasury bills with foreign currency clause was 4.1% and it was 4.3% for treasury bills without foreign currency clause. At the auctions for 5-year government bonds, with and without foreign currency clause, carried out in September 2011, coupon interest rates were 5.5% and 5.7% respectively.

Despite the reduced share of banks in the ownership structure of outstanding government securities, trends of their dominant share in ownership structure of government securities continued in the course of 2011 as well (Charts 3.6.). In the period January – September 2011, other categories of market participants increased their share in the ownership structure. During the analysed period, share of banks dropped by 11.9 p.p. in relation to the share of other market participants. As of September 2011, ratio between banks and other market entities was 63.9% to 36.1% respectively.

Chart 3.6. Ownership structure of outstanding government securities



Source: Ministry of Finance

Secondary government securities market. Structural (10 issues of denationalisation government bonds, bonds for old foreign currency savings and selective credit bonds) and continuous government bonds are traded on the MSE. In the period January – September 2011, all 10 issues of denationalisation government bonds, as well as bonds for old foreign currency savings, were traded. Total volume of trading during the analysed period amounted to Euro 21.1 million, being an increase by 57.5% compared to the same period previous year, while total turnover amounted to EUR 18.7 million or Denar 1,155.4 million, being an increase by 71.6%.

International capital market. Both Eurobonds issued by the Republic of Macedonia in 2005 and 2009 were traded on the international capital market. In the period January – September 2011, the purchase price of the first Eurobond, falling due in 2015, ranged from 92.5% to 96.4%, while yield to maturity ranged from 6.7% to 5.5%. In the period January – September 2011, the purchase price of the second Eurobond, falling due in 2013, ranged from 103.3% to 107.8%, while yield to maturity ranged from 7.1% to 4.8%.



Credit Rating of the Republic of Macedonia. Recent 2011 ratings by Standard and Poor's is BB with stable outlook for both local and foreign currency. In 2011, Fitch affirmed the previously awarded ratings of the Republic of Macedonia for both local and foreign currency, BB+ with stable outlook. According to the credit rating agencies, keeping the same rating by the Republic of Macedonia is a result of the stable macroeconomic policy, low level of government debt and low budget deficit, as well as stable financial system.

3.2. Sensitivity Analysis

Sensitivity of budget deficit. According to the macro-fiscal scenario, presented above, prudent fiscal policy and low budget deficit of 2,5% of GDP is envisaged in the period of 2012-2014, thus providing for favourable climate for stable economic growth. Medium-term projections are always followed with certain degree of uncertainty and risks, thus we present here a review of the results from the sensitivity analysis, examining budget deficit sensitivity in conditions that are different than the ones taken as basis for medium-term projections.

Taking into account that medium-term fiscal scenario is based on macroeconomic assumptions, we believe they are a factor with the largest potential effect on the fiscal trends. Hence, in our alternative scenario, we assume lower rates of economic growth in the Republic of Macedonia in the period 2012 - 2014 year as a result of realization of the risk associated with the macroeconomic scenario, i.e. the deepening debt crisis in the Eurozone, which would result in a stronger decline of external demand, and thus fall in exports and production. The baseline scenario, on which the projections of the budget deficit are based, envisages a real GDP growth at an interval of 3% - 4,7% in the period of 2012 - 2014 (Item 2.2. Medium term macroeconomic scenario). In this scenario, we assume that the GDP growth rates in the analyzed period are lower for ¼ than expected, i.e. ranging from 2,3% to 3,5%. As a result, the budget deficit in the period of 2012-2014 would range between 2,7% and 2,9%. It can be noticed that in such a scenario, the budget deficit is not exceeding the Maastricht criterion of 3% of GDP in the analyzed period.

Table 3.5. Sensitivity Analysis of Budget Deficit

	2010	2011	2012 - 2014
GDP, real growth rate	1.8	3.5	3 - 4.7
Budget revenues, growth rate	2.8	12.3	up to 5.6
Budget expenditures, growth rate	2.4	12.1	up to 5.6
Budget deficit (% of GDP)			
Baseline scenario	-2.5	-2.5	up to -2.5
Alternative scenario: GDP growth rates in 2012-2014 are lower for ¼ than expected	-2.5	-2.5	-2.7 to -2.9

Source: Calculations of the Ministry of Finance

Fiscal policy in the next medium-term period is defined in the context of stable growth of the Macedonian economy, however taking into account the uncertainty related to the debt crisis in the Eurozone. Government of the Republic of Macedonia is prepared,



should the presented scenario occurs, to respond appropriately, by lowering the consumption to a level necessary to maintain the projected budget deficit. As a result of the sound economic policies and the macroeconomic stability, Republic of Macedonia has available the IMF Precautionary Credit Line, providing additional security in case of adverse developments and sufficient funds to be used to maintain such stability. In addition, this possibility contributes to strengthening the confidence of investors and provides for an easier access to funds on the capital markets.

Public debt risks. Uncertainty arising from the future trends of macroeconomic variables on the international capital market significantly affects the decision making for efficient management of debt portfolio of the country. In conditions of large oscillations of economic variables, need arises to actively manage risks to which public debt portfolio in the Republic of Macedonia is exposed. Following appear as main risks identified at managing public debt portfolio:

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

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

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

The analysis covers the period of 2012-2014 and is based on scenarios of rising interest rates by 1p.p. and 2p.p. from the baseline scenario, as well as appreciation and depreciation of the Euro against other currencies by 10%.

Table 3.6. Index of interest-related costs on the basis of external public debt in the Budget of the Republic of Macedonia in conditions of changes at interest rates and exchange rates

	2012 - 2014
Baseline scenario	100,0
Scenario 1: +1% interest rate	111.4 - 114.0
Scenario 2: +2% interest rate	122.6 - 128.1
Scenario 3: appreciation of Euro in relation to other currencies by 10%	100.7 - 101.9
Scenario 4: depreciation of Euro in relation to other currencies by 10%	98.1 - 99.3

Source: Calculations of the Ministry of Finance



Main conclusions under this analysis are the following:

- interest-related costs for servicing on the basis of external government debt are sensitive to the trends at interest rates. Should interest rates in the period of 2012-2014 surge by 1 p.p., it would cause increase at interest-related costs by 14% at the utmost as a result of exposure of debt portfolio to interest rate risk, being a consequence of relatively high share of debt with variable interest rates.
- future Euro appreciation, i.e. depreciation in relation to other currencies in the portfolio (US dollar, Japanese yen and special drawing rights) by 10% will cause increase, i.e. decrease of servicing-related costs due to the fixed Denar exchange rate regime in relation to the euro. For the period of 2012-2014, possible unfavourable trends at exchange rates of other currencies in relation to the Euro will not cause any significant increase of the servicing-related costs, as a result of the fact that most of the external government debt is euro denominated.

3.3. Quality of Public Finances

In the coming medium-term period, policies will be aimed at improving the quality of public finances, both on revenue and expenditure side. Republic of Macedonia successfully coped with the consequences of the global economic crisis in 2008, in general as a result of the sound macroeconomic policies, adequate institutional and legal framework and the effects of the anti-crisis measures undertaken by the Government. During 2011, as well as in the coming medium-term period, structural improvement is expected on the expenditure side of the Budget, by significantly increasing the share of capital investments on one hand, and more controlled and restrictive usage of less productive expenditures on the other. Thereby, in line with the priority sectoral policies, in the next medium term, it is envisaged to increase capital investments to improve infrastructure in the country, so as to strengthen competitiveness of the economy, this leading to increase of economic growth and development. In addition, in the coming medium term, through increased efficiency in using budget funds, it is expected to improve services in the social protection, health, education and infrastructure.

3.4. Budgetary Implications of the “Major Structural Reforms”

Public finances in the coming mid-term period are designed to support the structural reform agenda of the country, as further elaborated in Part 4 of the Programme. In line with the Accession Partnership priorities, the structural reform agenda of the Government is aimed at continuous improvement of the business environment, support to entrepreneurship and SMEs, as main promoters of dynamic economic growth and unemployment reduction, promoting human capital and ensuring stronger link between supply and demand on the labour market and increased export support and promotion. In addition, economic policy focuses on implementing reforms so as to create efficient, effective and professional public administration, strengthen legal safety and supervisory capacities of the regulatory bodies, as well as increase



productivity in agriculture. Annex 3 presents the Matrix of policy commitments for the measures undertaken and/or planned.

3.5. Sustainability of Public Finances

Analysis of long-term sustainability of public finance is based on the following long-term assumptions:

- GDP growth in the analyzed period by around 4% on average;
- stable productivity growth of around 2%;
- moderate increase of male participation rate (from 76.3% in 2010 to 87.3% in 2060);
- higher increase of female participation rate (from 51.8% in 2010 to 71.4% in 2060), with a proportion of women active population increasing to 45% in the last decade of the analyzed period;
- stronger decline in the unemployment rate in the first thirty years (from 32.2% in 2010 to 13.3%) and a certain stabilization in the next twenty years with unemployment rate projected at 8% in 2060; and
- steady growth of the share of population aged 65+, reaching 12.3% by the end of 2060.

It is also assumed that there will be no further changes in the regulations. In addition, it is assumed that non-tax budget revenues in percent of GDP will not change. On the basis of the aforementioned assumptions, as well as the projections for increase in employment and wages, a mild increase of the share of revenues from pension insurance contributions is estimated, from 6.2% of GDP in 2010 to 6.5% in 2040, and stabilizing at 6.4% of GDP afterwards.

Pension expenditures, having the highest share amongst the observed expenditure items, are expected to increase to 9% of GDP in the next twenty years and a slight decrease of the share is envisaged thereafter. It is worth noting that pension expenditures include only the ones of the State Pension Fund, rather than the expenditures of the private pension insurance funds (whether mandatory or voluntary pension insurance). Thus, it is expected to gradually decrease the share of those pensioners whose pensions are entirely paid from the first pillar, and the growing share of those, who will receive part of their pensions from the first pillar and the other part from the second pillar.

Public expenditures in the health care system as percentage of GDP are projected to increase from 4.5% in 2010 to 4.9% by 2050, and stabilizing thereafter. Such an increase of health care expenditures is a result of the estimated effect of aging population and increased health care expenditures in line with the productivity growth. Expenditures for education is envisaged to increase in percent of GDP from 4.6% in 2010 to 5% in 2030 and further to 5.1% in the next twenty years, regarding their importance for restructuring of the labor market, reducing unemployment rate and therefore contributing for higher economic growth. The share of interest expenses to GDP, given the projected budget deficit and its financing, is expected to increase from 0.7% in 2010



to 0.9% in 2030 and further to 1% in 2040, which is projected to remain on that level by the end of 2060.

3.6. Institutional Features of Public Finances

Improvement of quality of public finances will be underpinned by adequate amendments to the existing legal regulations and respective improvement of institutional and administrative framework, as a result of which in the next medium-term period, following activities will be implemented, aimed at:

- development and improvement of the process of multi-annual budgeting, paying special attention to the development programmes, with indicative projections for the coming two years and a possibility to transfer appropriations for financing capital projects and projects funded under the pre-accession funds from one to another fiscal year. Such activities will be supported within the project financed with the IPA funds;
- increase of transparency of the budget process, by shifting the timeframe for preparation of the budget process, at the same time, including the non-governmental institutions (NGOs), the experts and the business community in the budget preparation itself.
- further harmonisation and application of international accounting standards; and
- strengthening the fiscal capacity of local government units and ensuring a possibility for their borrowing.

Public internal financial control. Development of the internal financial control system in the public sector in the Republic of Macedonia, as an instrument for accountable, transparent and efficient management of budget resources and public funds, is of high priority for the Government of the Republic of Macedonia. To the end of ensuring continuous progress in strengthening the existing internal financial control system in the public sector, new Strategy on Development of Internal Financial Control System in the Public Sector in the Republic of Macedonia for the period 2012-2014 is expected to be adopted during the first half of 2012, which is in line with the recommendations in the 2011 EC Progress Report. By implementing the Strategy, following is to be ensured:

- raising the awareness for financial management and control, as an integral part of the management processes in the organisation;
- strengthening the role of financial affairs unit, as coordinator of development of financial management and control of the budget user and provider of other support to the rest of the management structure in financial management;
- developing financial management and control in the budget cycle processes, starting from the phase of planning budget funds up to realisation and monitoring the realisation of budget funds;
- establishing accounting systems, as basis for quality financial IT system, thus ensuring information-based decisions and monitoring their implementation;
- developing risk management as an integral part of the management process;
- strengthening internal audit in relation to the competences and the scope of work;



- strengthening the cooperation between internal audit and management structures;
- More efficient utilisation of the existing audit resources by establishing specialised teams and carrying out horizontal and vertical audits.

Public Procurement. By the end of 2011, the Parliament of the Republic of Macedonia is expected to adopt the amendments to the Law on Public Procurement which primarily aim at increase of the transparency in the procedures that extend the obligation to publish all public procurement tenders, regardless of their estimated value, on the electronic procurement system (www.e-nabavki.gov.mk). In such a way, the existing functionality of the system will be upgraded which is considered as a key tool for ensuring transparency in public procurement. The positive effect for the economic operators are expected to be in the form of increased competition and participation in public procurement procedures. The amendments include novelties which are expected to contribute to overall improvement of the public procurement procedures. Namely, in order to strengthen the capacities for implementation of the procurement rules, a compulsory certification of persons that deal with public procurement procedures is being introduced. In addition, other innovative solutions and good practices are being provided, such as technical dialogue with the business community, strengthening of the system of legal protection, or expanding the responsibilities of the State appeals commission for public procurement which is considered as a corner stone for ensuring the legality of procedures. It should be noted that, starting from 2012, the contracting authorities are obliged to apply electronic auctions in part of the price in the procurement procedures, which encompasses the process of gradual introduction of compulsory use of electronic auctions that began in 2008.

Introducing ESA 95 Methodology. State Statistical Office (SSO), Ministry of Finance and National Bank are part of the IPA 2007 project “*Technical Assistance for State Statistical Office*”. The Project started in 2010 and will cover a period of two years, i.e. by 2012. Main coordinator and beneficiary is the SSO, while the Ministry of Finance participates in the part pertaining to the statistics of the national accounts. To the end of fully accepting ESA 95, from the point of view of data to be presented, following activities are to be undertaken in the coming medium term: a) implementation of Commission Regulation 1500/2000 with respect to general government expenditure and revenues, Regulation 2516/2000 as concerns taxes and social contributions, Regulation 1221/2002 as regards principles of ESA and regional accounts with respect to taxes and contributions, Regulation 113/2002 with regards to revised classifications of expenditure according to purpose (COFOG), Regulation 2558/2001 as regards reclassification of settlements under swaps arrangements, related to Protocol on the excessive deficit procedure, as well as Council Regulation 3605/93 on the application of the Protocol on the excessive deficit procedure, which will provide for full implementation of data and their submission to Eurostat; b) application of the new Classification of Activities NKD REV 2; c) undertaking preparatory activities related to ESA 2010.



PART IV

Structural Reforms



4.1. Challenges to Economic Growth and Structural Reform Agenda

National priority for obtaining fully-fledged EU membership is one of the main driving forces when determining the guidelines for implementation of the reforms in the Republic of Macedonia. Despite the fact the Republic of Macedonia has accomplished a lot in terms of attaining its strategic national goal, there are still number of challenges remaining in future. The Government of the Republic of Macedonia has identified all challenges to the economic policy in the coming medium-term period: a) reducing unemployment rate, as the most burning issue to the macedonian economy and b) realizing economic growth rates by increasing production with higher added value and diversifying and expanding the export to the end of strengthening competitive position of the country and the Macedonian companies globally.

Current macroeconomic climate and external macroeconomic risks for the Republic of Macedonia as a result of the turmoil on the global markets and the debt crisis in Eurozone impose the need to accelerate the process of implementation of accession criteria (Copenhagen Criteria), so as to increase economic growth and both domestic and FDI, as a condition for job creation. That is why increase of economic growth and unemployment reduction, as precondition for increased living standard and better and quality life of the citizens in the Republic of Macedonia, is considered as a top strategic priority of the Government of the Republic of Macedonia in line with its Medium-Term Programme¹³.

In order to respond to the challenges so as to realise the top strategic priorities, the Government remains committed, in the coming medium-term as well, to implement the structural reform agenda in all aspects of the economic life. Realisation of these reforms will mean success in implementing the model of economic development promoted by the Government, based on competitive and integrated economy, providing equal opportunities for all by realizing the following economic objectives: macroeconomic stability, higher economic growth and job creation. Such model, taking into account the particularities and the priorities of the Republic of Macedonia for full integration and real convergence with the EU, is based on the EU Strategy for fast, sustainable and inclusive economic development, known as “Europe 2020” Strategy.

4.2. Key reform areas

Taking into account the identified priorities and challenges to the economic policy, following are key areas in the structural reform agenda for the period 2012-2014: continuous improvement of the business environment, support to entrepreneurship and SMEs, as main promoters of dynamic economic growth and unemployment reduction, promoting human capital and ensuring stronger link between supply and demand on the labour market and increased export support and promotion. In addition, economic policy focuses on implementing reforms so as to create efficient, effective

¹³ The Parliament of the Republic of Macedonia adopted the Operating Programme of the Government of the Republic of Macedonia (2011-2015) on 29th July 2011.



and professional public administration, strengthen legal safety and supervisory capacities of the regulatory bodies, as well as increase productivity in agriculture.

4.2.1. Business environment

Taking into account the basic economic principles in the Programme of the Government of the Republic of Macedonia related to the establishment of a higher degree of economic freedom and equal working conditions for economic entities, supporting entrepreneurship, continuing dynamic implementation of economic reforms to improve business climate and strengthening the competitiveness of the economy, various reform activities are envisaged to continue in the next medium-term period. These measures and activities incorporate the best practices from many EU countries as well as the recommendations of the World Bank and other IFIs. The implementation of these projects directly contributes towards higher economic growth and reducing unemployment which is considered as a structural problem of the macedonian economy.

Doing business. According to the latest World Bank 2012 "Doing Business" report, the Republic of Macedonia is proclaimed as the third top reformer in the world (achieving improvement of 12 places compared to the 2011 report). Thus, the country is ranked as 22nd best on the conditions for doing business in the world. The 2012 "Doing Business" report, notes that the Republic of Macedonia is a leader in the region of SEE according to the conditions of doing business. It is important to mention that in accordance with this report, the Republic of Macedonia notes continuous improvements in the ranking of the quality of the business environment which indicates the capacity of the Republic of Macedonia to implement reforms and the goal of the authorities to establish a fully functioning market economy capable to withstand the competitive pressures and to achieve real convergence with EU member-states.

Despite the results achieved in the past period, during the period of 2012-2014, additional measures and activities will be implemented, primarily aimed at further improving of the business climate in the country, which are expected to contribute towards strengthening of the competitiveness of the macedonian economy, increasing the economic growth and thereby reducing the unemployment. According to the analysis of individual indicators that contribute to the overall ranking of the quality of business climate in the "Doing Business" report, during the period of 2012 – 2014, the following measures and activities are being planned:

- enhanced promotion of the possibility for electronic filing of documents needed for business registration;
- establishment of a one-stop-shop system for obtaining construction permits;
- shortening of the time required for registration of the construction objects in the Agency for Cadastre and Real Estate by providing priority status for solving the cases whose applicants are legal entities who want to build commercial objects;
- change in the legislation so as to reduce costs and time for electricity connection;



- establishment of electronic services for payments of taxes and fees in the City of Skopje;
- introduction of an electronic counter for registering property for professional users (e-counter) to notaries and others on the whole territory on the Republic of Macedonia;
- continuously increasing of the database of the private credit bureau;
- changes in tax legislation that will provide a mandatory requirement for electronic payment of taxes by legal entities;
- improving the system for electronic submission of customs declarations and customs documents;
- enhanced promotion of mediation in resolving disputes in order to reduce the high costs as a percentage of the claim;
- increasing the rate of reorganization and restructuring of businesses in bankruptcy proceedings;
- passing a Law for deleting the records of inactive companies in the Central Registry, taking into account the leading international practices.

Regulatory reform. During 2006, the Government began with the implementation of various regulatory reforms through reviewing existing regulations and cutting of the bureaucratic procedures through the Regulatory Guillotine and Regulatory Impact Assessment (RIA) projects. Regarding the regulatory guillotine, there is an ongoing implementation of measures of the 2nd and 3rd phase, which resulted in removal of a large administrative burden, and simplifications of the procedures for issuing licenses and permits for doing business. As a continuation of this project, in early 2012 consultations and start of the 4th stage of the Regulatory Guillotine - *"The advantage of small"* project will follow, where the focus is on simplifying the business operations of the SMEs. Furthermore, a project for simplifying the regulations and reduce the cost of crafts is also envisaged to begin. All of these segments of regulatory reforms are closely associated with the determination of improving the business climate by reducing the administrative burden on companies, offered in the flagship initiative for industrial policy in an era of globalization from the "Europe 2020" Strategy.

Regulatory Impact Assessment. As a technical assistance to the RIA process, National Electronic Registry (ENER) is formed, which enables for the interested parties to submit electronically their comments and proposals, directly to the authorized institutions.

In a direction of continuous building of the administrative capacities for RIA implementation, in the past period with the support of the United Kingdom, a project for creating better business regulation in the Republic of Macedonia was conducted.

Within the project, various analysis of the implementation of the regulatory reform were carried out, and few significant documents were prepared, such are the Manuals for conducting consultations among the business community and the public administration, Code on public consultations during preparation of regulations, Guidelines for the manner of acting in the work of the ministries when involving the stakeholders in the process of preparation of laws and Recommendations and an



Action plan for improvement of the regulatory reform in the Republic of Macedonia. In the next medium-term period the following activities are envisaged:

- establishment of the Central body for better regulation and building its capacity;
- improving the legal framework for RIA;
- expanding the scope of the RIA, support of its application in the Parliament and during the ex-post analysis,
- continuous capacity building in the ministries and the Central body for ensuring better techniques and methods for creating better laws.

One Stop Shop for domestic and foreign investors. In order to make the process of starting and running of business easier, as well as to enable the possibility for the potential investors to find all necessary information for procedures and necessary documents at one place, the Government of the Republic of Macedonia is implementing activities for establishing One stop shop for business licenses and permits. Activities for realization of the project are separated in two components. The first component is related to scanning and mapping of licenses and permits, as well as identifying of all relevant public institutions which are responsible for issuing of approvals, collecting data, as well as preparing lists of licenses and permits necessary for running a business, conducting a survey on current IT applications and bases, ICT standards which are implemented in selected institutions, conducting a cost analyses related to issuing business permits and licenses, and preparing a data base of all licenses and permits.

In the frame of the second component, activities related to review of international good practices and experience will be undertaken, as well as review of legal, organizational and technical frame for establishing the one stop shop system with detailed operational plan and also, suggestion of ways for decreasing a bureaucratic procedures during the issuing of permits and licenses.

Establishment of equity investment funds. The Government of Republic of Macedonia, as part of its strategic goal to support the development of the private sector, has undertaken activities for establishment of Equity investment funds. The establishment of such funds is with a purpose of providing support for the development of SME's, enabling transfer of new technologies and know-how, and facilitating their innovation activities. Additionally, in each portfolio company the funds have invested in, there will be technical assistance in the form of visits to companies from the same industry in the EU or USA, access to industrial experts, primary market research, modern management techniques, trainings for the management teams, etc.

Learning from the business community. So as to strengthen the dialogue with the business community, the Government of the Republic of Macedonia in the period of 2012 -2014, will continue with the implementation of the project *"Learning from the business community"*. The goal of project is to identify the ideas and initiatives of the business community, leading towards improvement of the business environment, as well as the main problems that the companies are facing within their business activities. Therefore, government teams from different governmental institutions each year will pay a visit of 150 companies all over the country. The project will include



companies with different size and levels of success, which will show interest to be visited from the government teams.

Action Plan for Improving the Global competitiveness of the Republic of Macedonia. Revision of the Action Plan for improving the global competitiveness and the economic freedom is planned for the following mid-term period as well. The Action Plan will be aligned with the so called "Master Plan" for improving the global competitiveness and economic freedom of the Republic of Macedonia. The medium term specific projects for improving the competitiveness of the economy are elaborated in Item 4.2.2. of PEP 2012-2014.

Restarting of the National Entrepreneurship and Competitiveness Council (NECC). The new NECC should connect the leaders of private, public and civil society in order to create a shared vision and culture of competitiveness by building knowledge-based economy, innovation, technological development and development-oriented business environment. Furthermore, the objective of this Council is to improve the competitiveness by identifying the problematic areas and development of national strategies for improving the competitiveness of the economy, improving the conditions and reducing the cost of doing business, promoting and encouraging the export of products and services with higher added value on growing markets outside the region, including financial institutions in the development of a competitive economy and increasing domestic and foreign investments.

4.2.2. Enterprises sector

Small and medium-size enterprises. SMEs participate with 99% in the total number of enterprises and absorb the largest part of the working force (79% of the total number of employees are in SMEs) implying that SMEs are significant participants in the economy. Taking into account their significance in the increase of the economic growth and the reduction of the unemployment as a structural problem of the macedonian economy, one of the basic priorities in the Government Programme in the following midterm period presents the increased support to the entrepreneurship and to SMEs through improvement of the business climate, facilitation of the access to capital and other activities.

Taking to consideration the high position of the innovations within the frames of the "Europe 2020" Strategy, a new Innovation strategy of Republic of Macedonia covering the period of 2012 – 2020, is expected to be adopted during 2012. In addition, the program for support of the entrepreneurship, competitiveness and innovation of SMEs, envisages increased support for the business incubators, the implementation of the standards for quality ISSOI, NASSR, Hallal, the women entrepreneurship, fast growing enterprises, promotion of the crafts and authentic macedonian handworks.

Into direction of strengthening the competitiveness and innovativeness of SMEs, support to the entrepreneurship and increase of the export that will enable increase of



the employment and economic growth, during the next midterm period the following activities are planned:

- *“We learn about the exports”* – subvention of the consultant services for stimulation of the export activities;
- *“Entry on new markets”* – co-financing in the amount of Euro 5,000 for preparation of studies for entry on new markets;
- *“Virtual fair”* – electronic presentation of the Macedonian export companies;
- *“Macedonian Sun”* – enabling of the largest number of internationally requested certificates to be issued in the Republic of Macedonia;
- *“Establishment of Equity and Mezzanine investment funds”* – which basic aim is to complete the capitalization and crediting of firms that have potential and need for capital and knowledge;
- *“University spin-off companies”* – ensuring grants up to Euro 20,000 for co-financing of spin-off companies;
- *“Vouchers for innovation”* – vouchers up to Euro 5,000 for development of new businesses, strategies, models, services and products;
- *“Implementation of patents”* – financing up to 50% of the investment for innovations and patents that have potential for effectuating in the generation process;
- grants for stimulation of transfer of technologies – up to Euro 50,000 for the increase of the capacities of the macedonian companies for the usage of the European Funds for innovations, research and development;
- strengthening the technological cooperation within the frames of the clusters – through formation of Register of macedonian companies with largest capacity for innovations and research and organization of trainings on level of cluster;
- eco-innovations – support of the projects for production of eco-products and usage of clean technologies;
- establishment of an Agency for technologies and innovations so as to provide adequate institutional support and co-financing of research projects, and
- audit of the Customs Tariff Book, especially for new equipment and raw materials that are not produced in the Republic of Macedonia.

Pursuant the flagship initiative in the “Europe 2020” Strategy that refers to the industrial policy in the era of globalization and into direction of improvement of the access of the SMEs to sources of financing and ensuring fresh sources of liquidity, it seems important to mention that in October 2011, a Financial Agreement for loan between EIB and the Macedonian Bank for Development Promotion (MBDD) was signed in the amount of additional Euro 50 million (to the already used Euro 100 million), aimed at financing of SMEs business projects and other priority activities. Pursuant the Agreement, the aim of these funds is securing fresh capital and mitigation of the consequences of the crisis on the SMEs, support to new projects, new employments, increased liquidity of the economy and increased exports. Taking into consideration the impact of these funds on the dynamisation of the economic growth and reducing unemployment, the Government of the Republic of Macedonia has already discussed the possibility for providing additional Euro 100 million loan from the EIB, which will be



allocated as additional support of the SMEs. These funds are expected to be available by the end of the first half of 2012.

Industrial policy. Pursuant to the Accession partnership priorities, a strategic document “Industrial policy of Republic of Macedonia 2009-2020” was adopted which promotes integrated and proactive approach for stimulation of the competitiveness of the Macedonian economy. The document defines several areas of action that influence directly the stimulation of the competitiveness of the industry such as: increase of the international cooperation and stimulation of FDIs, applicable research, development and innovations, ecological technologies, products and services for sustainable development, development of SMEs and entrepreneurship and cooperation in clusters and nets. The goals of this strategic document are in line with the priorities and flagships initiatives proposed in the “Europe 2020” Strategy, that is, the initiative for establishment of integrated industrial policy in the era of globalization which focuses on enabling sustainable growth, as well as, the initiative for strengthening of the competitiveness.

Among the priorities of the Government during the following mid-term period is the creation of export oriented and more competitive economy, which will be based on developed entrepreneurial spirit, knowledge, innovations and cooperation. Into that direction, numerous new projects have been planned aimed at strengthening the support of the development of the private sector based on knowledge and innovations (which is in line with the determination for enabling higher private investments in the domain of research and development offered in the initiative for creation of a Union of innovations of the “Europe 2020” Strategy), support to SMEs, promotion of the export and at the same time promoting better business climate for leading businesses which is also in line with the determination for improvement of the business climate, especially for the innovative SMEs, offered in the initiative for Industrial Policy in the era of globalization of the “Europe 2020” Strategy.

In line with the initiatives of the “Europe 2020” Strategy, the realization of the set targets and into direction of support for improvement of the competitiveness of the macedonian companies and the export, numerous programs and measures are being regularly realized through: the Programme for implementation of the industrial policy, the Program for development of SMEs, Programme for support of SMEs, the Programme for support and development of the cluster association, the Programme for technological development and the like. The measures in the programs are directed towards support of the companies in increasing of their productivity, improvement and development of the products, development of the firms based on knowledge and innovations, stimulation of cooperation in clusters and alike.

With the purpose of efficient coordination among all of the interested parties an Action plan for implementation of the industrial policy for the period 2012 – 2013 was prepared. Currently ongoing is the development of framework for monitoring and assessment of the implementation of the industrial policy as a system for monitoring and evaluation of the implementation of the industrial policy. Significant input in the



strengthening of the institutional capacity for implementation of the proactive industrial policy will be the realization of the project *“Strengthening the institutional capacity for implementation of the industrial policy”* supported by IPA which implementation is expected to begin from 2012.

So as to ensure higher transparency about the measures and programs intended for the support of the macedonian companies, preparation of an interactive web-solution is being planned for the next mid-term period, in addition to continuation of the practice for communication with the firms through conferences, visits and alike.

Within the frames of the vertical aspect of the industrial policy, several strategies/programs for development of certain sectors such as textile, tourism and steel have been prepared so far. With a support from the World Bank, currently under preparation are several sector analyses (for textile, automotive industry, food processing, logistics and transport) that are expected to give better review on the necessary measures needed to be implemented which will lead towards increasing of the competitiveness and export potentials of these sectors.

It seems important to mention that special attention is paid also on the social responsibility of the enterprises. The realization of the National agenda for social responsibility of the enterprises for Republic of Macedonia (2008 – 2012) has largely contributed for the improvement of the business climate, the competitiveness of the macedonian companies and strengthening of the public – private partnership. This Agenda presents base for preparation of long term Strategy for social responsibility in the country during the following mid - term period.

Competition and state aid. The new Law amending the Law on Protection of Competition was enacted in September 2011 for the purpose of alignment with the Law on General Administrative Procedure, where new provision “silence is approval” was added. According to the Law on Protection of Competition, until the end of 2011, nine by-laws that transpose relevant EU measures are expected to be enacted where one of will regulate the terms and procedure under which the Commission for misdemeanour matters shall decide regarding the immunity and reduction of fines.

According to the Law on State Aid Control, two by-laws that transpose relevant EU measures were enacted in October 2011, namely the Regulation on manner and the procedure for filing the notification for granting state aid, as well as the procedure for monitoring of the existing state aid and Regulation on conditions and the procedure for granting de minimis aid.

In the period of 2012-2014, the following activities are planned: enacting the Regulation on establishing conditions and procedure for granting regional and horizontal aid, according to the Law on State aid Control; strengthening of the administrative capacity of the Commission for Protection of Competition in order to improve the enforcement record in the field of cartels and improving the quality of the state aid decisions, but also increasing the number of employees in the field of antitrust and concentrations, thus addressing the remarks of the 2011 EC Progress Report. At the same time, the implementation of the IPA Project *“Support to the Commission for*



Protection of Competition for control of state aid” is expected to begin in February 2012.

4.2.3. Labour market

4.2.3.1. Education

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

Science and research. Taking into consideration that the research and innovation are the foundation for economic growth based on technological development, the Government has defined the research in the areas of information technologies, biotechnologies and material technologies as crucial mid-term strategic targets. This commitment of the Government is closely correlated with the orientation of the “Europe 2020” Strategy for ensuring sufficient number of highly educated people in the areas of science, mathematics and engineering, as described in the Innovation Union initiative. In accordance with the recommendations of the Republic of Macedonia 2011 EC Progress Report, the National Programme for Science, Research and Development (2012-2015) and the Programme for Technological Development (2012-2015) will be adopted during 2012.

Additionally, in accordance with the recommendations of the 2011 EC Progress Report, in order to increase the current low level of research investment from both the public and the private sectors, the Government of the Republic of Macedonia will continue the realization of multi-year capital projects such as “*Translation of 1000 textbooks, scientific books and top quality books in the respective fields which are used for studying on the most prestigious universities in the USA and UK, and in the area of law in France and Germany*” and “*Laboratories 2010/2020*” for providing 190 new laboratories for the public higher education institutions. In addition, the efforts for increased effectiveness of the participation in the Seventh Framework Program (FP7) 2007-2013¹⁴ will continue, with the goal of increasing the current level of project participation from a budget of Denar 455 million to a budget of Denar 615 million by the end of 2013. In accordance with the recommendations of the 2011 EC Progress Report for increased participation in the “Marie Curie” actions and for overcoming the low level of participation of SMEs in FP7, the network of national contact points has already intensified its activities and has increased the number of organized info-days.

The cooperation between the universities and the industry will be supported with the project “*With Science to New Factories*” which will stimulate the companies, in cooperation with higher education institutions, to apply for projects for development of new technologies and for transfer of knowledge and experience from technologically more advanced countries.

¹⁴ With efficiency of 14,99% in 2011, the Republic of Macedonia has approached the European average of 15-16%.



Higher education. The “Europe 2020” Strategy establishes a separate indicator which links the education with the labor market, which is very important for the employability of the population and for creation of quality working positions. This indicator sets the target that, by the year or 2020, at least 40% of the persons aged 30-34 should have completed tertiary education. Although with a growing tendency, this index in the Republic of Macedonia is below the European target and amounts 14.3%. With an aim of increasing this indicator, the policies of the Government of the Republic of Macedonia in the area of higher education will be oriented towards furthering the positive trend in the percentage of persons aged 30-34 with completed tertiary education. In that context, the implementation of the Bologna process will continue, especially in the areas of quality of higher education, promotion of study programs with interdisciplinary approach, as well as in establishing and development of post-doctoral studies.

In the next mid-term period, the internationalization of higher education will continue through intensified participation in the EU programs *Erasmus Mundus*, *Lifelong Learning* and in the program for regional cooperation *CEEPUS*, which will result with financial support for quality and competitive higher education. The project “*Scholarships for studying abroad*” will enable providing scholarships for studies at prestigious universities abroad for all cycles of studies in the areas of particular importance for the socio-economic development of the Republic of Macedonia.

Starting from September 2012, the start of the project “*Implementing state quotas for II and III cycle of studies*” in the areas of particular importance for the socio-economic progress of the country is envisaged. Furthermore, in the next mid-term period, through public-private partnerships, projects for improving the conditions for accommodation of students at the public universities are envisaged as well.

In accordance with the national policy for enabling equal access to higher education, social cohesion and lifelong learning, the “*Project 35/45*” continues by involving 700 students in the first and second year of studies. With the goal to contribute to increased employment rate of persons with completed higher education and enabling professional mobility, the process of development and implementation of the National Framework for Qualifications in the area of higher education will continue, in accordance with the Decree adopted in 2010.

From the aspect of the process of European integration, activities for implementation of the Law for Recognition of Professional Qualifications will be intensified in the direction of implementing the Directive 2005/36 EC for recognition of professional qualifications, especially in the areas of health, architecture and veterinary medicine.

Primary and secondary education. Separate progress indicator of the “Europe 2020” Strategy is related to equal access to quality education, social cohesion and improved opportunities for employability of the population. The target for this index set by the Strategy is the percentage of early school leavers to be below 10% until the year 2020. Although with a positive trend, this indicator in the Republic of Macedonia is above the European target and amounts 15.5%. With an aim of reaching the target set by the Strategy “Europe 2020”, the key policies in the areas of primary and secondary



education in the next mid-term period will be related to: improvement of the legislative framework, development of contemporary study programs encompassing implementation of contemporary education methodologies and intensive utilization of ICT, raising the quality of the educational process, providing equal conditions for education of the children of all socio-economic categories, the children with special educational needs and providing conditions for education with the widest possible social inclusion.

Additionally, in accordance with the priorities of the “Europe 2020” Strategy in the next mid-term period the project “*Early socialization*” will be realized for acquiring basic pre-school knowledge, skills and increased quality of the programs for pre-school education. Moreover, in the next mid-term period, the project “*Skilful and competent*” will be realized for increasing the levels of applicable knowledge, skills and abilities acquired within the education process through introduction of entrepreneurship in the programs at all levels, improving the competency and effectiveness of the teaching staff, investing in achieving better learning outcomes, as well as developing partnerships with the private sector in the process of acquiring higher competences by the pupils. Special attention will be paid on inclusion of the children with special educational needs in the secondary schools, reforms of the arts education through improvement of the work conditions and to promoting policies for early learning of foreign languages in accordance with the recommendations of the Council of Europe.

In framework of the support to equal access to all levels of education and in accordance with the Accession Partnership priorities, the Government of the Republic of Macedonia will continue to support free accommodation of pupils in secondary education and will continue providing scholarships to: pupils with special educational needs, pupils coming from lower social categories, gifted and talented pupils and talented pupils in the physical education and sport.

In line with the recommendations of the 2011 EC Progress Report, in the next mid-term period, numerous activities will be undertaken for implementation of the Strategy for Integrated Education, which is actively supported by a large number of European and international donors. In the direction of achieving higher efficacy and synergy with the Secretariat for Implementation of the Ohrid Framework Agreement (OFA), a Governing Board was established, co-chaired by the Minister of Education and Science and the Deputy Prime Minister responsible for Implementation of the OFA.

In accordance with the recommendations of the 2011 EC Progress Report and especially as chair of the Decade of the Roma, the Republic of Macedonia continues to support the Roma pupils with measures aiming at their increased inclusion in the education system, decreasing the percentage of early school leavers and improving the quality of education, including over 600 scholarships at annual basis, as well as further implementation of the mentoring and tutoring system.

In line with the recommendations of the 2011 EC Progress Report, the realization of different projects for improving the education infrastructure will continue, within which, special attention will be paid on the necessity for balanced regional



development, especially in the communities with mixed ethnic composition. In the process of improving the educational infrastructure, the accent will be put to the energy efficiency of the objects.

Vocational education and training. In the area of vocational education and training (VET), the reforms will continue in the direction of implementation of the Bruges-Copenhagen process, which aims to empower the EU citizens to respond to the European labor market needs and to enable smooth moving between different levels of the education and training system, in different vocations and sectors. The activities will be focused on providing quality of vocational education and training, as well as transparency and recognition of qualifications.

In accordance with the EU flagship initiative “*New skills for new jobs*”, the implementation of the Protocol for Cooperation of the Social Partners and of the Memorandum for Cooperation and Understanding (both documents signed in 2011), will continue. On this basis, the long-term strategic cooperation between the VET Centre, the Government of the Republic of Macedonia and 11 social partners will continue. The implementation of the 5-year Strategy for Development of the VET Centre, the development of standards for vocations and study programs in accordance with the labor market needs, including programs for pupils with special educational needs, examination programs and tests for external evaluation of pupils’ achievements will continue.

In 2012, with support of the European Training Foundation, a Strategy for VET will be developed. Moreover, in the period 2012-2014, the cooperation with the Employment Agency of the Republic of Macedonia (EARM) will continue aimed at development of programs and organization of trainings for professions which are in deficit in the labor market, as identified with the annual Operational plans for active programs and employment measures. At the same time, different subjects of the vocational education and training system will continue to be involved in the implementation of the National Employment Strategy of the Republic of Macedonia - 2015.

In the area of entrepreneurship education, the Republic of Macedonia will continue the active participation in the Entrepreneurship Education Project for the countries of SEE. In the period 2012-2013 significant contribution toward reforming of two-year and three-year VET will be provided by the ongoing twining project for modernization of the education and training system (Priority Axis 2: Education and training – Investing in human capital from the fourth IPA component).

With the goal of capacity building for long-term forecasting of the labor market needs with participation of relevant bodies, monitoring and evaluation of the national employment policy, in the next period an IPA twining project will be implemented, co-ordinated by the Ministry of Labor and Social Policy.

Adult education. Growth of the participation of adults in lifelong learning with focus on continuous renewal and updating of their knowledge and skills is one of the basic targets of the EU flagship initiative “*New Skills for New Employments*” within the “Europe 2020” Strategy.



In the next mid-term period activities will be undertaken for realization of the Strategy for Adult Education and implementation of the annual action plans, especially in the area of establishing a system for licensing of adult education providers, as well as establishing and maintaining a catalogue of programs for adult education. In the same time, the promotion of career development and professional updating will continue, the cooperation with the local administration and social partners will increase, etc.

From the perspective of improving the social cohesion and equal access to education, the project *“Centers for adult education”* will be realized in the next mid-term period, which will open new possibilities for adults to complete their education and acquire knowledge and skills which will increase their competitiveness on the labor market. Formal education of adults will be organized in the regions in need of this type of education.

With the goal of improving the employability of adults, in particular of persons that have been unemployed for a longer period of time, the Center for Adult Education will continue the cooperation with the EARM in the implementation of the Operational plans for active programs and employment measures. In this context, programs for adult education will be developed and implemented for profiles needed on the labor market.

In the period 2012-2014, significant contribution to strengthening the adult education system will provide the implementation of the twining project *“Support for Capacity Building of the Adult Education Center, Development of Adult Education Programs, Literacy Programs and for Completing Primary Education of Excluded Persons”*(project realized in the framework of the 4th IPA component).

In the following mid-term period, the activities for the development of the National Framework of Qualifications for levels different than higher education will continue. This will enable recognition of the formal and informal education and will enable for the citizens to leave the education process and to return again into the educational system if they aim at improving their qualifications. Starting from the year 2014, the development of the National Framework of Qualifications will be supported by the 1st IPA component.

4.2.3.2. Labour market

Taking into account the persistence of the problem of structural unemployment in the Republic of Macedonia, top strategic priority of the Macedonian Government, according to the Government Programme and the priorities set in many strategic documents of the line Ministries, is to increase economic growth and reduce unemployment, as one of the pre-conditions for increased living standard of the citizens. Increase of the participation in the labour market and reduction of structural unemployment are among the main priorities and recommendations arising from the Accession Partnership with the Republic of Macedonia and the 2011 EC Progress Report.



To the end of creating a coherent strategic framework for unemployment reduction, in cooperation with the social partners, National Employment Strategy (2011-2015) was adopted in 2011, defining the key priorities, goals and policies to contribute to increased participation and opening of jobs on the medium term by:

- further improvement of business climate and competitiveness and increased level of investments;
- reduction of operating costs and social insurance contributions, as well as improvement of labour market mechanisms, such as determining salaries, social insurance, social protection system, etc.;
- improvement of educational system and human resources in line with the needs on the labour market;
- efficient labor market services by further modernization and improvement of both quantity and quality of services;
- providing greater security and flexicurity of working posts;
- implementation of active labor market policies;
- development of efficient and functional social dialogue, etc.

According to the National Employment Strategy, national goal as regards employment rate (20-64 years of age) for 2015 is set at 55%, which is a step forward in realizing the determined strategic priorities, being in line with the “Europe 2020” Strategy. Specific activities to realise strategic priorities are set in the National Employment Action Plan and they are in line with the “Europe 2020” integrated guidelines for economic policies and employment policies of the EU Member States.

Taking into account the specific needs and conditions on the labour market in the Republic of Macedonia, institutional capacities, as well as possibilities for public financing, aimed at reducing unemployment, i.e. increasing the participation in the labour market and reducing structural unemployment, following measures will be realised:

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



In addition, measures to increase effectiveness and efficiency of labour market institutions will be realised through:

- further modernisation of the EARM;
- creation of database for quality, professional and accurate monitoring of employers and workers in the field of labour relations and safety and health at work, so as to reduce the number of disabled persons, severe injuries and injuries with lethal consequences;
- support to national employment policies by developing long-term forecasts on the labour market and monitoring and evaluation of employment policies;
- strengthening the capacities of the social partners;
- further equipping of work clubs, etc.

EARM, as public institution, implements and monitors employment policies and assesses the successfulness of labour market policies, and continuously undertakes activities to strengthen administrative and institutional capacities. Hence, to the end of enhancing institutional capacities of EARM in managing projects financed with foreign assistance, IPA Funds and Project Unit was established within the organisational setup of EARM. In the course of 2011, direct grant for EARM for “*Support to Employment of Young Persons, Long-Term Unemployed and Women*”, financed within the fourth IPA component, started to be implemented. In addition, for the purpose of better informing the citizens on migration procedures as regards labour migration, new migration service centres were strengthened and opened within EARM with IOM Project on “*Migration and Socio-Economic Development of Western Balkans*”. As regards IT system in EARM, it was upgraded so as to integrate the second stage of the one-stop shop system of the Central Registry, and within IBAS Project, EARM database has started to be integrated with the single database on foreigners and it is in process of testing.

In the coming medium term period, EARM plans to implement the following activities, which are expected to contribute towards harmonization of the services of the EARM with the EU standards:

- introduction of quality management system in line with ISO 9001:2008 standard;
- implementation of active employment programmes and measures and development of employment services in order to extend the scope of beneficiaries and to strengthen individual access as regards activities with unemployed persons, in particular persons with lower possibilities on the labour market;
- further implementation of the “*Support to Employment of Young Persons, Long-Term Unemployed and Women*” Project, so as to easily integrate unemployed persons on the labour market by strengthening their competences, knowledge and skills;
- frequent analysis of the needs for skills on the labour market in the Republic of Macedonia;



- enhancing the activities related to informing about and promoting the services provided by EARM;
- implementation of “*Further Modernisation of EARM*” Project, financed under the fourth IPA component, to contribute to strengthening institutional capacities and further modernisation of the services of EARM, quality improvement, efficiency and effectiveness of services provided to employers and unemployed persons by the EARM;
- strengthening human resources through training through the Bilateral Cooperation Programme between the Ministry of Labour and Social Policy of the Republic of Macedonia and the Ministry of Labour, Employment and Health of the Republic of France;
- implementation of USAID Project for creation of youth network for acquiring skills for employment, to the end of improving the quality of offer on the labour market;

From more practical perspective, the last quarter of 2011 have been a period of several legislative changes related to the labour market, mainly in the Law for employment and insurance in case of unemployment and Law for Mandatory Social Security Contributions related to the employment policy and labour market. From a general perspective, it is apparent that with the proposed changes in the laws, the Government makes an effort to streamline the national labour legislation, to reduce the leakages from the system, as well as to correct wrong incentives. Such measures are coupled with measure to increase protection of workers (through an establishment of national minimum wage by adoption of a Law on minimal wage). Such policies are in line with the EC recommendations for shared responsibility between the unemployed and the authorities.

As a result of the above elaborated, envisaged investments, active employment measures and intensification of economic growth in the country, in the coming three years, it is expected that the downward trend of unemployment rate to continue, reaching around 27% in 2014.

4.2.4. Foreign trade

Trade openness. The degree of trade openness is a significant indicator and component of the economic development. During the past period, continuous expansion of the integration of Republic of Macedonia in the world trade flows and growth of the trade openness can be noted.

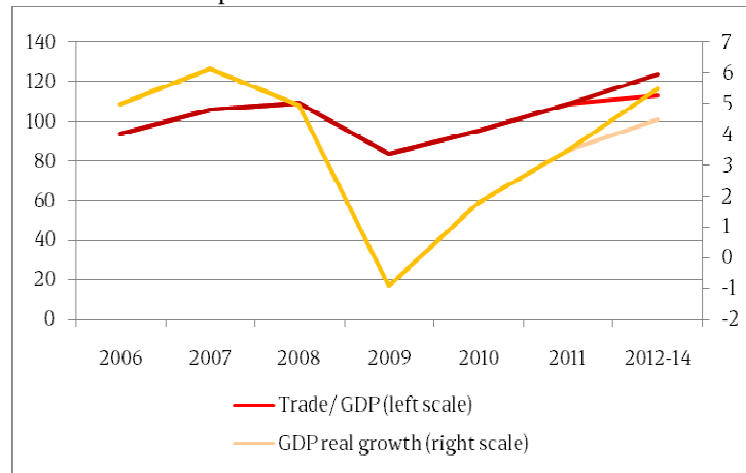
The improved international macroeconomic environment during the first nine months of 2011 resulted with positive movements in the external sector, where the export of goods registered growth of 32.5% while the import registered growth of 28.4%. According to the projections, by the end of the year the trade openness is expected to reach 108%, with tendency for further growth during the following mid-term period, reaching 123% in 2014.



In line with goals of the “Europe 2020” Strategy for increase of trade, during 2011 the liberalization of the external trade continued mainly through implementation of the existing free trade agreements and with the implementation of the amendments in the free trade agreements with CEFTA 2006, EFTA, EU and Turkey.

Since 01.01.2011, the trade in the industrial sector between the Republic of Macedonia and EU is conducted customs free, as a result of the completion of the transition period of 10 years that was valid until 31.12.2010 for gradual reduction of the customs fees for import of products from EU in Republic of Macedonia. In addition, starting from 01.01.2012 the diagonal cumulation will begin, which is pursuant the corresponding protocol of origin with the free trade agreement signed among the EFTA members with the Republic of Macedonia, Albania and Serbia.

Chart 4.1. Trade openness



Source: State Statistical Office and calculations of the Ministry of finance

During 2011, the Protocols for origin of the goods with the free trade agreements of Turkey with Republic of Macedonia, Montenegro, Serbia and Albania were applied. The Regional Convention for Pan-Euro-Mediterranean preferential rules of origin of the goods, that the Republic of Macedonia signed in June 2011 with 47 member countries will enable inclusion of Republic of Macedonia in the Pan-Euro-Mediterranean cumulation of origin of goods. In September 2011, Republic of Macedonia ratified the Additional Protocol for CEFTA 2006 which contains additional liberalization of the trade with agricultural and food products which implementation will begin on 13.11.2011. The ratification of the Protocol by the remaining CEFTA members, will enable complete application of the new liberalization of the trade with agricultural and food products. At the same time, taking into account the effective application of the Additional Protocol, Republic of Macedonia and Republic of Albania will cancel the quotas for agricultural products starting from 01.01.2012, while the quotas with the Republic of Moldova will be valid until the end of the ratification on their side. In addition, by the end of 2011, the ratification of the amendments of the free trade agreement with Ukraine is expected which will create possibilities for larger liberalization of trade with agricultural and food products.

Support and promotion of the export. During 2011, the 3-year Strategy for promotion of the export was adopted, which envisages strengthening and restructuring of the Agency for foreign investments and export promotion. The Strategy envisages research of potential target markets on international level, increased cooperation with



the business community, promotion of the national economy and building of brands, diversification of the structure of the export, use of outsourcing of the business processes (centers for joint services), defining the export goals and creation of real business balance between the attraction of FDI and the support of the local companies in their export activities. Pursuant the Strategy for promotion of the export and with purpose of diversification of the macedonian export structure, during the next mid-term period, increased support for export of products and services of the traditional sectors (textile industry, metal industry, agribusiness) is envisaged, but also of new sectors (pharmaceutical industry, chemical industry, information industry, medical apparatus, alternative energy, tourism, call centers and others). The expectations are that the implementation of the Strategy will contribute for the reduction of the unemployment and increase of the economic growth of Republic of Macedonia.

Trade with services. Taking to consideration the advantages of higher freedom in the trade with services in the region within the frames of CEFTA, activities for assessment of the potentials for additional liberalization of the services among the CEFTA member-states have been undertaken. Namely, pursuant the CEFTA agreement, analysis of the current level of openness of the markets for access for foreign providers of services is being undertaken which will provide determination of the services sectors that have potentials for liberalization, as well as identification of the trade barriers with an adequate measures to reduce and/or eliminate them.

Obstacles for the trade with goods and services. In line with the goals of the “Europe 2020” Strategy for creation of an open single market of services, based on the Services directive 2006/123/EC, during the next mid-term period, the Republic of Macedonia will continue with the implementation of the Action plan for harmonization with the directive, thus eliminating the unjustified barriers in the trade with services. Pursuant the dynamics envisaged in the Action plan, amendments in the existing regulative related to the procedures for issuing licenses, which enabled reduction of the deadlines for their issuance, implementation of the principle “silence means approval”, as well as elimination of the requests for citizenships and reciprocity for providers of services from the EU. The Action plan will continue to be implemented during the following mid-term as well.

In addition, during the next mid-term period, a new Law on services will be prepared, as well as an establishment of single contact point that will enable for the Republic of Macedonia to secure uninterrupted movement of the services in the internal market of EU during the accession in the EU. Furthermore, the new Law will be create legal frame for harmonization of the existing regulative in the services sector with the services directive and at the same time it will prevent introduction of new barriers.

4.2.5. Financial system

With respect to the financial system, in the coming medium-term period, Republic of Macedonia will remain committed to maintaining its stability, increasing intermediation, promoting transparency, further development, as well as



strengthening institutional and administrative capacities. These priorities are in line with “Europe 2020” Strategy, at the same time addressing the recommendations in the Republic of Macedonia 2011 EC Progress Report.

Banking system. For the purpose of full harmonisation with Directive 2002/87, by the end of 2011, Law on Supplementary Supervision of Financial Conglomerate will be adopted. Adoption of this Law will lead to establishing rules on carrying out supplementary supervision of banks, insurance undertakings, re-insurance companies, brokerage houses and investment fund management companies, when they form part of a financial conglomerate. In the course of 2012, it is envisaged to amend the Banking Law to the end of further harmonisation with Directive 2006/48/EC of the European Parliament and of the Council of 14th of June 2006 relating to the taking up and pursuit of the business of credit institutions as regards cross-border provision of services and authorisations of the National Bank to stipulate approaches when determining capital adequacy and requirements under which they can be used.

In the period 2012 – 2014, in line with the recommendations of the Basel Committee on Banking Supervision and Committee of European Banking Supervisors, pertaining to implementation of the New Basel Capital Accord (Basel II), National Bank will continue to gradually accept and apply Basel II. Activities related to the second and the third pillar in this Accord have already been completed, while with respect to the first pillar, draft methodology has been prepared on application of the standardised approach for determining the capital requirement to cover the credit risk, and manual on implementing the methodology is also planned to be prepared. Preparations for application of Basel III commenced in the second half of 2011, by determining the necessary data for calculating liquidity and solvency indicators, and such activities will continue in future as well.

In line with the initiative contained in “Europe 2020” Strategy - an industrial policy in the era of globalisation, to the end of improving the access of SMEs to sources of financing in 2012, Law on Saving Houses will be adopted. The Law will regulate the status and the operations of the existing saving houses, contribute to strengthening the intermediation by the saving houses, in particular the small entities, increase the amount of necessary initial capital and expand the type of financial activities.

In order to continuously monitor the developments in the financial system in the Republic of Macedonia, as well as the global trends, paying special attention to the risks to the global financial system, and to the end of maintaining stability of the financial system in the country, Financial Stability Committee will continue organizing regular meetings in the coming medium-term period as well. In addition, for the purpose of further improvement of the regulatory framework and implementation of the best international practices in the banking sector, regulatory changes both at international and at EU level will continue to be monitored. Hence, special focus will be put on the cooperation of the institutions in the Republic of Macedonia with the respective supervisory bodies in the EU and the Member States.



Capital market. In line with the recommendations in the 2011 EC Progress Report, and the objectives related to the financial system reforms, presented in the “Europe 2020” Strategy as regards improvement of access of SMEs to sources of financing, promoting transparency, stability and accountability of financial institutions, as well as overcoming regulatory gaps, following activities will be realised in the period 2012 – 2014:

- for the purpose of strengthening protection of investors’ interests in private investment funds and maintaining stability on the capital market in the Republic of Macedonia, in the first half of 2012, it is planned to amend the Law on Investment Funds with respect to regulating the work of private funds, thus harmonizing their operations with Directive 2011/61/EC. In addition, principle of social responsibility of investment fund management companies will be introduced as regards decision making for investing assets by the investment funds;
- at the same, to the end of harmonizing the national legislation with UCITS 4 package: introduction of feeder funds and master funds, European passport, procedures for cross-border and national mergers of investment funds and ensuring more information for the investors by introducing information document for the investors, as supplement to the basic prospectus of the company, amendments to the Law on Investment Funds are envisaged by the end of 2014;
- SEC will prepare a Strategy on Capital Market Development, which will envisage undertaking activities to stimulate the issuance of new financial instruments for trading on the secondary market to the end of enabling the companies to appear on the stock exchange and to use it as additional source of financing by issuing shares;
- to the end of more precisely defining the financial instruments in which investment funds invest, Directive 2007/16/EC will be implemented in the course of 2012, and
- for the purpose of harmonisation with the respective EU legislation, new Law on Capital Market will be adopted. Due to the complexity, it is approved to use consulting assistance through a project envisaged to be finance by IPA 2010, the realisation of which is expected to commence at the end of 2012.

SEC will continue the cooperation with the other regulators in the region to support the activities related to integration of securities markets by introducing a joint platform for trading, settlement – accepting mutual rules on transparency and mutual rules on listing.

In order to stimulate and boost trading on the secondary market and introduce new securities on the market, SEC will organise workshops and training so as to stimulate the limited liability companies to implement IPO, as well as to stimulate the existing joint stock companies for new secondary public offers of securities.

To the end of increasing liquidity on the securities market, SEC, in cooperation with the other participants on the securities market, will undertake activities so as for all transactions to be concluded on the secondary market to be settled in real time, i.e. T+0. SEC will prepare Manual on Issuance of Bonds by Local Government Units, which will help local government units understand the process of issuance of bonds, starting from



the adoption of a decision for issuance of bonds to providing the necessary approval by the SEC. In order to improve corporate management and transparency of the companies on the securities market, SEC will also prepare Guide on Implementation of Principles of Good Corporate Governance of Non-Listed Companies.

In the course of 2012-2014, SEC will continue implementing activities related to improving the methodology on risk-based supervision of authorised participants on the capital market and will also prepare special methodology on control of investment fund management companies and investment funds. At the same time, software solution for control of investment fund management companies and investment funds will be prepared.

Insurance sector. To the end of implementing best practices at EU level, but, above all, for the purpose of additionally strengthening the stability of the insurance sector, Directive 2009/138/EC (Solvency II) is envisaged to be implemented by adopting new Law on Insurance by the end of 2012. Adoption of this regulation will contribute to promoting the confidence in financial stability of the insurance sector, reducing the insolvency risk of insurance companies, reducing possible losses for insureds in case when the insurance company will not be able to settle the claims, as well as early warning to supervisors on the insurance market so as to timely intervene if capital of an insurance company drops below the required level. Therefore, in the period 2012-2014, Insurance Supervision Agency (hereinafter: ISA) will continue analyzing the possibilities to shift to risk-based supervision, as well as preparatory activities related to implementation of the provisions in the EU Directive pertaining to Solvency II in the national legislation and practice. In addition, this means continuous training of the personnel in implementing risk-based supervision.

In the coming medium term, Republic of Macedonia will join World Bank regional project on establishing specialised regional reinsurance company against natural disasters, which is novelty on the insurance market in the Republic of Macedonia. Therefore, Law on Shareholding of Republic of Macedonia in “Europa Re” Share Capital will be adopted.

In addition, with a cooperation with the World Bank, ISA will commence a Project on Liberalisation of Compulsory Motor TPL Insurance. In line with the recommendations in the Republic of Macedonia 2011 EC Progress Report, the project objective is to develop a regulatory framework and a possibility for actuarial calculation of premium rates and technical provisions at compulsory TPL insurance.

To the end of strengthening administrative and operational capacities of ISA, software solution was purchased with EBRD grant for collecting and processing insurance market data, which will become operational at the beginning of 2012, and this is expected to significantly improve the off-site monitoring of the operations of the companies.

For the purpose of enhancing international cooperation, ISA will continue the cooperation with supervisory bodies in the EU Member States with which it has concluded Memorandum of Cooperation, above all in two areas – performing joint



supervisions with the regulators in the countries of the parent companies and participation of ISA in supervisory colleges upon invitation by regulators in the countries in which insurance companies, present on the Macedonian market, are seated. In addition, in the period 2012-2014, ISA will commence a project for self-assessment of the level of application and harmonisation with the Insurance Core Principles of the International Association of Insurance Supervisors (IAIS).

Fully-funded pension insurance sector. Development of the second and the third pillar of the fully-funded pension insurance has strengthened the pension system in the country by diversifying the sources of payment of pensions, provided for entry of legal entities from the EU in this system as pension companies, as well as for pension funds to invest in securities issued and guaranteed by the EU Member States and by the legal entities in these States.

MAPAS has started analyzing the possibility and the manner of introducing multi-funds on the second and the third pillar of the pension system, in order, in the coming medium term, to provide the members the choice of investment options depending on their preferences for risk and yield within the pension savings, in line with the living cycle of the members.

In the following medium-term period, IPA Project will continue to be implemented, aimed at introducing risk-based supervision, analysis of harmonisation of regulations on fully-funded pension insurance with the ones in the EU, building MAPAS capacities, as well as improved organisational management, to include strategic and business planning, business processes, knowledge/research management and IT development, which, as a whole, will contribute to harmonisation of supervision with EU practice. In line with the 2011 EC Progress Report, new regulations will be created on the basis of best IOPS practices and the need for harmonisation with Basel principles will be reassessed, taking into account the fact that the system is based on defined contributions, rather than on defined benefits.

Within the IPA Project, it is envisaged to carry out on-site control in one of the pension companies in May 2012. In line with the recommendations in the 2011 EC Progress Report, to the end of strengthening supervisory capacities of MAPAS, it is planned for its personnel to attend workshops on capital markets and risk-based supervision, organised by IOPS. In addition, in the course of 2012, three employees from MAPAS are expected to acquire qualifications for investment advisers.

By the end of 2012, it is planned to complete the pension system reform by rounding-up the legal framework for the reformed pension system by adopting the Law on Payment of Pensions and Pension Benefits, which is to regulate the withdrawal and the use of funds from the second and the third pillar. In the coming medium-term period, this system will be improved and developed.

Leasing. In 2011, Law on Modifications and Amendments to the Law on leasing was adopted, introducing criteria for licencing the members of management bodies, minimum capital requirement and scope of activities as regards core capital. Existing



leasing companies are obliged to harmonise their activities with the new legal solutions within 12 months.

In line with the initiative contained in „Europe 2020“ Strategy - an industrial policy in the era of globalisation, to the end of improving the access of SMEs to sources of financing, thus creating jobs, Law on financial companies started to be implemented in January 2011, the main objective of which is to strengthen financial intermediation. In the second half of 2011, first two licences for performing financial activities – crediting, factoring and issuance of guarantees were issued, and more specific effects from the operations of the new intermediaries are expected in 2012.

4.2.6. Agriculture and agricultural policy

Agriculture is an important sector in generating GDP, with a share of 10.6% at current prices for the year 2010, and 19.1% of the total employees in the year 2010 were engaged in agri - food sector. Therefore, taking into account the importance of these indicators in the view to increase the employment rate and economic growth, as well as taking into consideration the recommendations in the 2011 EC Progress Report, the Government's active policy for development of agriculture and rural areas in the period 2012-2014 is aimed at creating development pre-conditions, increasing competitiveness and modernization of the agri - food sector through a combination of the policy of direct support of revenues from agricultural activities, with the policy of regulation of markets of agricultural products, rural development policy and land policy.

Land policy. In terms of land policy, the priorities for the period 2012 - 2014 are the following:

- full allocation of available state agricultural land to farmers and implementing measures to activate the private agricultural land that is neither cultivated by the owners, nor placed on market of agricultural land;
- regulation of the use of agricultural land which is owned by farmers, but without proofs of ownership, as a residual problem of the so-called socialist policies of “funds allocation of agricultural land”, which is used by the farmers for decades;
- registration of the existing buildings for agricultural purposes, constructed on agricultural land and to allowing construction of agricultural buildings under the simplified procedure, without paying utilities;
- consolidation of agricultural land by exchange of private plots between farmers and by exchange between private and state agricultural land; and
- provision of state agricultural land for usufruct to socially unprovided categories of citizens in order to ensure the economic activity of these categories and their inclusion in the categories of employees who exercise their livelihoods from agriculture.

For the purpose of implementation of the priorities for recording of existing buildings constructed for agricultural purposes on agricultural land and consolidation of agricultural land in 2012, amending of the Law on Agricultural Land is foreseen and adoption of bylaws, and strengthening institutional environment for transparent implementation of the land policy.



Direct support policy. In the transitional period of adjustment of direct support systems according to the priorities of the Common Agricultural Policy and the mechanisms for payment of direct support under the European Agricultural Guarantee Fund (EAGF), Republic of Macedonia will implement measures for direct support, aiming towards the following:

- keeping a continuous and stable policy of direct support in agriculture, in the livestock farming, fruit growing and gardening, crop production, viticulture and tobacco growing, through direct payments per head and per hectare;
- strengthening the efficiency system of direct support measures, through the use of indicators and results received by the Farm Accounting Data Network System (FADN) in defining the amounts for payments;
- strengthening the system of payment of measures for direct support and administrative control through the application of a fully integrated system for administrative control (ISAC) and complementary systems, particularly through the implementation of electronic linking of registers for recording of farms (Sole Register of Agricultural Holdings) and implementation of the system for identification of land parcels, the wine cadaster and the cadaster of orchards and olive plantations;
- further upgrade of the system for identification of land parcels within the integrated administrative control system supported by IPA component 1;
- institutional upgrade of the Agency for Financial Support of Agriculture and Rural Development to implement the functions of "a Payment agency" according to the principles and mechanisms for direct support payments under EAGF;
- further upgrade of the system for identification of land parcels within the integrated administrative control system to be financed through IPA 2009;
- institutional capacity building relating to the introduction of cross compliance in direct payments, which further initiates compliance with environmental standards in agricultural policy and care for the animal's condition, which is also financed through the IPA.

Regulation of markets for agricultural products and foodstuffs. So as to fully implement the provisions of the new Law on Quality of Agricultural Products which is in line with the EU regulations on "Common Market Organisation", establishment of registers for higher standards for geographical indications, designations of origin and traditional specialties have been envisaged. For the following mid-term, and supported by the AgBiz project funded by USAID, technical assistance was provided to all interested parties to register 11 products with geographical indications.

In the next mid-term period, the following activities have been planned: providing of technical support to inform the farmers on contracting the purchase of agricultural products, registration of purchasers and education on the manner of operation of the market of agricultural products, support of the programs for promotion of national brands and new alternative markets and domestic marketing campaigns for products with low national consumption, introduction of a national seal of quality - "Macedonian sun" providing regular information on trends, demand and prices of agricultural



markets, and forecasts of trends in the coming seasons through the Market Information System at the Ministry of Agriculture, Forestry and Water Economy (MAFWE).

In the next mid-term, however, it is envisaged that new cooperatives will be established after which strengthening of their capacity for independent functioning will follow. Also, it is envisaged that a system of continuous training for managers who will manage the agricultural cooperatives will be established, in order to improve the promotional, organizational and managerial skills, organizing national media campaigns on promotion of economic association of farmers and initiate interest among potential cooperants.

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

- improvement of existing measures that apply in the IPARD Programme, aimed at improving the conditions for eligibility and expanding the funding opportunities to fully implement the program goals which are mainly focused on the goals of modernization and increasing of competitiveness of agricultural holdings, the application of food safety standards and diversification of economic activities in rural areas;
- implementation of measures for raising interest of the rural population, the business sector in rural areas and NGOs to establish LAGs, and preparation of facilities for the preparation of local strategies for rural areas and their implementation;
- financial support of the process for faster transfer of agricultural holdings to young farmers at the age from 18 to 40, by providing financial incentives to start new agricultural businesses that shall directly affect the decrease of unemployment among young people;
- support of production which is based on agro-ecological approach for maintaining special traditional landscapes, bio-diversity and promotion of traditional varieties and species;
- promoting the establishment and development of family businesses and achieving additional incomes from agricultural and non-agricultural activities, through co-financing of projects for diversification of activities in rural areas; and
- technical support from IPA 2009, concerning strengthening of administrative and institutional capacity of MAFWE, to implement quality policies and organic agricultural production.

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

- enhanced promotion of measures for support of investment in rural tourism;
- continued implementation of measures for support of municipalities, to enrich the tourist offer on the municipal level, through investments in public picnic areas, infrastructural linking of cultural monuments of local significance,



- marking field and forest hiking trails, establishment of bicycle paths and walkways and etc;
- introduction of unified standards for rural accommodation according to the system of standards EURGITES for obtaining the domestic label "Pomegranate" for the category of the facility and establishing an information network for all providers of rural tourism services;
- strengthening of services in rural areas, through education of providers of tourist services in rural areas, promotion of the use of ethno - style, traditional architecture, the manner of traditional housing, folk art, handicrafts, customs and folklore and traditional dishes, in order to be able to create a competitive travel offer; and
- promotion of wine tourism by making tourism programs, such as "Macedonian Wine Road" for domestic and foreign visitors and organized visits to wineries and wine regions, testing of traditional Macedonian food and wine, as well as touring through the production process of Macedonian wines.

In order to provide a system of continuous partnership and involvement of NGOs in creating and monitoring the effects of rural development policy provides support for establishment and functioning of the National network for rural development.

Simultaneously, in the next medium-term period, establishing a system for planning research and technical - technological practices in agriculture and rural development and introduction of special multi-program research and development in agriculture is envisaged. In addition, in the period 2012 – 2014, providing of state aid is envisaged for investments delivering application and basic scientific-research projects and establishment of demonstration-testing areas on the basis of submitted and approved multi-annual implementation plans in the amount from 3% to 5% of the total assets.

Food safety. The integrated system for food safety started to function up in 2011, which is in accordance with the EU regulations, harmonized in a sole regulatory act – Law on food safety that has been implemented by the newly-established Agency for food and veterinary services. The objectives of the food safety policy within the period 2012 – 2014 are directed towards high level of food safety and animal food through future strengthening of the established functional system for safety and quality of food, additionally taking care for the principle “*from the land to the table*” through a permanent food safety control system on the domestic market and support for food operators for harmonization to the applicable EU standards for food and animal food.

Concerning the food-safety, the focus for the period 2012 – 2014 shall be put on the following activities:

- preparation of a multi-annual measures program and indicators for monitoring and improving of the quality of milk and establishing of a milk quality monitoring system. For this purpose, establishment of two regional laboratories for southern and eastern part of Macedonia is planned in order to examine the hygiene and quality of milk which is in line with the recommendations in the 2011 EC Progress Report;



- classification of operators who handle food of animal origin in terms of meeting the standards for food safety, upon which their activities to achieve the minimum standards for food safety and compliance with EU standards will be monitored; and
- establishing a system for treatment, gathering and processing of waste of animal origin.

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

Phytosanitary policy. Phytosanitary policy objectives in the period of 2012 - 2014 are aimed at making long-term strategy aimed at raising the quality of seed and planting material, strengthening the system of internal monitoring of diseases in plants, quality control of preparations for plant protection and fertilizers and education of farmers on the application of certified seeds and seedlings, as well as principles of good agricultural practice and application of proper and sustainable methods of agricultural production to protect soil and water. For this purpose, Code of good agricultural practice and a Strategic framework will be developed during 2012. For the purpose of strengthening of the supply of quality planting material through public - private partnership, construction of at least one modern nursery for seed and planting material production of phyto - clean seedlings will be enabled, especially for areas with intensive vegetable production and orchards. Through the financial support to rural development as a preparatory measure for the application of agri - environmental support, activities will be funded to establish a gene - bank of indigenous plant varieties and system application of indigenous species to maintain their representation in terms of preserving biodiversity, which is consistent with the recommendations in the 2011 EC Progress Report.

4.2.7. Administrative reform

Public administration reform. Efficient, effective and professional public administration represents a key factor for reaching the desired level of services for the citizens and businesses. This level of services contributes to economic growth and development of society and democratic processes, as well as the integration of the Republic of Macedonia into the EU. Thus, the objective of the Government of the Republic of Macedonia in the next medium term is to implement the reforms in order to increase the efficiency and effectiveness of public administration, the transparency and openness of the system, the satisfaction of citizens and companies as end-users of public services, as well as to improve the quality of services. In line with the above, the following activities related to the public administration reform for the period 2012 - 2014 are envisaged:



- improvement of budget, administrative and facilities capacities of the newly formed Ministry of Information Society and Administration (MIOA) and the State Administrative Inspectorate, in line with the recommendations in the Republic of Macedonia 2011 EC Progress Report;
- continuation of the project "*Citizen has the top priority*" which provides strict application of deadlines for action by civil servants and managers of state institutions, as well as sanctions for the managers if the citizens' request are not resolved within the prescribed period;
- commencement of the project "*Scale the administration*" in order to have direct opinion of citizens' satisfaction regarding the services received from state institutions, this will be made through a special device that connects the system software and the system for calculation of salary in order to raise the accountability of civil servants;
- continuation of the project "*there is no wrong door*" which aims at prompt services to the citizens, irrespective of whether their questions are addressed to the right place or not;
- introduction of so-called "*e-reminder*" representing an IT support system for informing the citizens via SMS or email when they documents need to be collected such as their passport, identity card, driving licenses, vehicle registration or other documents issued by state institutions;
- promoting the portal "*Citizen Charter*" by which citizens can express their opinion regarding the work of state institutions which is in line with the recommendations in the 2011 EC Progress Report;
- establishing a system for electronic document management, which will electronically monitor the movement of documents through the state institutions;
- introducing a system for continuous measurement of end-users satisfaction of administrative services, where institutions themselves are assessed in terms of satisfaction of citizens during process of granting the service "*quality barometer*";
- reform of salary's system of the public sector by adopting a law that will precisely define how the determination of wages and increase and strengthen the principle of career progression based on competence. This activity is aimed at overcoming the remarks in the 2011 EC Progress Report concerning the fragmentation of legislation in this area;
- introduction of so-called "*management teams*" of experts within the cabinets of ministers, with pre-defined budget and authority that as activity will be properly normative handled and applied in positive legislation, and
- introduction of CAF and ISO standards for quality in public administration.

Taking into account that the quality of public administration services is essential for the citizens and business community, the expectations are that these activities will contribute toward creation of modern, professional and efficient public administration, which will contribute to achieve the strategic priority of the Government of the



Republic of Macedonia for effective law enforcement through in-depth reforms of the judiciary and public administration.

Improving transparency and accountability of public administration. Transparency, accountability and integrity of public administration in the Republic of Macedonia represent an essential element in meeting the criteria for full-fledged membership in the EU. But when it comes to transparency and accountability of the civil service, the Government of the Republic of Macedonia also strives to build a system of "good values" that every modern and functional public administration should have. Taking this into account, one of the strategic priorities of the Government for the coming mid-term period is a realization of a wide range of reforms aimed at improving the transparency and accountability of the public administration.

Thus, during 2012-2014 the attention will be on improving the quality of regulation through the implementation of regulatory reform which is in direct correlation with the EU "Strategy 2020".¹⁵ Furthermore, the Government will continue strengthening the administrative capacities for strategic planning by conducting trainings on strategic planning aligned with the priorities arising from Pre-accession partnership.¹⁶

In addition, further strengthening of the capacities for cooperation with NGOs is also envisaged¹⁷. It is important to mention that the cooperation with the Ombudsman will be continuously developed. Greater attention will be placed on implementation of the Law on free access to public information. Furthermore, in correlation with the EU "Strategy 2020"¹⁸, the implementation of the Strategy for Cooperation between the Government and civil society will continue. In accordance with Pre-accession Partnership and the EU "Strategy 2020"¹⁹ the focus will be placed on continued development of civil society by encouraging development outside the capital and rural areas. Also, in accordance with the Pre-accession partnership,²⁰ the Government of the Republic of Macedonia will continue with the implementation of various policies and activities aimed at preventing corruption.

The implemented measures and activities in the coming mid-term period are in correlation with the priorities, measures and activities envisaged in the Programme of the Republic of Macedonia.²¹ In addition, the Government will continue with the implementation of the recommendations by GRECO (Group of States against corruption) and proactive enforcement of legislation in order to prevent corruption.²²

¹⁵ EUROPE 2020, A European strategy for smart, sustainable and inclusive growth, p.15

¹⁶ Council decision on the principles, priorities and conditions contained in the Accession Partnership with the Republic of Macedonia and repealing Decision 2006/57/EC, p.8

¹⁷ EUROPE 2020, A European strategy for smart, sustainable and inclusive growth, p.28

¹⁸ Ibid.

¹⁹ Council decision on the principles, priorities and conditions contained in the Accession Partnership with the Republic of Macedonia and repealing Decision 2006/57/EC, p.16; and, EUROPE 2020, A European strategy for smart, sustainable and inclusive growth, p.28

²⁰ Council decision on the principles, priorities and conditions contained in the Accession Partnership with the Republic of Macedonia and repealing Decision 2006/57/EC, p.8

²¹ Programme of the Government of the Republic of Macedonia, pg.3

²² Ibid., pg.3,43,44



4.2.8. Rule of law and contract enforcement

Establishing of an adequate system for the rule of law and enforcement of contracts in accordance with the recommendations in the 2011 EC Progress Report and the Accession Partnership, remains one of the top priorities of the Government of the Republic of Macedonia in the forthcoming medium term period. Thus, in the period of 2012 – 2014, the activities will be directed towards the implementation of adopted laws, above all, the Law on Criminal Procedure, the Law Amending the Law on Civil Procedure, the Law Amending the Law on Courts, the Law on Amending the Law on the Judicial Council, the Law Amending the Law on Court Budget and other laws, aimed at strengthening and increasing of independence and efficiency of the judiciary.

For further strengthening of the independence of the judiciary, which represents a priority, pursuant to the Accession Partnership for the next medium term, the implementation of the legislation (adopted in 2010) is envisaged, especially the provisions relating to the introduction of new terms for election of judges (especially regarding the system of career advancement of judges), the new provisions for determining disciplinary responsibility for unprofessional and unethical performance of the judges, through introducing of objective and measurable criteria, increasing the transparency of the courts and implementation of the new system of evaluation of judges through objective qualitative and quantitative criteria.

In addition, pursuant to the recommendations for Accession Partnership to allocate an adequate resources in the judiciary for the period between 2012 and 2015, judicial budget will be doubled from the current 0.4% to 0.8% of GDP in 2015. For the purpose of realization of one of the priorities for the Accession Partnership, regarding the provision of initial and continuous training at the Academy for Judges and Prosecutors, the emphasis will be placed on implementing the Strategy for Determining the Number of Candidates for the next generations of judges and prosecutors. In this direction, for an initial training at the Academy for Judges and Public Prosecutors, 15 candidates will be admitted in 2012 (6 of the them will be candidates for judges and 9 of them, candidates for public prosecutors) and 14 candidates in 2013 (6 of them will be candidates for judges and 8 for public prosecutors).

Regarding the efficiency of the judiciary, the activities anticipated for the following medium term period, will be directed towards the application of the Law Amending the Law on Civil Procedure, the Law on Expertise and the Law on Assessment, which provide strengthened legal security, more efficient court proceedings, reduced length of the procedures and create a favorable business climate. Provisions that specify deadlines for taking procedural action will contribute mostly to this purpose, in addition to the introduction of electronic delivery, introduction of tone recording of hearings, etc.

In the area of expertise, activities will be focused on taking an exam and issuing of working licenses, which is expected to increase the quality of the expertise. Also, to increase the efficiency of the judiciary, undertaken measures will contribute, such as,



dealing with payment orders which will be exempt from court jurisdiction and will be transferred to the competence of the notaries.

In order to overcome the remarks in the 2011 EC Progress Report, the Ministry of Justice in July 2011 has adopted a Methodology on Forensic Statistics with an aim to provide uniform and quality statistics. According to the planned dynamics, software application for processing and statistical analysis will be completed by the first half of 2012, followed by a six-month period of testing the application and organizing a user training. The system for collecting, processing and analysis of statistical data in the courts will be fully functional by early 2013. In the field of information technology, it is important to note that from 01.01.2010 e-judiciary is fully operational and an ACCMIS application is used in all courts in the country. For the following medium term, the process of introducing information technology will be expanded to the Public Prosecution Offices, thus providing connection between information systems in judiciary and public prosecution.

In order to combat corruption, activities in the following mid-term period will be focused towards the application of new provisions established in criminal code and especially regarding the extended confiscation and illicit enrichment, as well as training of all stakeholders in the system of combating corruption.

4.2.9. Additional reform areas

4.2.9.1. Market entry and exit

With a purpose of increasing the economic growth and employment as a top strategic priorities as stated in the Programme of the Government of Republic of Macedonia, during the past period numerous measures for improvement of the business climate were implemented. With regards to it, the measures for facilitation of opening and closing of business represent an important segment.

Market entry. The focus of the activities during the next midterm period will be on the design of the project “Metabase” which purpose is an establishment of inter-operability. Within the frames of this project, complex process of research of the existing forms and manners and data that are requested will be developed. At the same time, the project will provide for and electronic expression/submission of data through software and in standard of XBRL (Extensible business reporting language) for which a Strategy for implementation of electronic standards in the exchange of financial and business data was adopted in May 2011. Furthermore, it is expected that through IPA 2012 various activities will be supported so as to ensure further facilitation of conducting a business from an aspect of reduction of the administrative costs.

During the 2012-2014 period, two additional projects are envisaged that are into phase of designing at present. The first refers to the establishment of Electronic register of requirements of the creditors in Republic of Macedonia that should have legal activity from and aspect of rights of the payment requirements in execution/payment procedure, while the second is a Project for raising the public awareness of the business



sector for the value of using the electronic solutions for registering/changing and deleting data in the registers.

Market exit. During the following mid-term period increased use of the system e-bankruptcy is envisaged, which will provide all of the statistical data for the bankruptcy procedures in Republic of Macedonia. Also, further measures and activities will be determined, i.e. it will be determined whether improvement of the existing legal frame is necessary in addition to specific trainings and research of certain phases in the bankruptcy procedure. At the same time, the Committee for bankruptcy procedures formed in the Government of Republic of Macedonia is expected to review the reasons for prolonging of the so called “old” bankruptcy procedures and to propose measures for their closure.

In addition, during the following mid-term period continuous development of the process of training, examination and licensing of the trustees will follow, together with updating of the programmes for education and examination of trustees. In addition, numerous activities will follow so to raise the awareness of the business community for the benefit of timely opening and the active participation in leading the bankruptcy procedures.

During 2012 – 2014, a project supported IPA 2011 is planned to be implemented which will support the implementation of the bankruptcy legislation, as well as trainings and strengthening of the capacities of the institutions included in the implementation of the bankruptcy legislation.

4.2.9.2. Customs system

To the end of realizing the Accession partnership priorities of the Republic of Macedonia, as well as harmonizing Macedonian customs legislation with the European one, modifications and amendments to the Customs Law and the implementing Decree were adopted. For the purpose of further harmonisation of the legislation, analysis will be carried out and new Customs Law, harmonised with the Modernised Community Customs Code, will be prepared in the period 2012 – 2014. Such activities will be supported within the Project for Strengthening Customs Administration Capacities, for the purpose of implementing customs and excise European legislation, financed through IPA 2010.

Harmonisation of customs tariff with the EU Combined Nomenclature is being implemented on continuous basis. Hence, in 2012 as well, customs tariff will be harmonised with the 2012 Combined Nomenclature, while in the middle of 2012, it is planned to adopt Law on Modifications and Amendments to the Law on Customs tariff, to the end of further harmonisation with Council Regulation 2668/87 and the Combined Nomenclature. To that end, it is planned to amend the Decree on Application of ECC Regulations pertaining to distribution of certain goods in the Combined Nomenclature.



As regards transit, Customs Administration will implement all necessary requirements for accession of Republic of Macedonia to the Convention on Common Transit Procedure between EU Member States and EFTA and inclusion of the Republic of Macedonia in the new computerised transit system (NCTS).

On the basis of the harmonised customs legislation, customs procedures will be improved, paper-less environment in customs operations will be introduced, thereby adhering to EU standards, as well as the standards of the World Customs Organisation. With respect to excises, in the period 2012 -2014, national excise legislation will be revised and harmonised with EU Directives, new system for processing excise documents will be introduced, to provide for electronic submission and procession of excise applications, accounting records and collection of excise debt, recording quantities of excise goods released in free circulation, recoding and monitoring decisions of excise refund, recording and monitoring issuance of excise control marks, issuing and recoding excise licences and approvals and their holders, as well as recoding and monitoring stock of excise goods.

To the end of fulfilling the necessary requirements for interoperability and interconnections with EU systems and overcoming the remarks presented in the Republic of Macedonia 2011 EC Progress Report, in September 2011, Customs Administration (CA) announced new tender for procurement of Customs Declaration Processing System (CDPS). In the period 2012-2014, within this Project, CA will introduce and implement new System for Processing Customs Declarations and Excise Documents (SPCDED) – a solution which, within customs and excise procedures, will provide the CA with customs declaration and excise document management (submission, acceptance, recording, processing, archiving), control over movement of excise goods and exchange of e-mail messages within the automatic administrative operations, efficiency in carrying out control over collected and refunded customs duties, excises, fees and other charges, trade facilitation through faster flow of goods, improvement of security in the supply chain, in line with the EU standards and the standards of the World Customs Organisation. This system will provide for exchange of data between customs authorities and economic operators, as well as between customs authorities and other government institutions. Interconnection with NCTS and IET systems in the EU is envisaged within the implementation of the new SPCDED, to be realised through projects financed under IPA 2008 and IPA 2009. By implementing the new Data Processing System, integrated customs and statistical nomenclature of EU TARIC (TARIM) will be introduced, aimed at realizing the strategic priorities, such as increase of the number of companies to use simplified procedures and strengthening the control mechanism.

In the period 2012-2014, in line with the IT Strategy of the CA, what is of high priority is to define alternative procedures and to establish information system to provide for fast recovery following a possible disaster and continuity of the business processes.

In addition, CA has set, as priority goals, the cooperation with economic operators and other government institutions and inspection services, improvement of cooperation and exchange of data with government bodies, other CAs and EU bodies. Special



attention will be paid to the cooperation with the other competent government institutions and inspection services to the end of further development and operationalisation of the risk analysis system, so as to enhance efficiency when detecting illegal trade and crime. Significant priority of the CA remains to be enhancement of bilateral cooperation, strengthening cooperation with the EU, WTO and broader.

4.2.9.3. Energy

Pursuant to the Accession Partnership priorities, in February 2011 new Energy Law was adopted with which harmonization with the EU legislation is made in the part of the internal market of energy, energy efficiency, as well as with the the liabilities arising from the Agreement for establishment of the Energy community that refer to the exchange of energy. The new Law enabled further liberalization of the markets of energy, as well as strengthening of the role of the Regulatory Commission. In the following mid-term period activities for preparation of the by-laws necessary for the full implementation of the Law will follow. Pursuant the recommendations in the 2011 EC Progress Report, the Government Programme, subvention of the electricity bills of the socially vulnerable households will continue to be implemented.

During 2011, the preparation of the Programme for realization of the Strategy for energy development has begun, which is expected to be finalized during 2012. The Programme will determine the measures, conditions, the manner and dynamics of realization of the Strategy, as well as the liabilities of the state institutions, the institutions of LGUs and of the executors of energy activities who have liability to secure an adequate public service. In line with the efforts of the Government of Republic of Macedonia for contribution to fulfillment of the targets in the Strategy “Europe 2020”, the Action Plan for energy efficiency was adopted in 2011 which envisages various measures and activities for obtaining 9% energy efficiency by 2018 compared to the average energy consumption in the period 2002 – 2006. Pursuant the recommendations in the 2011 EC Progress Report, during the following mid-term, various by-laws will be prepared which will regulate the energy efficiency in buildings, implementation of energy controls and strengthening of the capacities of the involved institutions in the implementation of the policies for energy efficiency.

Taking to consideration the recommendations in the “Europe 2020” Strategy for promotion of the electricity generated from renewable sources of energy on the internal market, the Government of Republic of Macedonia will adopt an Action Plan for renewable sources of energy in 2012, where measures and activities for reaching strategic goal for participation of 20% of the renewable sources in the final energy consumption in 2020 will be envisaged. In line with this, the Programme for subvention of part of the expenses for installation of solar thermal collectors will continue in the following mid-term as well.



During the past period, the Programme for small HPPs was continuously being implemented which enabled for 47 Agreements for concession for total of 47 small HPPs with installed capacity of about 35 MW to be signed. With regards to that, there is possibility for construction of larger number of small HPPs around the country, thus the activities for granting concession for water will continue during the next medium term period by publishing Public calls for about 40 locations for construction of small HPPs. In addition, during the following mid-term period, signing of an agreement for granting concession for water for generation electricity from HPPs “Cebren” and “Galiste” is expected, followed by preparation of the necessary technical documentation for construction of these HPPs.

In order to connect the electricity system of Republic of Macedonia with the electricity systems in the neighboring countries, during the period of 2012 – 2014, the construction of 400 kV transmission line “Macedonia – Serbia” is envisaged to be completed. In addition, during the following mid-term period, the preparation the technical documentation for interconnection with Albania and Kosovo is also being envisaged. During the next mid-term period, the construction of the major priority lines for natural gas is expected to begin, followed by the preparation of the technical documentation for development of the distribution net for natural gas.

4.2.9.4. Fiscal decentralisation

As a result of the support and the implementation of various reforms aimed at enhancing the administrative and fiscal capacity of the municipalities, the goal of the Government of the Republic of Macedonia for all municipalities to enter the second phase of fiscal decentralization by the end of 2011 was achieved. It is expected that by the end of 2012, the phased approach for transferring and managing material and financial resources and responsibilities will be completed. In line with the increased responsibilities of the municipalities, the funding was also increased.

In the next medium term period, the revenues of the municipalities are expected to grow, taking into account the amendments to the legislation which will enable:

- increase of the percentage of revenue subsidies from VAT to 4.5% in 2013;
- financial support to municipalities in the form of short and long term loans as an instrument to overcome the liquidity problems;
- borrowing based on more transparent and simpler procedures, and
- ensuring funds by issuing municipal bonds.

During 2011, “Social Services for Support for Social Development and Connection”, financed by UNDP, was realised. Draft Strategy for revenue capacity of municipalities, argues that Republic of Macedonia, as regards level of decentralisation, can be compared to other EU Member States, i.e. it is concluded that, according to data on realisation of current expenditures and set standardised methodology in 2010, the decentralisation benchmark of 4.5% of GDP was reached and the country can be considered as part of the group of countries that are decentralised.



In parallel to such increase, existing formula on VAT revenue distribution will be analysed, in terms of including additional factors for VAT grant distribution and preparation of several models for distribution with higher level of equalisation. Additional increase of own revenues of the municipalities will be realised from the concession fee for utilisation of water resources for electricity generation, distributed in the following proportion 50% to the central government budget and 50% to the local authorities. In order to stabilise own revenues of municipalities, activities will be undertaken in the course of 2012 and 2013 to fully include tax base of natural persons and legal entities and to re-assess the value of real estate.

In the coming medium term period, the Government of the Republic of Macedonia will continue to provide conditions for a more dynamic local development, thus ensuring higher employment rate and increase of the living standard and the quality of life in all of the municipalities in the country.

4.2.9.5. Transport and electronic communication

Road traffic. In accordance with the Accession Partnership priorities, the Republic of Macedonia continues with the implementation of the MoU for the SEE core regional network and actively participates in regional initiatives, with strong and significant collaboration within the Transport Observatory in SEE (SEETO). Republic of Macedonia participates in the development of a new 5-year plan of 2012 - 2016 and implementation of the priorities of multi-annual plan of 2011 - 2015. These are primarily the so-called soft measures which mean removing of non-physical barriers in transport between Western Balkans and enhanced regional cooperation in the following medium term period. In addition, the Republic of Macedonia actively participates in negotiations on establishing a Transport Community between the EU and SEE countries, which started in June 2008. During 2012, the National Transport Strategy will be updated which will determine the main directions of development of transport policy in the Republic of Macedonia by identifying objectives and strategy for development of road, rail, inland waterway and air sectors.

Railway traffic. In the following medium term, extension activities are foreseen in terms of compensating some of the losses in the road passenger transport, provision and implementation of funds in the budget of the Ministry of Transport and Communications for the railway infrastructure through an annual program of investment in railway infrastructure, preparation and publication of the announcement of the network by the manager of railway infrastructure. Also, it provides staffing with qualified personnel in the Directorate for Security in rail system, and preparation of guidelines for issuing the safety of rail carriers, licensing of drivers, power of trainers and examiners for conducting training and conducting exams of general ability, professional knowledge and competence about the railway vehicle and rail infrastructure drivers, performs an inspection.

Inland waterway navigation. In the course of 2012, amendments shall be made to the Law on Inland Waterways Navigation so as to comply with the Directives for access to



profession 87/540/EEC and technical security requirements 76/135/EES. The amendments will allow the carrier of goods by waterway in national and international transport and conditions will be provided for mutual recognition of diplomas, certificates and other evidence of formal qualifications in the profession.

Air traffic. In following mid-term period several activities are planned related to attracting new airlines that would operate from the airports in the Republic of Macedonia, here including low cost airlines. Namely, low cost airline 'Wizz Air' operates with destinations Luton and Treviso. The amendments to the Law on Aviation which provide the possibility for granting subsidies to airlines operating from the airports in the country are expected to be adopted during the first quarter of 2012. The amendments to the Law are expected to contribute towards increasing the number of airlines and passengers, increasing the quality of air traffic services as well as cheap tickets. In addition, during the following mid-term period, several activities are planned in the field of aviation, out of which the review of the existing and signing new bilateral Air Service agreements, thus including the Republic of Macedonia in the FAB - initiative is considered as the most important.

Postal services. Priorities, activities and measures of the Postal Agency in the period 2012 - 2014, will be aimed at meeting the recommendations of the EC on the progress of the Republic of Macedonia for 2011 relating to postal services: a) implementation supervision of the postal market, which will be followed by preparing a program for conducting surveillance, b) development of methodology for pricing based on costs of providing universal service providing access to the postal network to achieve the principle of pricing based on costs and prices accessible to all users c) implementation of the obligation of accounting separation by the universal service whose introduction and approval of a role and postal Agency, d) creation of conditions for further market opening of postal services and introduction of full market liberalization in 2015.

Gasification. Based on developed feasibility study for the pipeline system, preliminary design is developed for the entire national system with a total length of 849km, in which they develop the core projects and playing the priority bus route in length of 410km, divided into five sections. It is expected that the technical documentation to be submitted by the end of 2011, following which its construction is planned to commence. Also, the Government of the Republic of Macedonia has started proceedings for adoption Program for Development of gas economy of the Republic of Macedonia for the next ten years, and a study for development of the distribution of natural gas.

Electronic Communications. In the area of electronic communications the following activities are foreseen in the next medium-term period:

- compliance with European regulatory framework for electronic communications;
- cutting off the analogue TV and full digitization. In order to access digital TV by the entire population after 01.06. 2013, the envisaged measures to provide access to any user on equal terms regardless of the type of technology used (digital TV, IPTV, cable digital TV, satellite platform and etc.);



- allocating the frequencies left over by shutting off the digital television, known as the digital dividend (790 MHz to 862 MHz) to be used for mobile broadband services that will create conditions for increased use of wireless broadband;
- creating a single point in which the national will transit traffic between the various national Internet service providers (MatrIX) which will contribute to reducing the cost of international links and reduce prices for Internet access for end users;
- measuring the quality parameters of electronic communications services and
- development of Atlas telecommunication infrastructure. With the emergence of alternative telecom market operators that offer services through its own infrastructure, has emerged the need to introduce a central point to gather data on existing underground and above ground telecommunication infrastructure.



PART V

Annexes



Annex 1 List of institutions and other organizations, from which opinion on the 2012-2014 PEP was required

1. Ministry of Finance, Public Debt Management Department;
2. Ministry of Finance, Financial System Department;
3. Ministry of Finance, Budget and Funds Department;
4. Ministry of Finance, Customs System Department;
5. Ministry of Finance, Department for EU and International Finance;
6. Ministry of Economy;
7. Ministry for information society and administration;
8. Ministry of Agriculture, Forestry and Water Economy;
9. Ministry of Justice;
10. Ministry of Labor and Social Policy;
11. Ministry of Education and Science;
12. National Bank of the Republic of Macedonia;
13. Commission for Protection of Competition;
14. General Secretariat of the Government of the Republic of Macedonia;
15. Secretariat for European Affairs of the Republic of Macedonia;
16. Cabinet of the Vice Prime Minister of the Government of the Republic of Macedonia in charge of economic issues, Vladimir Peshevski, MA;
17. Insurance Supervision Agency;
18. Employment Agency of the Republic of Macedonia;
19. Securities and Exchange Commission of the Republic of Macedonia;
20. Agency for Supervision of Fully Funded Pension Insurance;
21. Agency for Foreign Investments and Export Promotion;
22. Central Registry of the Republic of Macedonia;
23. Customs Administration of the Republic of Macedonia
24. Macedonian Academy of Arts and Sciences;
25. "Ss. Cyril and Methodius" University, Faculty of Economics – Skopje;
26. "Ss. Cyril and Methodius" University, Faculty of Agricultural Sciences and Food – Skopje;
27. University American College, Faculty of Business Economics and Organisational Sciences - Skopje;
28. South -East European University, Faculty of Business and Economics - Tetovo;
29. State University of Tetovo, Faculty of Economics – Tetovo;
30. "Goce Delcev" University, Faculty of Economics – Stip;
31. "Goce Delcev" University, Faculty of Agriculture – Stip;
32. "St. Clement Ohridski" University, Faculty of Economics – Prilep;
33. FON University, Faculty of Economics - Skopje;
34. European University, Faculty of Economics – Skopje;
35. "Ss. Cyril and Methodius" University, Economic Institute – Skopje;
36. Association of Local Government Units;
37. Federation of Trade Unions of the Republic of Macedonia;
38. Trade Union of Agriculture of the Republic of Macedonia;



39. Independent Trade Union of Education, Science and Culture of the Republic of Macedonia;
40. Union of Independent and Autonomous Trade Unions of the Republic of Macedonia;
41. Confederation of Free Trade Unions;
42. Association of Chambers of Commerce of the Republic of Macedonia;
43. Chamber of Commerce of the Republic of Macedonia;
44. American Chamber of Commerce in the Republic of Macedonia;
45. Macedonian Civic Platform;
46. Institute for Economic Strategies and International Affairs "Ohrid" - Skopje;
47. Center for Research and Policy Making - Skopje;
48. Institute for Democracy, Solidarity and Civil Society - Skopje;
49. Center for Economic Analyses – Skopje;
50. CeProSARD Centre for promotion of sustainable agricultural policies and rural development– Skopje;
51. Macedonian Center for International Cooperation – Skopje.



Annex 2²³ Summary data to the Pre - accession economic Programme 2012 – 2014

Table 1a: Macroeconomic prospects

	ESA code	2010	2010	2011	2012	2013	2014
		Level (bl euro)	Rate of change				
1. Real GDP at market prices	B1*g	6,849	1.8	3.5	3.0 – 4.0	3.5 – 4.2	4.0 – 4.7
2. GDP at market prices	B1*g	6,905	3.4	7.2	5.9 – 6.9	5.9 – 6.7	6.6 – 7.4
Components of real GDP							
3. Private consumption expenditure	P3	5,142	0.4	5.0	2.8 – 3.0	2.8 – 3.2	3.2 – 4.0
4. Government consumption expenditure	P3	1,238	-0.4	-2.2	1.5	2.0	2.0
5. Gross fixed capital formation ²⁴	P51	1,745	-3.7	7.0	7.0 – 8.0	7.5 – 8.4	8.0 – 8.7
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7. Exports of goods and services	P6	3,215	23.4	12.7	3.2 – 5.0	4.0 – 7.0	5.8 – 8.0
8. Imports of goods and services	P7	4,490	10.9	11.3	4.0 – 4.5	4.3 – 6.3	5.5 – 7.2
Contribution to real GDP growth							
9. Final domestic demand		8,125	-0.7	5.0	4.3 – 4.7	4.5 – 5.1	5.1 – 5.8
10. Change in inventories and net acquisition of valuables	P52+P53	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
11. External balance of goods/services	B11	-1,276	2.5	-1.5	-1.3 to -0.7	-1.1 to -0.9	-1.0 to -1.1

Source: SSO and calculations of the Ministry of finance

Table 1b: Price developments

Percentage changes, annual averages unless otherwise indicated	2010	2011	2012	2013	2014
1. GDP deflator	1.6	3.6	2.8	2.4	2.5
2. Private consumption deflator	0.8	5.1	3.6	2.8	2.7
3. HICP	n.a.	n.a.	n.a.	n.a.	n.a.
4. National CPI change	1.6	3.9	2.5	2.5	2.5
5. Public consumption deflator	-0.6	2.6	2.0	1.5	2.7
6. Investment deflator	6.0	4.0	2.0	2.5	2.3
7. Export price deflator (goods & services)	2.2	8.7	4.0	4.5	3.5
8. Import price deflator (goods & services)	2.1	8.7	4.0	4.2	3.4

Source: Calculations of the Ministry of Finance

Table 1c: Labor market developments²⁵

	ESA code	2010	2010	2011	2012	2013	2014
		level	Rate of change				
1. Population (thousands)			2,055.1	2,058.4	2,061.6	2,064.9	2,068.2
2. Population (growth rate in %)			0.11	0.16	0.16	0.16	0.16
3. Working-age population (persons) ²⁶			1,648.5	1,662.2	1,670.2	1,680.3	1,691.0
4. Participation rate			56.9	57.1	57.4	57.7	58.2
5. Employment, persons ²⁷			637.9	657.0	670.1	686.9	707.5
6. Employment, hours worked ²⁸			n.a.	n.a.	n.a.	n.a.	n.a.
7. Employment (growth rate in %)			1.3	3.0	2.0	2.5	3.0
8. Public sector employment (persons)			120,6	n.a.	n.a.	n.a.	n.a.
9. Public sector employment (growth in %)			4.8	n.a.	n.a.	n.a.	n.a.
10. Unemployment rate ²⁹			32.0	30.8	30.1	29.2	28.1
11. Labour productivity, persons ³⁰		660,5	0.5	0.5	1.0 – 2.0	1.0 – 1.7	1.0 – 1.7
12. Labour productivity, hours worked ³¹			n.a.	n.a.	n.a.	n.a.	n.a.
13. Compensation of employees	D1	162,6	3.0	2.2	n.a.	n.a.	n.a.

Source: SSO and calculations of the Ministry of Finance

²³ The data are shown in intervals for each year separately. Moreover, intervals in some of the tables refer to the whole period of 2012-2014.

²⁴ Data refer to gross capital formation.

²⁵ ILO definition (15+) is used for the labor market indicators.

²⁶ Age group of 15-64 years.

²⁷ Occupied population, domestic concept national accounts definition.

²⁸ National accounts definition.

²⁹ Harmonised definition, Eurostat; levels.

³⁰ Real GDP per person employed.

³¹ Real GDP per hour worked.



Table 1d. Sectoral balance

Percentages of GDP	ESA code	2010	2011	2012	2013	2014
1. Net lending/borrowing vis-à-vis the rest of the world	B9	0.0	2.8	2.9	2.0	4.3
of which:						
- Balance of goods and services		-20.4	-21.4	-20.5	-20.1	-18.5
- Balance of primary incomes and transfers		18.3	16.6	15.7	15.5	14.8
- Capital account		1.9	8.1	7.7	6.6	7.9
2. Net lending/borrowing of the private sector	B9/EDP B9	-0.5	-2.0	3.1	n.a.	n.a.
3. Net lending/borrowing of general government		0.5	4.8	-0.2	n.a.	n.a.
4. Statistical discrepancy		0.3	-0.5	optional	optional	optional

Source: National Bank of the Republic of Macedonia

Table 1e: GDP, investment and gross value added

	ESA code	2010	2011	2012	2013	2014
GDP and investment						
GDP level at current market prices (in Denars)	B1g	424.8	455.4	482.1 – 486.9	510.7 – 519.5	544.6 – 557.7
Investment ratio (% of GDP)		25.6	26.4	27.2	28.3	29.3
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		4.2	4.0	2.5 – 3.0	3.0 – 3.5	3.0 – 3.5
2. Industry (excluding construction)		1.3	6.7	2.0 – 3.5	3.0 – 4.5	4.3 – 5.8
3. Construction		2.1	14.4	7.0 – 8.3	7.5 – 8.7	8.0 – 9.2
4. Services		2.0	2.7	2.3 – 2.9	2.9 – 3.4	3.1 – 3.6

Source: SSO and calculations of the Ministry of finance

Табела 1e. External sector developments

in Euro billion	2010	2011	2012	2013	2014
1. Current account balance (% of GDP)	-2.2	-4.8	-4.8	-4.6	-3.7
2. Export of goods	2.493	3.112	3.489	3.975	4.349
3. Import of goods	3.961	4.851	5.266	5.846	6.197
4. Trade balance	-1.468	-1.740	-1.777	-1.871	-1.848
5. Export of services	0.694	0.826	0.877	0.967	1.032
6. Import of services	0.644	0.717	0.753	0.835	0.895
7. Service balance	0.049	0.109	0.124	0.132	0.137
8. Net interest payments from abroad	-0.089	-0.103	-0.099	-0.069	-0.083
9. Other net factor income from abroad	-0.010	-0.021	-0.051	-0.100	-0.130
10. Current transfers	1.367	1.390	1.417	1.511	1.582
11. Of which from EU	n.a.	n.a.	n.a.	n.a.	n.a.
12. Current account balance	-0.150	-0.365	-0.387	-0.396	-0.341
13. Foreign direct investment	0.158	0.245	0.367	0.428	0.499
14. Foreign reserves	-0.062	-0.236	n.a.	n.a.	n.a.
15. Foreign debt	4.134	4.647	n.a.	n.a.	n.a.
16. Of which: public	1.424	1.779	n.a.	n.a.	n.a.
17. O/w: foreign currency denominated	n.a.	n.a.	n.a.	n.a.	n.a.
18. O/w: repayments due	-0.059	-0.076	n.a.	n.a.	n.a.
19. Exchange rate vis-à-vis EUR (end-year)	61.51	61.51	n.a.	n.a.	n.a.
20. Exchange rate vis-à-vis EUR (annual average)	61.51	61.51	61.51	61.51	61.51
21. Net foreign saving (lines 21-25: percentages of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.
22. Domestic private saving	n.a.	n.a.	n.a.	n.a.	n.a.
23. Domestic private investment	n.a.	n.a.	n.a.	n.a.	n.a.
24. Domestic public saving	n.a.	n.a.	n.a.	n.a.	n.a.
25. Domestic public investment	n.a.	n.a.	n.a.	n.a.	n.a.

Source: National Bank of the Republic of Macedonia



Table 2: General government budgetary prospects³²

	ESA code	2010	2011	2012	2012 - 2014
		Level (billions of denar)	% of GDP		
Net lending (B9) by sub-sectors					
1. General government	S13	-11,179	-2.5	-2.5	up to -2.5
2. Central government	S1311	-10,781	-2.4	-2.5	up to -2.5
3. State government	S1312	n.a.	n.a.	n.a.	n.a.
4. Local government	S1313	-0,284	0.0	0.0	up to 0.0
5. Social security funds ³³	S1314	-0,114	-0.1	-0.1	up to -0.1
General government (S13)					
6. Total revenue	TR	135,927	34.4	34.3	up to 34.3
7. Total expenditure ³⁴	TE	147,106	36.9	36.9	up to 36.9
8. Net borrowing/lending	EDP.B9	-11,179	-2.5	-2.5	up to -2.5
9. Interest expenditure	EDP.D41	2,447	0.7	0.7	up to 0.7
10. Primary balance ³⁵		-8,732	-1.7	-1.8	up to -1.8
11. One-off and other temporary measures ³⁶		n.a.	n.a.	n.a.	n.a.
Components of revenues					
12. Total taxes (11 = 11a+11b+11c)		75,789	17.7	17.9	up to 17.9
12a. Taxes on production and imports	D2	60,388	14.2	14.3	up to 14.3
12b. Current taxes on income and wealth	D5	13,515	2.9	3.0	up to 3.0
12c. Capital taxes	D91	1,886	0.5	0.6	up to 0.6
13. Social contributions	D61	38,837	9.3	9.2	up to 9.2
14. Property income	D4	5,671	1.5	1.9	up to 1.9
15. Other (15 = 16-(12+13+14)) ³⁷		15,630	27.7	27.6	up to 27.6
16 = 6. Total revenue	TR	135,927	34.4	34.3	up to 34.3
p.m.: Tax burden (D2+D5+D61+D91-D995) ³⁸	n.a.	n.a.	n.a.	n.a.	n.a.
Selected components of expenditures					
17. Collective consumption	P32	54,453	13.1	12.9	up to 12.9
18. Total social transfers	D62 + D63	61,821	15.0	14.7	up to 14.7
18a. Social transfers in kind	P31 = D63		0.0	0.0	up to 0.0
18b. Other transfers	D62	61,821	15.0	14.7	up to 14.7
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	2,447	0.7	0.7	up to 0.7
20. Subsidies	D3	10,019	2.8	2.5	up to 2.5
21. Gross fixed capital formation	P51	17,107	5.2	6.0	up to 6.0
22. Other (21 = 22-(16+17+18+19+20)) ³⁹		1,260	0.0	0.0	up to 0.0
23. Total expenditures	TE ⁴⁰	147,106	36.9	36.9	up to 36.9
p.m. compensation of employees	D1	33,163	8.1	7.7	up to 7.7

Source: Ministry of Finance

³² The compilation of the data is based on GFS Methodology 1986.

³³ This item contains the deficit of Pension and Disability Insurance Fund, Health Fund and the Agency for Employment.

³⁴ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

³⁵ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9

³⁶ A plus sign means deficit-reducing one-off measures

³⁷ P.11+P.12+P.131+D.39+D.7+D.9 (различни од D.91)

³⁸ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

³⁹ D.29 + D4 (different from D41) + D.5 + D.7 + D.9 + P.52 + P.53 + K.2 + D.8

⁴⁰ Adjusted for the next flow of swap-related flows, so the TR - TE = EDP.B9



Table 3. General government expenditure by function

Percentage of GDP	COFOG code	2010	2011	2012	2013	2014
1. General public services	1	3.3	4.1	4.1	n.a.	n.a.
2. Defence	2	1.4	1.3	1.3	n.a.	n.a.
3. Public order and safety	3	3.1	3.0	2.7	n.a.	n.a.
4. Economic affairs	4	5.4	5.9	5.6	n.a.	n.a.
5. Environmental protection	5	0.2	0.1	0.2	n.a.	n.a.
6. Housing and community amenities	6	1.4	1.4	1.6	n.a.	n.a.
7. Health	7	4.3	4.5	4.8	n.a.	n.a.
8. Recreation, culture and religion	8	0.8	0.9	0.8	n.a.	n.a.
9. Education	9	4.6	4.7	4.5	n.a.	n.a.
10. Social protection	10	11.3	11.4	10.9	n.a.	n.a.
11. Total expenditure (item 7 = 23 in Table 2)	TE	35.7	37.2	36.6	n.a.	n.a.

Source: Ministry of Finance

Table 4 General government debt developments

Percentage of GDP	ESA code	2010	2011	2012	2012 - 2014
1. Gross debt ⁴¹		24.6	27.0	28.8	up to 28.8
2. Change in gross debt ratio		0.7	0.4	1.8	up to 1.8
Contributions to change in gross debt					
3. Primary balance ⁴²		-1.7	-1.9	-1.8	up to -1.8
4. Interest expenditure (incl. FISIM) ⁴³		0.7	0.7	0.7	up to 0.7
5. Stock-flow adjustment		n.a.	n.a.	n.a.	n.a.
of which:		n.a.	n.a.	n.a.	n.a.
- Differences between cash and accruals ⁴⁴		n.a.	n.a.	n.a.	n.a.
- Net accumulation of financial assets ⁴⁵		n.a.	n.a.	n.a.	n.a.
of which:		n.a.	n.a.	n.a.	n.a.
- Privatisation proceeds		n.a.	n.a.	n.a.	n.a.
- Valuation effects and other ⁴⁶		n.a.	n.a.	n.a.	n.a.
p.m. implicit interest rate on debt ⁴⁷		3.3	3.0	3.1	up to 3.2
Other relevant variables					
6. Liquid financial assets ⁴⁸		n.a.	n.a.	n.a.	n.a.
7. Net financial debt (7 = 1 - 6)		n.a.	n.a.	n.a.	n.a.

Source: Ministry of Finance

⁴¹ As defined in Regulation 3605/93 (not an ESA concept).

⁴² Cf. item 10 in Table 2.

⁴³ Cf. item 9 in Table 2.

⁴⁴ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

⁴⁵ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

⁴⁶ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

⁴⁷ Proxied by interest expenditure (incl. FISIM recorded as consumption) divided by the debt level of the previous year.

⁴⁸ F1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).



Table 5: Cyclical developments

Percentage of GDP	ESA code	2010	2011	2012	2012 – 2014
1. Real GDP growth (%)	B1g	1.8	3.5	4.5	3.0 – 4.7
2. Net lending of general government	EDP.B.9	-2.5	-2.5	-2.5	up to -2.5
3. Interest expenditure	EDP.D.41	0.7	0.7	0.7	up to 0.7
4. One-off and other temporary measure ⁴⁹		n.a.	n.a.	n.a.	n.a.
5. Potential GDP growth (%) ⁵⁰		3.5	3.7	3.9	3.5 to 3.9
Contributions (percentage points):					
- labor		n.a.	n.a.	n.a.	n.a.
- capital		n.a.	n.a.	n.a.	n.a.
- total factor productivity		n.a.	n.a.	n.a.	n.a.
6. Output gap		-1.6	-1.0	0.3	-0.4 to 1.0
7. Cyclical budgetary component		-0.5	-0.3	0.1	-0.1 to 0.3
8. Cyclically-adjusted balance (2-7)		-2.0	-2.2	-2.6	-2.4 to -2.8
9. Cyclically-adjusted primary balance (8+3)		-1.2	-1.5	-1.9	-1.7 to -2.0
10. Structural balance (8-4)		n.a.	n.a.	n.a.	n.a.

Source: Ministry of Finance

Table 6. Divergence from previous programme

	2010	2011	2012	2013	2014
1. GDP growth (p.p.)					
Previous programme	2.0	3.5	4.5	5.5	
Latest programme	1.8	3.5	3.0 – 4.0	3.5 – 4.2	4.0 – 4.7
Difference	-0.2	0.0	-1.5 to -0.5	-2.0 to -1.3	
2. General government net lending (% of GDP)					
Previous programme	-2.5	-2.5	-2.2	-1.9	
Latest programme	-2.5	-2.5	-2.5	up to -2.5	up to -2.5
Difference	0.0	0.0	-0.3	up to -0.6	
3. General government gross debt (% of GDP)					
Previous programme	24.0	26.0	26.1	25.5	
Latest programme	24.6	27.0	28.8	up to 28.8	up to 28.8
Difference	0.6	1.0	2.7	up to 3.3	

Source: Calculations of the Ministry of Finance

⁴⁹ A plus sign means deficit-reducing one-off measures.

⁵⁰ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).



Table 7: Long-term sustainability of public finances

Percentages of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	32.8	35.9	35.0	34.4	34.0	33.8	33.5
of which:							
- Age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Pension expenditure	7.7	8.9	9.0	9.0	8.8	8.8	8.7
- Social security pension	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Old-age and early pensions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Other pensions (disability, survivors)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Occupational pensions (if in general government)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Health care	4.4	4.5	4.7	4.7	4.8	4.9	4.9
- Long-term care (this was earlier included in the health care)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Education expenditure	n.a.	4.6	4.8	5.0	5.1	5.1	5.0
Other age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest expenditure	0.8	0.7	0.8	0.9	1.0	1.0	1.0
Total revenues	32.2	33.4	33.6	33.8	34.0	33.6	33.3
<i>of which:</i> property income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)	6.0	6.2	6.3	6.4	6.5	6.4	6.4
Pension reserve fund assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Assumptions							
Labour productivity growth	2.5	0.7	1.6	2.3	2.0	2.1	2.2
Real GDP growth	6.1	1.8	4.0	4.6	3.8	3.7	3.7
Participation rate males (aged 20-64)*	74.8	76.3	79.6	82.1	84.0	85.7	87.3
Participation rates females (aged 20-64)*	50.4	51.8	56.5	60.7	64.7	68.3	71.4
Total participation rates (20-64)*	62.8	64.2	68.0	71.4	74.3	77.0	79.4
Unemployment rate	35.2	32.2	24.5	17.5	13.3	10.2	8.0
Population aged 65+ over total population	9.6	9.7	10.3	10.8	11.4	11.9	12.3

* Data refer to the age group 15 – 64

Source: Calculations of the Ministry of Finance

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

	Dimension	2010	2011	2012	2013	2014
Short-term interest rate ⁵¹	Annual average	0.81	1.33	1.19	n.a.	n.a.
Long-term interest rate	Annual average	n.a.	n.a.	n.a.	n.a.	n.a.
USD/EUR exchange	Annual average	1.33	1.40	1.37	1.37	1.37
Nominal effective exchange rate	Annual average	-7.4	1.7	-0.9	0.0	0.0
Exchange rate vis-à-vis the Euro	Annual average	61.5	61.5	61.5	61.5	61.5
Global GDP, excluding EU	Annual average	5.8	4.2	4.2	4.2	5.5
EU GDP growth	Annual average	2.0	1.6	0.6	1.5	2.1
Growth of relevant foreign markets ⁵²	Annual average	4.5	4.3	2.7	3.5	3.7
World import volumes, excluding EU	Annual average	16.3	7.5	6.2	6.8	n.a.
Oil prices (Brent, USD/barel)	Annual average	80.2	111.1	103.8	99.7	96.7

Source: European Commission, European Economic Forecast, Autumn 2011; IMF, World economic outlook, Autumn 2011;

⁵¹ Three-month LIBOR.

⁵² Central East Europe (14 countries). Source: IMF, World Economic Outlook, Autumn 2011.



Table 9. Structural reform agenda and achievements

Major measures foreseen in previous year's PEP	Adopted (Yes/No)	Date*	Comments
Enterprises sector			
Adoption of Regulation for determination of the conditions and procedure for granting regional assistance pursuant the Law on control of the state aid	no	2011	
Implementation of the Project IPA 2009 - Support to the Commission for protection of the competition for control of the state aid	no	2011	
National program for scientific - research and development program for the technological development (2012-2015)	no	2012	
Project for establishment of the Electronic register of requirements of the creditors in Republic of Macedonia with legal constitutional power	no	2012 - 2013	
Project for raising the public consciousness of the business sector in the part of increase of the use of the electronic solutions for register/change and deleting data from the registers	no	2012 - 2013	
Project METABASE and implementation of the strategy for XBRL	2012	2014	
IPA 2011 Implementation of the bankruptcy legislation	2013	2014	
Law on protection of the competition	yes	2010	
Law on control of the state aid	yes	2010	
Law on amending and supplementing of the Law on protection of the competition	yes	2011	
Regulation on the manner and procedure for submission of report for granting state aid, as well as, procedure for practicing control of the existing state aid	yes	2011	
Regulation on the conditions and procedure for granting assistance of small significance (de minimis)	yes	2011	
Regulation on determination of the conditions and the procedure for granting regional aid	no	2011	
Regulation on the closer conditions for group exemption of certain types of horizontal agreements for specialization	no	2011	
Regulation on the closer conditions for group exemption of certain types agreements for research and development	no	2011	
Regulation on group exemption of certain types agreements for insurance	no	2011	
Regulation on group exemption of certain types vertical agreements	no	2011	
Regulation on group exemption of certain types agreements for distribution and servicing of motor vehicles	no	2011	
Regulation on closer conditions for group exemption of certain types of agreements on transfer of technology for license for know-how	no	2011	
Regulation on the closer conditions for agreements of small significance	no	2011	
Regulation on the closer conditions and procedure under which the Commission for deciding upon violation decides for exemption or reduction of the fine	no	2011	
Regulation on the form and content for announcement for the concentration and necessary documentation that is submitted together with the announcement	no	2011	
Industrial policy			
Implementation of the Strategy for industrial policy of	yes	continuously	



Republic of Macedonia (2009-2020)			
Implementation of the Strategy for development of the textile industry and Action Plan for revitalization of the textile industry.	yes	continuously	
Program for implementation of the industrial policy for 2011	yes	continuously	
Program for support and development of the cluster association	yes	continuously	
Strategy for export promotion	no	2011	Governmental procedure
Project: "Strengthening the institutional capacity for implementation of the industrial policy",	no	2012	
Program for implementation of the industrial policy for 2011	yes	continuously	
Support for development of the entrepreneurship and small and medium enterprises			
Organizing regional forums for SME	yes	continuously	
Program for development of SME	yes	continuously	
Program for support of SME	yes	continuously	
Maintaining web site for SME	yes	continuously	
Organizing informative sessions for the accessibility of financial instruments for SME	yes	continuously	
Strengthening the capacities of the newly formed business centers	yes	continuously	
Subvention of projects for support and promotion of the crafts	yes	continuously	
-Development of human resources -Voucher system of counseling -Entrepreneurial awards -Entrepreneurial education -Publishing brochures for SME -Long life learning – entrepreneurship -Promotion activities (fair, workshops, business partnerships) -European week of the entrepreneurs	yes	continuously	
Raising the consciousness for Information – communication technology	yes	continuously	
Campaign for defining the needs of SME for implementation of standards and quality of products pursuant the legal liabilities	yes	continuously	
Organizing local seminars for innovations and SME	yes	continuously	
Strategy for innovations of Republic of Macedonia 2012-2020	no	2012	
Establishment of Equity and mezzanine funds	yes	2011	
Internal market – Free movement of goods			
Realization of the Strategy for intellectual property	yes	continuously	
Support of the business community for the procedures for standardization, accreditation and metrology	yes	continuously	
Authorization of legal persons (bodies) for practicing assessment of compatibility for given scope	yes	continuously	
Accreditation of legal persons (bodies) for practicing assessment of compatibility of products that are placed on the market	yes	continuously	
Recognition of Macedonian products and Macedonian bodies on the internal market in EU in the frames of ACCA	no	2012	
Formation of One Stop Shop for domestic and foreign investors (Register)	yes	2011	
We learn from the business community	yes	2011	
Reactivation of the National Council for entrepreneurship	yes	2011	



and competitiveness (NCEC)			
Agriculture			
Adopting of the Law on corrigendum of the Law on fishery and aqua-culture	yes	2010	Published in Official Gazette
Adopting of the by-laws that shall provide quality implementation of the Law on stockbreeding, and, therefore promoting of entire stockbreeding production	yes	2010	Published in Official Gazette
Adoption of the Programme for fisheries and aquaculture for a period of 12 years.	no	2012	
Implementing a procedure for selecting the most favorable bidder for the development of fishing master plan for the fishing waters.	yes	2010	
Preparation of Monitoring programs for harmful organisms and their implementation	no	2012	
Introduction of plant passports	no	2012-2014	This activity is part of the tasks of the monitoring system
Preparation of Monitoring programs for harmful organisms and their implementation	no	2012	Preparation of a monitoring programs for health and protection of plants shall be prepared with priorities given to the strategic export crops
Introduction of the European catalogue of varieties of agricultural plants	yes	2010	Law on changes and addendums to the Law on seeds and seedlings.
Diagnosing and determining of harmful organisms, biological tests, research analysis of physical-chemical characteristics of products for plant protection, active matter analysis, seed material analysis,	yes	continuously	
Greater harmonization of technical aid requirements, more efficient coordination of current project activities, primarily identification of priority activities in the fire of agriculture, rural development, food safety, as well as veterinary and phytosanitary policies.	yes	2011	Document for coordination of donations aid adopted by the Government of the Republic of Macedonia is prepared
Document entitled "Priorities for donation aid in the agricultural and rural development sector"	yes	2011	Document for coordination of donations aid adopted by the Government of the Republic of Macedonia is prepared
Further harmonization of the national legislation with the relevant legislation of the EU in the domain of the state veterinary service.	yes	2010	
Classification of objects of the state veterinary service according to the fulfillment of the time-frame for their harmonization.	yes	2011	Categorization prepared
Amendments to the law on agricultural land	yes	2011	
Code of good agricultural practice	yes	2010	Published in Official Gazette
financial sector			
Preparation of Law on Financial Conglomerates	no	2011	
Preparation of Law on Modifications and Amendments to the Banking Law	no	2012	
Application of regulation on capital requirement to cover credit and operational risk, prepared on the basis of simple approached under Basel II	yes	2011	
National Bank asked all banks to prepare Quantitative Study so as to determine the affects of the regulation on capital requirement to cover credit and operational risk (main indicator and standardised approach), their capital adequacy, as well as to submit Outcome Report to the National Bank of the Republic of Macedonia.	yes	2011	



Financial Stability Committee – first meeting	yes	2011	
Amendments to the Banking Law	no	2012	
Adoption of Law on Saving Houses	no	2012	
Amendments to the Law on Investment Funds	no	2012	
Strategy for Capital Market Development	no	2012	
New Law on Capital Market	no	2014	
New Insurance Law	no	2013	
Adoption of Law on Shareholding of Republic of Macedonia in “Europa Re” Share Capital	no	2011	
Adoption of Law on Payment of Pensions and Pension Benefits	no	2011	
Labour market			
Modifications and amendments to the Law on Temporary Employment Agencies	yes	2011	
Providing for employment of adults who have not completed first level education as regards professional qualifications	yes	continuously	
Requalification and additional qualification, training of employees and adults	yes	continuously	
Analysis of labour market needs, so as to harmonise qualification profile of labour force with the needs of companies	yes	continuously	
Project: “Translation of 1,000 vocational, scientific books and textbooks learnt from at leading and renowned universities in the USA and England, in the field of law in France and Germany”	yes	2009	
Project: “Laboratories 2010/2020” to ensure 190 laboratories for public institutions of higher education	yes	2009	
Project: “Early Socialisation”	no	2012	
Project: “Skillful and Competent”	yes	2008	The Project comprises several component, part of which are already in the process of realisation, while the rest of the activities are to commence.
Strategy for Professional Education and Training in the Republic of Macedonia	no	2012	
Creation of standards on professions, curriculum and exam programmes in the Professional Education and Training Centre, in line with labour market needs	yes	continuous	
Implementation of National Employment Strategy of the Republic of Macedonia	yes	continuous	
Project: “Centres for Education of Adults”	no	2012	
Implementation of the Twinning Project “Support to Capacity Building of the Centre for Education of Adults, development of programmes for education of adults and programmes for teaching illiterates and for completing primary education of excluded persons”	yes	2011	
Implementation of Strategy for Integrated Education and Social Inclusion	yes	2010	
Administrative reform			
Training of civil servants involved in the reform of public administration	yes	continuously	
Building the capacity of the Unit of Public Administration Reform for monitoring the implementation of the Strategy for Public Administration Reform	yes	continuously	
Conduct assessment to determine the impact of regulation	yes	continuously	
Preparation of training programs and professional	yes	continuously	



development of civil servants at central level			
Staff training in the Unit for cooperation with NGO outside the capital and rural areas	yes	continuously	
Fostering the development of civil society, particularly outside the capital and rural areas	yes	continuously	
Regulatory Guillotine to simplify regulations and reduce the cost of craftsmen	no	2012	Covered by the Program of the Government (2011-2015), the start of the project is in progress
Project "Assessing the impact of regulation (RIA)" activities: - establishing Central Body for better regulation and building its capacity; - improving the legal framework for assessing the impact of regulation; - expanding the scope of the Assessment of the impact of regulation, support of its application in the Parliament, and during the ex-post analysis; - continuous capacity building of ministries and Central body for techniques and methods for creating better laws.	yes	2011	The presented activities will be conducted continuously in the next period by Ministry of Information Society and Administration
Reforms in the judiciary			
Law Amending the Law on Bar	no	2012	
Law Amending the Law on Misdemeanor	no	2012	
Finished education of the fourth generation of initial training for judges and prosecutors	yes	2011	
Transferring old enforcement cases to courts	yes	2011	
Posting of the court decisions on their web sites	yes	continuously	
Updating of the law data base - LDBIS	yes	continuously	
Building of the new court building – Criminal Court Court	no	2012	
System (software application) for collecting, processing and analyzing of statistical data in the courts	no	2012	
Other areas			
Preparation of the project documentation for gasification	no	first half 2012	For the four sections by the end of 2011, for the fifth section March 2012
Multi-annual plan of SEETO 2012-2016	no	2011	By the end of 2011
An agreement for establishment of Transport community between EU and the SEE countries.	no	2011	The date on signing agreements have not been set by the EC
Update of the National Transport Strategy	no	2012	
Law on interoperability in railway system	yes	2011	
Law on amendments in the Law on contracts in transport	yes	2011	
Law on safety in the railway	yes	2011	
Law on railway system	no	2011	
Annual program for investments in the railway infrastructure	no	2014	
Law on amendments in the inland waterway Law in area of misdemeanours and violations in the issuance of the approvals for line navigation	yes	2011	
Amendments to the Law on inland waterway in order to harmonize it with the Directive on access to profession 87/540/EEC and the safety technical requirements 76/135/EEC	no	2012	
Proposal Law on Amendments to the Law on Obligations and real estate relations in the air traffic	no	2011	In a parliamentary procedure



Proposal Law on amendments to the Law on aviation	no	2011	In governmental procedure
Improvement of the access to the airport by establishing a public bus transport	no	2012-2014	
Activities for inclusion of RM in the FAB initiative	no	2012-2014	
Attracting new and low-cost carriers	no	2012-2014	
Adoption of by-laws arising from the Law on Postal Services	yes	2011	
Strategy for development of postal services	no	2011	
Implementation of by-laws	no	2012- 2014	
Methodology of setting prices for provision of postal services	no	2012-2013	
Cooperation with Makedonska Posta in the process of implementation of the obligation for separate accounting	no	2012-2013	
Analyzes of the postal services market as a prerequisite for further opening of the market	no	2012- 2014	
Law on amendments to the Law on electronic communication s	yes	2010	
Law on amendments to the Broadcasting Law (the changes shall guarantee double broadcasting system- public service on one hand and commercial broadcasting on the other hand)	yes	2010	
Law on amendments to the Broadcasting Law (relating to more efficient collection of the broadcasting fee by the Public Revenue Office)	yes	2010	
Law on amendments to the Broadcasting Law (Implementation of the Audiovisual Media Services Directive	no	2011	A TAIEX expert has been assigned and he is expected in November. The expert shall help in the overall harmonization of the Broadcasting Law with the new directive for audiovisual media services . Following this there will be public debates and discussions on the text of the Law.
The Agency on electronic communications has started the audit on the Rules on access and usage of specific network devices so as to create regulatory bases for joint usage of channels and accompanying infrastructure	yes	2011	
electronic register-atlas of telecommunication infrastructure (project that shall collect information on the current underground and surface informatics infrastructure)	no	2011-2013	
Audit of the by-law regulating number portability	no	2011-2013	
Analyses of the resources for numeration, their usage and methodology for determining and collection of taxes	no	2011-2013	
Analyses for defining the need for establishment of a Regulation for VoIP services	no	2011-2013	
Analysis and preparation of a new Customs Law	no	2014	
Compliance with the combined nomenclature	yes	continously	
Adoption of the Law Amending the Law on Customs Tariff	no	2012	
CA will introduce and implement a new system for processing customs declarations and excise documents (SOCDAD)	no	2014	

*Date of adoption, or, alternately, date foreseen

Source: participating institutions in the preparation of 2012 – 2014 PEP



Annex 3 Matrix of policy commitments (in Denars)

Description of policy	2011	2012	2013	2014
Enterprises sector				
<i>Support to the Commission for Protection of Competition for control of state aid</i>				
A. Implementation profile*		X	X	
B. Net direct budgetary impact (if any)	--	3,444,050	2,576,887.71	--
B.1 Direct impact on budgetary revenues	--	30,750,450	27,675,405	--
B.2 Direct impact on budgetary expenditures	--	34,194,500.4	30,252,292.71	--
<i>National Programme for Science, Research and Development and the Program for Technological Development (2012-2015)</i>				
A. Implementation profile*	X			X
B. Net direct budgetary impact (if any)	29,523,274	380,768,741	529,135,185	491,000,000
B.1 Direct impact on budgetary revenues	52,111,956	123,010,000	--	--
B.2 Direct impact on budgetary expenditures	81,635,230	568,475,850	529,135,185	491,000,000
<i>Metabase and implementation of the XBRL strategy</i>				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	120,000,000	--	--
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	--	120,000,000	--	--
<i>Implementation of the bankruptcy legislation</i>				
A. Implementation profile*			X	
B. Net direct budgetary impact (if any)	--	--	6,100,000	--
B.1 Direct impact on budgetary revenues	--	--	55,350,000	--
B.2 Direct impact on budgetary expenditures	--	--	61,450,000	--
Industrial policy				
<i>Programme for implementation of industrial policy</i>				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	3,500,000	15,000,000	15,500,000
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	--	3,500,000	15,000,000	15,500,000
<i>Programme for development of SMEs</i>				
A. Implementation profile*	X	X		
B. Net direct budgetary impact (if any)	8,526,000	10,010,000	--	--
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	8,526,000	10,010,000	--	--
<i>Programme for support of SMEs</i>				
A. Implementation profile*	X	X		
B. Net direct budgetary impact (if any)	7,000,000	6,200,000	--	--
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	7,000,000	6,200,000	--	--
<i>Programme for support and development of clusters</i>				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	2,500,000	10,250,000	15,000,000
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	--	2,500,000	10,250,000	15,000,000
<i>Strategy for export promotion</i>				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	1,000,000	1,200,000	1,400,000
B.1 Direct impact on budgetary revenues	--	4,000,000	4,000,000	4,000,000
B.2 Direct impact on budgetary expenditures	--	5,000,000	5,200,000	5,400,000
<i>Strengthening of the institutional capacity for implementation of the industrial policy</i>				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	17,220,000	--	--
B.1 Direct impact on budgetary revenues	--	154,980,000	--	--
B.2 Direct impact on budgetary expenditures	--	172,200,000	--	--
Entrepreneurship and SMEs development support				



Innovation Strategy of the Republic of Macedonia (2012-2020)				
A. Implementation profile*	X			
B. Net direct budgetary impact (if any)	--	--	--	--
B.1 Direct impact on budgetary revenues	33,524,400	--	--	--
B.2 Direct impact on budgetary expenditures	33,524,400	--	--	--
Internal market – Free movement of goods				
Reactivation of the National Council for Entrepreneurship and Competitiveness (NCEC)				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	4,300,000	5,000,000	6,000,000
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	--	4,300,000	5,000,000	6,000,000
Financial sector				
Law on capital market and Law on payment services				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	7,995,000	--	--
B.1 Direct impact on budgetary revenues	--	71,955,000	--	--
B.2 Direct impact on budgetary expenditures	--	79,950,000	--	--
Support to the Agency for supervision of fully-funded pension insurance				
A. Implementation profile*	X	X		
B. Net direct budgetary impact (if any)	--	--	--	--
B.1 Direct impact on budgetary revenues	27,064,920	27,064,920	--	--
B.2 Direct impact on budgetary expenditures	27,064,920	27,064,920	--	--
Labour market				
„Translation of 1000 textbooks, scientific books and top quality books in the respective fields which are used for studying on the most prestigious universities in the USA and UK, and in the area of law in France and Germany”				
A. Implementation profile*	X		X	
B. Net direct budgetary impact (if any)	100,000,000	331,700,000	331,700,000	--
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	100,000,000	331,700,000	331,700,000	--
„Laboratories 2010/2020” for the public higher education institutions				
A. Implementation profile*		X		X
B. Net direct budgetary impact (if any)	--	674,677,512	930,617,418	931,465,831
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	--	674,677,512	930,617,418	931,465,831
Creating of standards for occupations, curriculum and examination programmes in the Centre for VET according to the labour market needs				
A. Implementation profile*	X			
B. Net direct budgetary impact (if any)	9,189,923	25,571,183	27,885,836	17,740,000
B.1 Direct impact on budgetary revenues	52,076,231	45,566,702	55,963,071	--
B.2 Direct impact on budgetary expenditures	61,266,154	71,137,885	83,848,907	17,740,000
„Skilled and competent” project				
A. Implementation profile*	X			
B. Net direct budgetary impact (if any)	--	--	--	6,150,500
B.1 Direct impact on budgetary revenues	15,376,250	7,717,160	4,641,910	61,505,000
B.2 Direct impact on budgetary expenditures	15,376,250	7,717,160	4,641,910	67,555,500
Strategy for vocational education and training of the republic of Macedonia				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	2,454,000	2,454,000	2,454,000
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	--	2,454,000	2,454,000	2,454,000
„Centers for adult education “				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	3,000,000	5,000,000	7,000,000
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	--	3,000,000	5,000,000	7,000,000
“Support for Capacity Building of the Adult Education Center, Development of Adult Education Programs,				



<i>Literacy Programs and for Completing Primary Education of Excluded Persons*</i>				
A. Implementation profile*	X		X	
B. Net direct budgetary impact (if any)	6,964,545	7,380,701	1,591,921	--
B.1 Direct impact on budgetary revenues	39,363,755	41,823,973	9,020,888	--
B.2 Direct impact on budgetary expenditures	46,310,300	49,204,674	10,612,809	--
<i>Implementation of the Strategy for integrated education and social inclusion</i>				
A. Implementation profile*	X			
B. Net direct budgetary impact (if any)	950,404,700	969,427,711	958,807,234	956,804,700
B.1 Direct impact on budgetary revenues	4,000,000	142,253,324	82,931,692	71,584,000
B.2 Direct impact on budgetary expenditures	954,404,700	1,111,681,034	1,041,738,926	1,028,388,700
<i>Support of the national employment policy</i>				
A. Implementation profile*	X		X	
B. Net direct budgetary impact (if any)	9,669,000	6,648,000	1,813,000	--
B.1 Direct impact on budgetary revenues	54,791,000	37,669,000	10,273,000	--
B.2 Direct impact on budgetary expenditures	64,460,000	44,317,000	12,086,000	--
<i>Annual operating plans for active labor market measures and self-employment loans</i>				
A. Implementation profile*	X			X
B. Net direct budgetary impact (if any)	624,294,750	625,000,000	625,000,000	625,000,000
B.1 Direct impact on budgetary revenues	17,776,350	0	0	0
B.2 Direct impact on budgetary expenditures	642,071,100	625,000,000	625,000,000	625,000,000
<i>Project: Tackling unemployment among youth, women and long-term unemployed</i>				
A. Implementation profile*	X	X		
B. Net direct budgetary impact (if any)	6,752,000	5,338,000	--	--
B.1 Direct impact on budgetary revenues	38,259,000	30,251,000	--	--
B.2 Direct impact on budgetary expenditures	45,011,000	35,589,000	--	--
<i>Modernisation of the Employment Agency of the Republic of Macedonia</i>				
A. Implementation profile*	X		X	
B. Net direct budgetary impact (if any)	4,201,000	8,403,000	1,401,000	--
B.1 Direct impact on budgetary revenues	23,808,000	47,616,000	7,936,000	--
B.2 Direct impact on budgetary expenditures	28,009,000	56,019,000	9,337,000	--
<i>Strengthening the fight against undeclared working posts</i>				
A. Implementation profile*	X		X	
B. Net direct budgetary impact (if any)	2,790,000	5,790,000	930,000	--
B.1 Direct impact on budgetary revenues	15,810,000	31,620,000	5,270,000	--
B.2 Direct impact on budgetary expenditures	18,600,000	37,410,000	6,200,000	--
<i>Improving the potential for employment (employability) of women from minority ethnic groups</i>				
A. Implementation profile*	X	X	X	
B. Net direct budgetary impact (if any)	9,404,000	5,290,000	9,404,000	--
B.1 Direct impact on budgetary revenues	53,290,000	29,976,000	53,290,000	--
B.2 Direct impact on budgetary expenditures	62,694,000	35,266,000	62,694,000	--
<i>Strengthening the role of local partners in the field of preparation and realization of projects of social inclusion</i>				
A. Implementation profile*	X	X		
B. Net direct budgetary impact (if any)	1,090,000	726,000		
B.1 Direct impact on budgetary revenues	6,175,000	4,117,000		
B.2 Direct impact on budgetary expenditures	7,265,000	4,853,000		
<i>Promoting social inclusion and inclusive labor market</i>				
A. Implementation profile*	X		X	
B. Net direct budgetary impact (if any)	4,280,000	8,560,000	1,427,000	--
B.1 Direct impact on budgetary revenues	24,254,000	48,509,000	8,085,000	--
B.2 Direct impact on budgetary expenditures	28,534,000	57,069,000	9,512,000	--
<i>Tackling unemployment among youth, women and long-term unemployed</i>				
A. Implementation profile*		X	X	
B. Net direct budgetary impact (if any)	--	11,402,000	9,977,000	--
B.1 Direct impact on budgetary revenues	--	64,616,000	56,536,000	--
B.2 Direct impact on budgetary expenditures	--	76,018,000	66,513,000	--
<i>Strengthening the capacity for integration in the labor market with particular emphasis on women from minority ethnic groups</i>				



A. Implementation profile*		X	X	
B. Net direct budgetary impact (if any)	--	4,402,000	489,000	--
B.1 Direct impact on budgetary revenues	--	24,943,000	2,771,000	--
B.2 Direct impact on budgetary expenditures	--	29,345,000	3,260,000	--
Reforms in the judiciary				
<i>System for collecting, processing and analysing of statistical data in the courts</i>				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	--	--	--
B.1 Direct impact on budgetary revenues	--	15,000,000	--	--
B.2 Direct impact on budgetary expenditures	--	15,000,000	--	--
Other areas				
<i>Implementation of the National Action Plan for Energy Efficiency</i>				
A. Implementation profile*	X			
B. Net direct budgetary impact (if any)	763,183	3,075,000	1,537,500	615,000
B.1 Direct impact on budgetary revenues	-	-	-	-
B.2 Direct impact on budgetary expenditures	763,183	3,075,000	1,537,500	615,000
<i>Implementation of the Strategy for Energy Development - 2030</i>				
A. Implementation profile*		X		
B. Net direct budgetary impact (if any)	--	-9,456,000	-4,687,200	-1,171,800
B.1 Direct impact on budgetary revenues	--	52,731,000	42,184,800	10,546,200
B.2 Direct impact on budgetary expenditures	--	62,187,000	46,872,000	11,718,000
<i>Implementation of the Strategy for renewable energy sources - 2020</i>				
A. Implementation profile*	X			
B. Net direct budgetary impact (if any)	-6,000,000	-6,000,000	-9,000,000	-9,000,000
B.1 Direct impact on budgetary revenues	0	0	0	0
B.2 Direct impact on budgetary expenditures	6,000,000	6,000,000	9,000,000	9,000,000
<i>Southeast European Transport Observatory (SEETO)</i>				
A. Implementation profile*	X			
B. Net direct budgetary impact (if any)	3,077,355	3,077,355	3,077,355	--
B.1 Direct impact on budgetary revenues	0	0	0	--
B.2 Direct impact on budgetary expenditures	3,077,355	3,077,355	3,077,355	--
<i>Analysis and preparation of a new Customs Code</i>				
A. Implementation profile*			X	
B. Net direct budgetary impact (if any)	--	--	90,000	--
B.1 Direct impact on budgetary revenues	--	--	1,800,000	--
B.2 Direct impact on budgetary expenditures	--	--	1,890,000	--
<i>Implementation of a new system for processing customs declarations and excise documents (SOCDAD)</i>				
A. Implementation profile*		X	X	
B. Net direct budgetary impact (if any)	--	1,250,000	1,250,000	--
B.1 Direct impact on budgetary revenues	--	--	--	--
B.2 Direct impact on budgetary expenditures	--	1,250,000	1,250,000	--
<i>Total net budgetary impact</i>				
Total impact on budgetary revenues	457,680,862	1,036,169,529	427,728,766	147,635,200
Total impact on budgetary expenditures	2,241,592,592	4,377,042,890	3,925,130,303	3,233,837,031

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

Source: participating institutions in the preparation of 2012 - 2014 PEP



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

Macroeconomic Policy Department

“Mito Hadzivasilev Jasmin”, nn.

1000 Skopje, Republic of Macedonia

web-page: www.finance.gov.mk

Participating institutions:

Ministry of finance;
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Ministry of economy;
Ministry of agriculture, forestry and water economy;
Ministry of justice;
Ministry of labour and social policy;
Ministry of education and science;
Ministry of transport and communication;
Commission for protection of competition;
Civil servants Agency;
General Secretariat of the Government of the Republic of Macedonia;
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Insurance supervision agency;
Agency for employment;
Securities and exchange commission;
Agency for supervision of fully-funded pension insurance;
Agency for foreign direct investment and export promotion;
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Coordinator and editor-in-chief:

Anita Popovska, MPhil (cantab.), Ph.Dc.

e-mail: anita.popovska@finance.gov.mk

tel: +389 (0) 2 3106 768 (office)

mobile: 71 355 752

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