



Republic of Macedonia

**Pre-accession Economic Programme
2007 - 2009**

Skopje, November 2006

TABLE OF CONTENTS

Introduction	6
1. Economic background.....	8
2. Macroeconomic Framework.....	11
2.1. Real Sector.....	12
2.2. Potential GDP Growth; Output Gap	18
2.3. Inflation.....	20
2.4. Monetary and exchange rate policy.....	21
2.5. External Sector	25
2.6. Alternative Macroeconomic Scenarios.....	29
3. Public Finance.....	30
3.1. 2007-2009 Medium-term Fiscal Framework.....	30
3.1.1. Objectives and Priorities of the Medium-Term Fiscal Policy	30
3.1.2. 2007-2009 Consolidated General Government Budget	31
3.1.3. 2007-2009 Central Government Budget (Budget of the Republic of Macedonia).....	33
3.2. Public Debt Management.....	37
3.2.1. Policy of Borrowing and Issuance of Sovereign Guarantees.....	37
3.2.2. Public Debt Features.....	39
3.2.3 Structure of Public Debt	42
3.2.4 Risk Analyse	45
3.2.5 Guarantees.....	50
3.3 Deficit and its Financing in the period 2007-2009.....	51
3.4 Fiscal Risks.....	52
4. Structural reforms.....	54
4.1. Enterprise sector	54
4.1.1. Privatisation.....	54
4.1.2. Industrial Policy and Strategy	59
4.1.3. Competition policy	62
4.1.4. State Aid.....	64
4.1.5. Restructuring of public institutions.....	66
4.1.5.1. Energy sector.....	67
4.1.6. Business environment and SME's	76
4.1.7. Tourism	79
4.2. Financial sector	84
4.2.1. Banking system.....	84
4.2.2. Capital Market.....	89
4.2.3. Pension System Reform	92
4.2.4 Insurance	94
4.3. Labour market.....	98
4.3.2. Safety at work.....	101
4.3.3. Social Security System	102
4.4. Agriculture	104
4.4.1. Agriculture Land Reform	104
4.4.2. Rural Development and Agriculture Restructuring	106
4.4.2.1. Agriculture and Rural Development Policies.....	108
4.4.2.2. Strengthening Agriculture Institutional Capacities.....	111
4.5. Transport and communications	114

4.5.1. Road transport	114
4.5.2. Rail transport	116
4.5.3. Air transport	118
4.5.4. Telecommunications and postal services	120
4.6. Administrative reforms	123
4.6.1 Institutional and material conditions for accomplishing the public administration reform	124
4.6.2. Economic area	128
4.6.3. Public finances	130
4.6.4 Decentralisation and the reform of the local self- government	132
4.6.6 Information technology development.....	135
4.7. Education and Science.....	136
4.8. Additional Areas of Reform	144
4.8.1. Foreign Direct Investments	144
4.8.2. Spatial Development	146
4.8.2.1. <i>Spatial Management</i>	146
4.8.3. Information Society	149
4.8.4. Environment	155
4.8.5. Reform of the judicial system.....	164
4.8.6. Health Sector	168
5. Economic policy matrix	175
6. Matrix of policy commitments – Fiscal implications	216
7. Statistical appendix	232

List of tables

Table 1: Growth rates and contribution to the GDP growth by economic sectors	8
Table 2: Basic macroeconomic indicators.....	17
Table 3: Consolidated general government budget	32
Table 4: Public debt	41
Table 5: Deficit and its sources of financing.....	51
Table 6: Revenues (per year)	56
Table 7: GDP & Index of physical scope of IP	59
Table 8: Number of SME enterprises.....	77
Table 9: Employment in SME enterprises.....	77
Table 10: Tourism turnover.....	80
Table 11: Foreign tourists	81
Table 12: Foreign over-nights.....	81
Table 13: Tourism revenues	82
Table 14: Investments in tourism	82
Table 15: Unemployment rates for youth aged 15-24.....	99
Table 16: Trends in the amount of FDI and share of GDP.....	144
Table 17: Projected trends in the amount of FDI	146
Table 18: Growth and associated factors.....	232
Table 19: Labour markets developments.....	233
Table 20: External sector developments.....	234
Table 21: General government budgetary developments	236
Table 22: General government debt developments	237
Table 23: Assumptions on the external economic environment underlying the 2006 PEP framework.....	238
Table 24: Cyclical developments	239
Table 25: Long term sustainability of public finances.....	239

List of figures

Figure 1: Industrial production cyclical component	13
Figure 2: GDP Contribution to growth – production approach	14
Figure 3: Contribution to growth – expenditure approach	16
Figure 4: Current account balance and General government deficit (% of GDP).....	17
Figure 5: Consumer price index.....	21
Figure 6: Current account balance, trade balance and private transfers.....	26
Figure 7: Total public debt	41
Figure 8: External public debt	42
Figure 9: Currency structure of public debt.....	43
Figure 10: Interest rate structure.....	44
Figure 11: Debt servicing costs.....	45
Figure 12: Debt servicing costs.....	45
Figure 13: Development of debt to GDP ratio according to different scenarios (%).....	46
Figure 14: Guaranteed public debt	50
Figure 15: Trend of interest rates on government securities by maturity period	49

Introduction

The Republic of Macedonia is strongly and clearly committed to implement an economic programme that will lead to continuation and intensification of the already commenced reforms in all segments of the economy, to the end of accelerating the overall economic growth and development of the country, job creation and improving the living standard, hence to ensure the fulfilment of the economic criteria for accession to the European Union (EU).

The economic policy of the Republic of Macedonia is focused on the achievement of the following goals:

- Increased competitiveness of Macedonian enterprises through structural reforms, increased investments in IT technology and knowledge, and upgrading the quality of the labour force;
- Increased attractiveness of the country for both foreign and domestic investors by simplifying and increasing the predictability of the regulations, assuring transparent operations of the government institutions, improving public infrastructure and easing access to financial resources; and
- Increased quality of public institutions for reform implementation, reduction of "grey economy", greater protection of creditors, fast execution of the financial obligations, decrease of public consumption, and decisive fight against corruption.

The overall objectives of the Macedonian Pre-accession Economic Programme are the fulfilment of Copenhagen economic criteria and the preparation for the European Economic and Monetary Union (EMU). Certainly, obligations arising from the EU accession process are not only formal requirements and conditions for membership, but also the need for intensified transformation of the country in accomplishing government goals.

The Pre-accession Economic Programme is a strategic document, which contains the medium-term macroeconomic forecast and determines general quantitative objectives of the economic policy, planned economic policy instruments and structural reforms for the next 3 years.

The Pre-accession Economic Programme consists of four parts: the Economic Background which is an overview of the recent economic developments; the Macroeconomic Framework; the Public Finance; and the Structural Reform.

Stable macroeconomic environment and the appropriate medium term economic policy are necessary to create conditions for successful implementation of structural reforms and are

prerequisite for creating favourable business environment. Economic policies presented in the Pre-accession Economic Programme are the base of the policies towards meeting the long-term objectives and targets.

Implementation of this Pre-accession Economic Programme will prove that the Republic of Macedonia is in compliance with the Copenhagen economic criteria and functions as a competitive market economy, which is necessary to be successful within the EU.

1. Economic background

The Republic of Macedonia ended 2005 with real GDP growth of 4% and average CPI inflation rate of 0.5%. Industrial production was the main driver of the intensified economic activity with a 7% growth rate in 2005. This growth was spread among several industrial branches, that is about 70% of the industrial branches registered growth in 2005.

Regarding other sectors in the economy, trade grew by 7.9%, tourism by 6.6% and transport and communications by 6.1%. Growth rates in agriculture and financial intermediation were modest, 3.1% and 1.4%, respectively. Negative tendencies were noted only in the construction sector, where the delay in the construction of large infrastructure projects caused the negative growth rate in 2005. The GDP structure in 2005 remained almost unchanged compared to the previous year, where industry accounted for 24% of total production, trade, financial intermediation and public sector accounted individually by 13%, followed by agriculture with 10%, etc.

Table 1: Growth rates and contribution to the GDP growth by economic sectors

	Growth rate (%)		Contribution to growth	
	2004	2005	2004	2005
Agriculture	6,2	3,1	0,7	0,3
Industry	-0,8	6,9	-0,2	1,6
Services	5,3	3,1	2,8	1,6
GDP	4,1	4,0	4,1	4,0

Source: SSO and MoF calculations

From the expenditure side, GDP growth in 2005 was led by growth in the final consumption and the positive effect of net export, which accounted for 2.8 and 1.5 percentage points of the GDP growth, respectively. At the same time, as a result of reduced investment activity, the effect of the gross investments on the overall growth was low at 0.3 percentage points. Relatively high growth of final consumption was achieved through greater private consumption. The latter grew by 2% on annual level due to the wage increase (real growth of 2.0%), greater private transfers (annual increase of 40%) and increased credits to the private sector (annual growth of 20%). Disciplined fiscal policy and budget surplus caused nearly neutral effect of the public expenditure on the GDP growth. Improved collection of public revenues accompanied by a disciplined expenditure policy led to a general government budget surplus of 0.3% of GDP in 2005 instead of the

initially projected deficit of 0.8% of GDP. This created an additional space for loosening the monetary policy.

Quarterly GDP data for 2006 show a real growth rate of 2.7% in the first half of the year. This growth is mainly achieved in the service sector, in particular transport and communications at 7.8% and trade at 5.8%. Achievements in the real sector are somewhat lower than projected due to a low industry growth (2.2% in the first nine months) and the negative growth in construction. Taking into account the dynamics of the growth of the industrial production in the previous years, i.e. lower growth in the first quarter and more intensive growth in the remaining part of the year, the projected growth rate of both the industrial production at 4.1% and the GDP at 4% is expected to be achieved. A macroeconomic risk to this projection is the construction industry which has a negative growth of 1% in the period January-June 2006, a fifth consecutive quarter of low growth in this important sector, as well as the insufficient energy supply.

In the absence of comprehensive data on domestic consumption in the Republic of Macedonia, the analysis of the expenditure components of the 2006 GDP is made on the basis of a qualitative assessment. The public expenditure growth in 2006 is estimated at around 3%, whereas the projected personal consumption growth is 4.8%. The latter projection is based on an average real wage increase of 3.7%, 25% rise in credits to private sector, increased retail trade, higher inflows of private transfers and an increased import of consumption goods. Hence, the contribution of the domestic consumption growth on the GDP growth in 2006 is expected to be 4.8 percentage points. At the same time, an 18% growth of investments in machines and equipment in the first half of 2006 point to a high positive impact of gross investments on the GDP growth. The risk of this assumption is posed by investments in construction, for which no preliminary data exist yet, but taking into account the 0.5% decline in construction in the first half of 2006, its growth is likely to be relatively low. Based on actual data for the first eight months, higher projected export growth relative to the import growth points to a relatively low negative effect of the net export on the GDP growth.

The last five years in the Republic of Macedonia have been a period of low average inflation rates below 2%, one of the main features of the macroeconomic policy. Deflation tendencies that existed in 2004 were overcome, and the average inflation rate in 2005 was 0.5%. Although at the beginning of the year the inflation was projected at a somewhat higher level of 1.2%, a further decline of prices of food and agricultural products, as well as the absence of an expected significant increase of the price of energy, were the main

factors explaining lower inflation in 2005. Actual data for the average inflation in 2006 show a deviation from the initial projected inflation of 1.8%. The rise of the price of oil and oil derivatives on the world stock markets, the rise of the price of tobacco and tobacco goods as a result of the increased excise in January 2006, as well as the greater rise in the price of food resulted in a 3.2% average inflation for the first nine months of 2006. Taking into account the rise of the electricity price at the beginning of September 2006, as well as the expected rise of the price of the central heating, initial projections are revised so that the inflation rate in 2006 is expected to be around 3.3% by the end of the year.

Higher export growth rate relative to import growth contributed to a reduction of trade deficit by 2 percentage points in 2005, reaching 18.6% of GDP (20.8% of GDP in 2004). At the same time, due to the higher private transfers, the BOP current account deficit significantly declined to only 1.3% of GDP.

In the first nine months of 2006, the dollar value of export of goods grew by 15.4%, and of import by 13.4%. The trade deficit grew by 10% on annual level reaching denar 945.7 million mainly as a result of the significant rise of the oil price on the world stock markets, given that the share of oil in the trade deficit is approximately 25%. The trend of a relatively high export growth compared to import growth is expected to continue until the end of 2006, whereas the import growth caused by the higher oil prices on the world stock markets already stabilised. Hence, according to the current projections, the trade deficit in 2006 will be 21% of GDP, 2 percentage points higher than the initially projected. Revised projection for the current account deficit in 2006 is 1.2% of GDP, slightly lower than the previous year.

Reduced current account deficit in 2005 and 2006 creates pressures for appreciation of the denar exchange rate on the foreign exchange market. In order to maintain the stability of the nominal denar exchange rate to the euro in the observed period, a net purchase of foreign currency on the foreign exchange market was made through the foreign exchange transactions of the National Bank of the Republic of Macedonia (NBRM).

From the aspect of setting the monetary policy, auctions of central bank bills are the basic instrument of the monetary policy, whereby in the first three quarters of 2005, central bank bill auctions were carried out by "volume tender" with 10% fixed interest rate and 28-day maturity period. Central bank bills with a 7-day maturity period were abolished in March 2005. However, favourable macroeconomic performance, relatively good bank performance in terms of satisfying foreign exchange market demand and disciplined budget expenditure created room for a change in the setting of the basic monetary

instrument in the fourth quarter of 2005. Hence, on October 26, 2005, auctions of central bank bills were carried out under an “interest rate tender“, allowing the market to set the interest rate of the central bank bills. In conditions of relatively high liquidity and greater demand than the offer of the central bank bills, interest rates on the market declined. Average weighted interest rate on central bank bills at end-June 2006 was 5.8%, compared to 10% throughout 2005.

From the aspect of the performance of the banking system, despite the one-off effect from the payment of dividend which resulted in a reduction of the denar deposits of the enterprises, overall bank deposit potential grew by 18.3% in 2005 and by 12% in the first half of 2006, leading to a higher than the projected M4 money supply. Higher banks deposit potential of banks coupled with a more active bank policy in using foreign currency resulted in an annual private sector credit growth of 20.5% at the end of 2005 and 26% in the first half of 2006.

Positive results in 2006 are observed in the labour market. According to data from the Labour Force Survey (LFS), employment rate in Q2 2006 increased by 0.6 percentage points compared to the same quarter 2005, whereas unemployment rate declined by 1.3 percentage points. Though, taking into account the relatively high unemployment in Macedonia estimated at 36.1% in Q2 2006, much stronger growth is needed to alleviate this problem. In addition, the Government’s direct measures to reduce grey economy, as well as the recent tax reform (reduction of personal income tax and profit tax rates) are expected to reduce grey economy employment, which in expert opinion is not captured by the LFS, and hence reduce official unemployment figures.

2. Macroeconomic Framework

Macroeconomic achievements in the past period, expressed mainly through the growth in industrial production, fiscal discipline, low inflation rate, balancing of the external account and reduction of interest rates are the basis for better economic growth rates in the next period. Still, the intensification of the economic growth in the medium term imposes the need to raise the quality of the institutions and to strongly support the restructuring of the Macedonian economy.

Closer relations between the Republic of Macedonia and the European Union will be a strong incentive for strengthening the institutional capacity, accelerating reforms and achieving more dynamic economic growth. For that, the Government strengthened the coordination of activities in the Ministries and government institutions so as to harmonize

the efforts for faster integration of the Republic of Macedonia into the EU.

In order to become a full member of the EU and to improve the standard of living and the economic welfare of its citizens, Macedonia would need to make greater economic progress. This progress will not be possible without strong political will and using all available reform capacity to stimulate increased economic growth and development in the Macedonian economy. The Government's strong reform agenda, which already started to be implemented in the Q4 2006 should provide for a period of higher and more sustainable rates of economic growth ranging between 6 and 8%, stimulating development and job creation.

There is a broad social consensus with regard to the main precondition for intensification of the economic activity and attracting foreign investments - establishment of a favourable business framework. Hence, government policies in the next period will rely on several pillars: a) judicial reform, a crucial reform that would ensure greater efficiency in the courts, security, the rule of law, strengthening of the fight against crime and corruption; b) labour market reform, a further reform that would ensure greater flexibility and seek to find a balance between flexibility and security; c) public administration reform, strengthening the institutional capacity and the capacity of the public administration, and removing administrative barriers; and d) legislative reform, further harmonisation of the national legislation with the *acquis*.

2.1. Real Sector

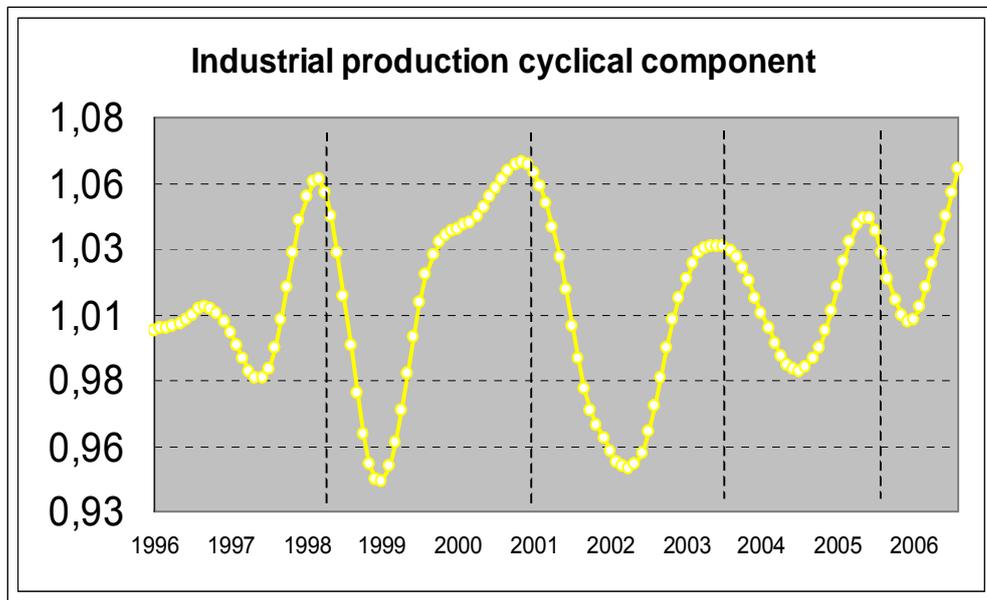
Unlike 2004 when 4.1% GDP growth was driven exclusively by the high growth of services, in 2005 there was a change in the growth factors, whereby in addition to the services, industry experienced high growth. Such dynamics in the industrial sector led to a 4% real growth of the Macedonian economy, while the nominal value reached EUR 4.5 billion.

In particular, in 2005 industry grew by 6.9%, the highest rate of growth in the past 10 years. Strong growth of the industrial production was basically due to the improved business climate in the country, implemented structural reforms, as well as the low comparative basis from the previous year when the industrial production index dropped by 0.8%. However, industry growth slowed down in the first half of 2006, at 1.1%.

Analysis of the cyclical component of the industrial production show that the positive trends in the industry sector in 2005 were mainly concentrated in the first half of the year when industrial production reached the peak of the production cycle, increasing by 9.3%. In the

second half of the year, industry experienced a downward trend leading to a drop in the intensity and a 5.1% growth rate. This downward trend continued in 2006 so that the ended in Q2 2006 when industrial production grew by 1.9% compared to the Q2 2005, a promising development for achieving the projected annual industrial production growth of 4.1%.

Figure 1: Industrial production cyclical component



Source: MoF calculation

The cumulative industrial production growth in 2005 was dispersed in many industrial branches, among which the steel industry had the greatest influence growing by 33.4%, followed by 21.5% growth in industry of construction materials, 18.9% in production of metal products, 16.6% in oil industry and 0.8% in food industry. These branches accounted for 5.8 percentage points of the total 6.9% growth rate in 2005.

Relatively poor performance of industrial production in the first half of 2006 was mainly due to the moderate growth of 0.4% in manufacturing (its share in total industrial production is 79%) and a 1.7% decline in the electricity, gas and water supply (with a share of 18.8%). A strong growth of 63.7% was registered in mining, bit its share in total index is 1.8%. Within manufacturing, intensive growth was registered in non-metal mineral products (26.8%), textile industry (12.2%), coke and refined petroleum (8.8%) and food products and beverages (2.4%).

During 2005 and the first half of 2006, trade recorded significant growth rates and contributed the most in the GDP growth. In particular, trade in 2005 increased by 7.9%, while growth in the first half of 2006 was 5.8%. The increase in sales was accompanied by a reduction in the number of employees in trade, as well as the number of shops, especially

shops for beverages, food and tobacco. This can be explained by the continuous trend of expansion of small shops and opening of large supermarkets, documented by data on foreign direct investments where 14% of total FDI in 2005 was in trade.

Increase in trade was significantly correlated with the increase in credits to the private sector, as well as with the final consumption. Credits to the private sector experienced a 22% increase in 2005 and 26% in the period January-June 2006.

In 2005 and in the first half of 2006, transport and communications recorded high growth of 6.1% and 7.8%, respectively, of which half is attributable to the mobile telephony growth. According to the number of subscribers and mobile phone traffic, Macedonia belongs to the group of more advanced transition countries. In foreign and domestic trade, there was a significant growth in the cargo transport, both passenger and railway ones. However, air cargo transport declined.

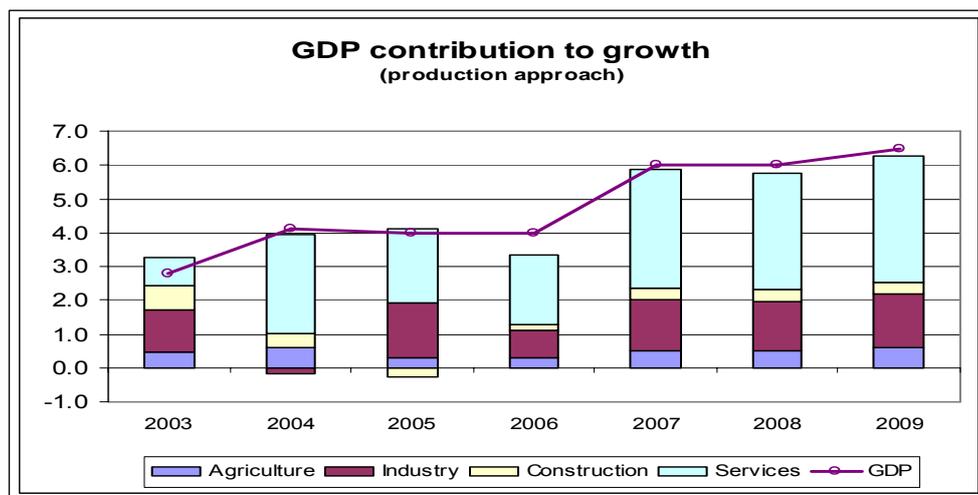
Tourism in 2005 showed the best results in the past ten years, increasing by 6.6%. Quarterly analysis show highest growth in Q2 and Q3, while growth intensity was lower in Q1 and Q4. Furthermore in 2005, there was a significant increase in the number of foreign tourists, pointing out that the Republic of Macedonia regains its place on the map of popular tourist destinations. Growth in tourism slowed down in the first half of 2006, at a rate of 0.3%. Though, data for employment and wages in this sector show a somewhat contradictory picture, i.e. they show higher growth in tourism.

The only sector where the Republic of Macedonia did not manage to generate growth in 2005 and in the first half of 2006 is construction. Domestic construction activity declined by 5% in 2005 and 0.5% in the period January-June 2006. The decline was a result of the delay in several large infrastructure projects in the country such as Skopje Bypass, Zletovica System, etc., expected to be completed by the end of 2006 or beginning of 2007. Construction activity on the foreign markets also significantly declined. However, similar to the tourism sector, employment data for construction point to a likely growth in this sector.

Growth in the Macedonian economy is expected to accelerate in the period 2007-2009 when the GDP growth is projected at 5.5% to 6.5%. This projection is based on the newly-elected government's economic programme with a strong commitment to intensive structural reforms and creation of a more business conducive economic environment. A risk to this scenario could be the relatively low institutional and public administration capacity. From the production approach, industrial production should be the main driving force of the economic growth in the period 2007-2009 taking into account its high share in the GDP structure. Growth is also expected in other economic sectors, mainly trade,

transport and communications, construction, as well as the financial services sector.

Figure 2: GDP Contribution to growth – production approach

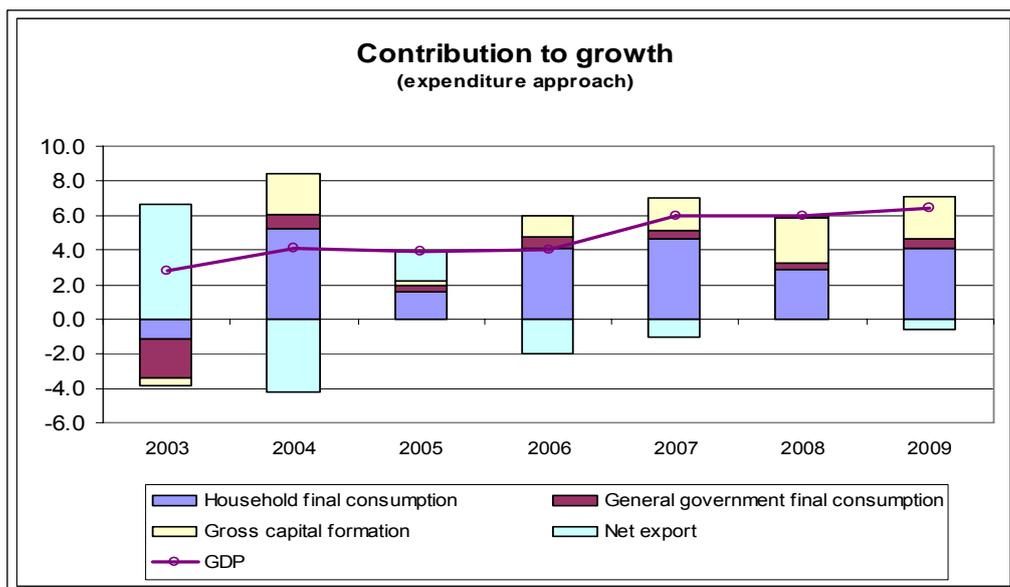


Source: MoF calculations

On the expenditure side, private consumption is expected to be the main growth stimulator, with a contribution to the GDP growth of 3 to 4.7 percentage points in the period 2007-2009. This projection is based on the expected growth of the disposable income. In particular, average net salaries are expected to grow by 4% to 6%, credits to citizens by 20%-30% annually, whereas private transfers will remain at the high level. In addition, income tax reduction starting from 2007 will likely further increase disposable income. In line with the commitment of the Government of the Republic of Macedonia to maintain a disciplined fiscal policy, share of public consumption in GDP in the period to come will be about 0.5 percentage points. Improved business climate, government policy to attract FDIs, as well as the status of a candidate country will make investments a significant contributor to the GDP growth in the period 2007-2009. Gross investments are expected to increase on average between 10% and 15%, and to contribute to GDP growth by around 2 to 2.6 percentage points.

Improved expected export performance is based on the intensified structural reforms, increased profitability of the private sector and projected external demand growth in the main Macedonian trading partners (EU, Serbia and Kosovo). However, taking into account the Macedonian economy's dependence on imports, as well as expected expansion of personal consumption, contribution of net export is envisioned to be negative in the coming period, but stabilised at around -0.5 percentage points.

Figure 3: Contribution to growth – expenditure approach



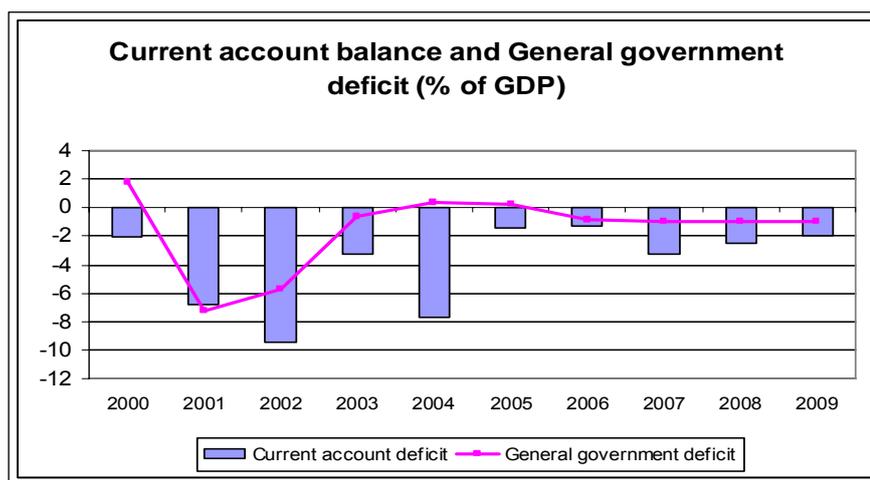
Source: MoF calculations

The main monetary policy goal is maintenance of price stability in the economy. At the same time, the strategy of targeting nominal denar to the Euro exchange rate will continue. The maintenance of the denar exchange rate stability will be an indirect monetary goal. Money demand will increase in line with inflation and GDP growth. Greater availability of to the private sector is expected, as one of the basic preconditions to intensify the economic growth.

Regarding foreign trade, the main trade policy priority will continue to be the creation of conditions to increase export of goods and increase the share of Macedonian products on the international markets. Thus, in the period 2007-2009, average annual increase of exports of 8% to 10% is projected, with a simultaneous average growth of imports of about 7% to 9%. Export is expected to gradually become the most significant factor in the process of intensifying the economic growth in the country. The above developments in foreign trade will lead to a gradual reduction of trade deficit in the Republic of Macedonia projected to be around 17% of GDP by the end of 2009.

Given the reduction of the trade and service balance deficits, as well as the consistently high level of private transfers, the current account deficit is expected to decline to about 4.5% of GDP by the end of 2009.

Figure 4: Current account balance and General government deficit (% of GDP)



Source: NBRM and MoF calculations

Improvement of the overall economic climate, in particular increased economic activity of small- and medium-sized enterprises and more dynamic economic growth will contribute to employment growth by around 4% on annual level with a simultaneous reduction of the unemployment rate. As one of the key components in the process of improvement of the investment climate in the country, a further labour market reforms will be carried out. These will include: entrepreneurship support programmes; simplification and streamlining bureaucratic procedures, regulations and administration in the labour market; promotion of flexible and innovative forms of employment contracts and job arrangements; and improvement of the access to training and re-qualification of the employees.

Table 2: Basic macroeconomic indicators

Basic Macroeconomic indicators	2005	2006	2007	2008	2009
GDP growth at constant market prices	4,0	4,0	6,0	6,0	6,0
GDP deflator	0,5	3,3	3	2,5	2
Employment growth (%)	4,3	4,0	4,0	4,0	4,0
Unemployment rate	37,3	36,3	35,3	34,3	33,2
Investment ratio (% of GDP)	21,9	22,1	22,7	23,5	24,3
Trade balance	-18,8	-21,4	-20,5	-19,3	-18,2
Current account balance	-1,3	-1,2	-3,3	-2,5	-2,0
General Government deficit	0,3	-0,8	-1	-1	-1
GDP Contribution to growth (production approach)					
Agriculture	3,1	2,9	5,5	5,4	6,1
Industry (excluding construction)	6,8	3,6	6,1	6,1	6,6
Construction	-5	2,9	7,1	6,6	6,9
Services	4	3,8	6,4	6,3	6,5
GDP Contribution to growth (expenditure approach)					
Final domestic demand	1,8	6,2	4,8	3,6	4,1
External balance of goods and services	1,7	-2,7	-1,3	-0,1	-0,6

Source: State statistical office and MOF calculations

Although most labour market programmes have limited effect on employment creation, experiences from other countries show that well designed and targeted programmes can have a net positive effect on employment and reduce structural unemployment.

In general, the entire medium-term period to 2009 is very important for the future developments in the country since the Government intends to implement crucial structural reforms. Moreover, two parallel and synchronised arrangements with the IMF and the World Bank will be implemented in this period, covering significant structural elements of the economy. Reforms will be focused on the activities aimed at improvement of investment and business climate in the economy, expansive labour market liberalisation and flexibility, significant improvement of the judicial system efficiency, comprehensive public health sector reform which traditionally absorbs a large portion of the public consumption, and continued reforms in public sector management, public administration and in the financial sector.

Therefore, the four main pillars of the Macedonian policy in the coming period, each having influence in the economic sphere are:

- completion of the two medium-term arrangements with the IMF and the World Bank in the period 2005-2008;
- acquisition of the status of a candidate country and the beginning of the negotiations with EU in the period 2007-2008 for a membership;
- completion of the first stage of government decentralization in the period by 2007; and
- finalisation of preparations for NATO membership in the period 2007-2008.

2.2. Potential GDP Growth; Output Gap

One of the main parameters used in projecting the basic macroeconomic aggregates is the potential growth of GDP in the Republic of Macedonia. This growth is calculated by applying the Hodrick-Prescot trend estimation, where trend value (s^*) is estimated by minimising the real domestic production gap (s) and the trend and hence the variability for the whole sample (T):

$$\text{Min} \sum_{t=0}^T (Y_t - Y_t^*)^2 + \alpha \sum_{t=2}^{T-1} ((Y_{t+1}^* - Y_t^*) - (Y_t^* - Y_{t-1}^*))^2$$

, where α is a parameter for smoothing the time series. According to the literature¹, the assumption is that the value of the parameter is 30. There is a great probability that the Hodrick-Prescott method produces biased results in the case of Macedonia due to many structural problems that occurred in the past period, several external shocks, including a relatively long transition period resulting in a significant decline in economic activity until 1995. Hence, results should be interpreted with great caution.

The assessment shows a potential real GDP growth in the Republic of Macedonia of 3,7%² for the 1997-2006 period. According to the analysis, in the period 1993–1998, economic activity in the Republic of Macedonia was below the potential, while in the period 1999-2000, economic results were better than the potential of the economy. The analysis excludes the period 2001-2002 because of non-economic developments during this period. Following this period, the gap between actual and potential GDP steadily declined. In 2004 and 2005, the gap reached a positive value of 1,1% and 0.1% respectively, initiated by increased demand due to a significant increase in consumption. In the period 2007-2009, the average gap between the actual and potential GDP is estimated between 0.5% and 1% and there is no significant threat of possible overheating of the economy.

The relatively low value of the potential GDP in the Republic of Macedonia during the transition period could be explained by the low and insufficient level of investments. In particular, FDIs were relatively low compared to the region, excluding certain large privatisations processes. One of the consequences of low investment is the lack of transfer of new technologies and knowledge, which are proven to have a significant positive effect on growth.

Potential GDP growth and output gap

	2003	2004	2005	2006	2007	2008	2009
GDP growth (%)	2,8	4,1	4,0	4,0	6,0	6,0	6,0
Potential GDP growth (%)	2,2	3,0	3,9	4,8	5,0	5,3	5,6
Output gap (%)	0,7	1,1	0,1	-0,8	1,0	0,7	0,4

Source: MoF calculations

¹ Calculating potential growth rates and output gaps – Cecile Denis, Daniel Grenouilleau, Keiran Mc Morrow and Werner Roger, Measures of the Output Gap in the Euro Zone – Odile Changy and Jorg Dopke

² End point bias problem was addressed by adding two additional years beyond the medium term projections

2.3. Inflation

The relatively good inflation profile of the Macedonian economy in the last decade is a result of the fixed exchange rate policy of the Denar against the Euro, gradual trade liberalisation, relatively prudent fiscal policy, as well as the moderate wage growth.

In 2005, average inflation rate in the Republic of Macedonia was 0.5% measured by the CPI. The following factors are responsible:

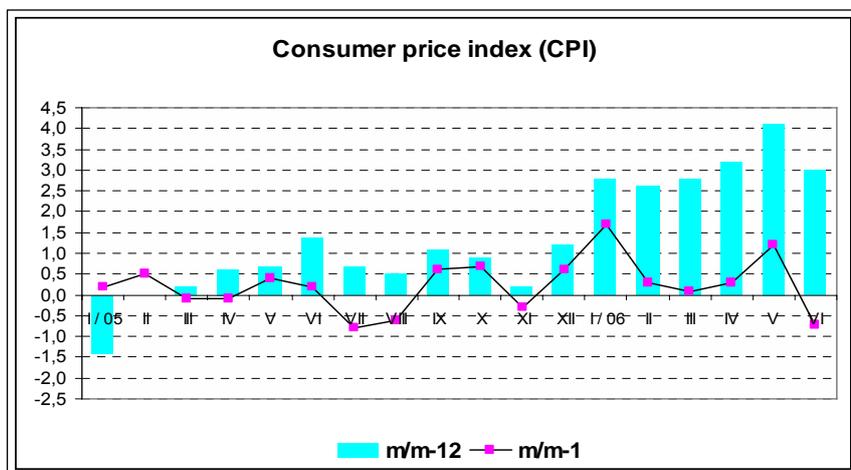
- Cigarette excise tax increase in January 2005 to harmonise with the EU Directives, resulted in the average cost increases for these products by 10.9%;
- Crude oil price increases on world stock markets impacted the domestic prices of oil derivatives by an average increase of 10.7% in 2005;
- Footwear prices in 2005 increased by 4.4%;
- Telephone impulse prices and subscription rates in the fixed telephone network increased in 2004, but were fully realised in 2005;
- Food products declined under the influence of two factors:
 - Imported agricultural and industrial and food product customs were reduced consistent with the membership of the Republic of Macedonia into the WTO resulting in lower retail prices for both imported and domestic products due to stronger competition, and
 - Basic white bread price reduction in November 2005;
- Hygienic and health care product costs declined 4.2% and 3% respectively.

The factors discussed above are reflected in the structural categories of the inflation index. In particular, food-related costs significantly impact the overall inflation rate because of its 38% weight in the total index. Therefore the reduction in food-related costs by 1.2% in 2005 neutralised the cost increases in the following categories: 3.7% in “transport means and services; 5.5% in “tobacco and beverages”; and 2.2% in “clothing and footwear”. Distinguishing goods and services, data show relatively high increase in prices for services (1.3%), mainly because of higher transport service prices, relative to the increase of prices of goods. Price reductions in agricultural and food products (due to the gradual reduction of the customs duties after entering WTO) and lack of energy price increase were responsible for a lower than projected actual inflation rate. Core inflation, which excludes the effect of the most volatile prices, processed food and energy, was 1.2% on average in 2005, while the annual inflation rate reached 1.2% in December 2005.

Monthly dynamics of the cost of living was mainly influenced by the seasonal changes of

the prices of agricultural products and change in the prices of oil derivatives, the latter being determined by the movements of oil prices on the world stock markets.

Figure 5: Consumer price index



Source: SSO

In the first half of 2006, price increases in agricultural and food products and oil and oil derivatives had a significant inflationary effect. Accordingly, average inflation rate in the period January-June 2006 was 3.1%, whereby 90% of the growth was a result of the increase in the prices of goods, and only 10% was related to services. Core inflation in the first half of 2006 was 2.1%.

Prices of all categories within the inflation index increased with the exception of prices in the category “clothing and footwear”. Cigarette prices increased 39% (in line with the harmonisation with the EU Directives), food prices increased by 23% and oil and oil derivatives prices increased 19%.

Considering the effect of increased electricity and heating prices in the second half of the year, the expected average inflation rate for 2006 is around 3%. In the medium term, significant changes in inflation are not anticipated. Price stability will remain one of the main components of the macroeconomic climate. Average annual inflation, measured by the cost of living, is expected to be in the range of 2.5% to 3.5%. At the same time, it is expected that the effects of the continuous trade liberalisation on the average price level, which is usually present in the first years of liberalisation, will be reduced.

2.4. Monetary and exchange rate policy

The main objective of the monetary policy is maintenance of price stability, which is defined in the Law of the National Bank of the Republic of Macedonia. In addition, the

NBRM should support economic policy and financial stability in the economy, without endangering the accomplishment of the main objective.

For already a full decade, NBRM has implemented an exchange rate targeting strategy. In the beginning the strategy targeted the Deutsche mark, and now the Euro. One of the main reasons for this strategy is the importance of the exchange rate for price development in a small and open economy, keeping in mind that exports and imports comprise around 80% of GDP on average. In addition, the Macedonian economy is characterized by low diversification of output and export, which makes it highly vulnerable and dependant on the developments in the world markets. In the currency structure of the export and import payments, the Euro is a dominant currency with around 70% share. The EU is the main trading partner with an average share of around 50% of the total external trade of the Macedonian economy. The financial and foreign exchange market is quite shallow, therefore only a few large transactions can affect the exchange rate developments, which make the exchange rate targeting strategy the most appropriate alternative. The euroisation measured through the share of foreign currency deposits of the total deposits is relatively high and quite stable representing around two thirds of the total deposits of the private sector. A large jump in the share of foreign currency deposits of the total deposits was registered at the end of 2001. During the Euro conversion, a big inflow of foreign currency previously kept at homes entered the banking system and to a large extent remained deposited in the banks.

The main achievement of the implemented monetary strategy is successful maintenance of the price stability as a primary objective of the monetary policy. As already mentioned, the Macedonian economy has an average inflation rate of 2.2% in the period 1996-2005, the best inflation record among transition economies. Relatively low inflation rates are also projected for the coming period.

Maintenance of the fixed exchange rate of the denar against the Euro, as an intermediate target of the monetary policy, is transparent for the public, which play a role in successful implementation of the strategy. The stable exchange rate contributes for stable inflation expectation in the economy and consequently for the price stability. On the other hand, the maintenance of fixed peg along with a reasonable level of foreign exchange reserves available for interventions on the foreign exchange market, also requires changes in the interest rates, which as an endogenous variable are used for keeping the exchange rate stability.

The main monetary policy instrument of NBRM is auctions of Central Bank bills, with 28

days maturity. These bills are used for mopping up liquidity of the banking system when a position of excess liquidity exists. Considering the significant improvements in the external sector in 2005, NBRM in the last quarter of the 2005 switched from volume tender with pre-announced interest rate of 10% to interest rate tender on the auctions of Central Bank bills. The use of the interest rate tender on the auctions of Central Bank bills introduced market determined interest rates on the auctions. The interest rates started to decrease, keeping in mind the increased net purchase of foreign exchange on the foreign exchange market by NBRM and the liquidity injection. The positive developments on the foreign exchange market and prudent fiscal policy in the first six months of 2006 enable continuation of the declining trend of the NBRM interest rates. The average weighted interest rate on the auctions of Central Bank bills in June 2006 was 5.8%, which is a decline by 2.7 percentage points compared to December 2005. The average weighted interest rate on the auctions of 3-month treasury bills followed the developments of interest rate of Central Bank bills. In June 2006, the interest rates on 3-month treasury bills were 6.5 %, compared to 8% in December 2005.

Starting in March 2006, NBRM in cooperation with the Ministry of Finance began issuing 3-month treasury bills for monetary policy purposes. This was part of the plan for gradual replacement of the Central Bank bills intending to sterilise excess liquidity on a longer term. This action helps avoid the possible segmentation of the short-term securities market, hence improving the role of interest rates as a transmission channel. Additionally, in May 2005, the over-the-counter market was established where only treasury bills are traded so far improving their liquidity and attractiveness.

For the purpose of more efficient intervention policy and improvement of foreign exchange market, in August 2005 the NBRM introduced the banks market makers at the foreign exchange market. These banks represent the core of the foreign exchange market, and have an exclusive right to trade with NBRM. In exchange, they are required to continuously quote by and sell exchange rates in sufficient magnitude, to satisfy the banks' needs for foreign currency.

Money supply and credit to the private sector in the Macedonian economy have registered gradual increase over the past years. In 2005, total deposits of the private sector within the banks reached 25.9% of GDP. In the first half of 2006, the upward trend continued, and from June 2005 through June 2006 total deposits of the private sector within the banks increased by 12.9%. The growth rate would have been even higher if there were no significant one-time effect in the reduction of short-term denar deposits of one large

company as a result of purchase of shares owned by the government in the same company at the beginning of June 2006. The annual growth rate in May 2006 had reached 17.4% before the June transaction lowered it to 12.9%. The term structure of the total deposits is dominated by short-term deposits, while the currency structure is dominated by foreign currency deposits, which indicates the preferences of the economic agents for saving on short term and in foreign currency. Thus, as of end-June, short-term deposits comprised 93% of total deposits, while the share of foreign currency deposits in total deposits equalled 64%.

Total banks' credit to the private sector including indexed loans reached 22.3% of GDP in 2005, indicating a gradual strengthening of the financial intermediation. The credit growth is perceived as relatively moderate compared to other countries in the region, which is a normal phenomenon considering the relatively low credit activity in the past. It is important to emphasize that the credit growth is accompanied by improvement in the quality of the banks' portfolios. In the last couple of years, the tendency for increased share of long term loans, credits to households - as a sector that was not enough covered with credit supply in the past, and foreign currency loans - after the liberalization of foreign currency lending, is registered. Thus, in the first half of 2006, total banks' placements to the private sector increased by 26.3%. Placements in domestic currency and placements to the corporate sector have the highest contribution to growth, although the placements to households register higher growth rate. The response of the banks' interest rate policies to the changes in the NBRM's interest rates is slow and gradual. Namely, in June 2006, the average weighted lending and deposit interest rates of the banks equalled 11.3% and 4.3%, respectively, while in December 2005 they equalled 12% and 5.6%.

In line with the future development of the credit activity of banks, the NBRM is taking care of the movements in the reference interest rate in order to prevent monetary expansion that might endanger the exchange rate stability and price stability in the economy. At the same time, the NBRM carefully monitors all aspects related to financial stability.

The main challenges of the monetary policy in the short run are the possible effects from capital account liberalisation that started at the end of 2002, according to the SAA with the EU. The effects from liberalisation of non-residents' portfolio investments in the domestic securities market were registered in 2005 and in the first half of 2006, though with a small size. At the same time, in the past two years, there was a high inflow of private transfers, contributing to significant decline of the current account deficit in the balance of payment. These two categories, as well as the expected growth in FDI, might result in larger capital

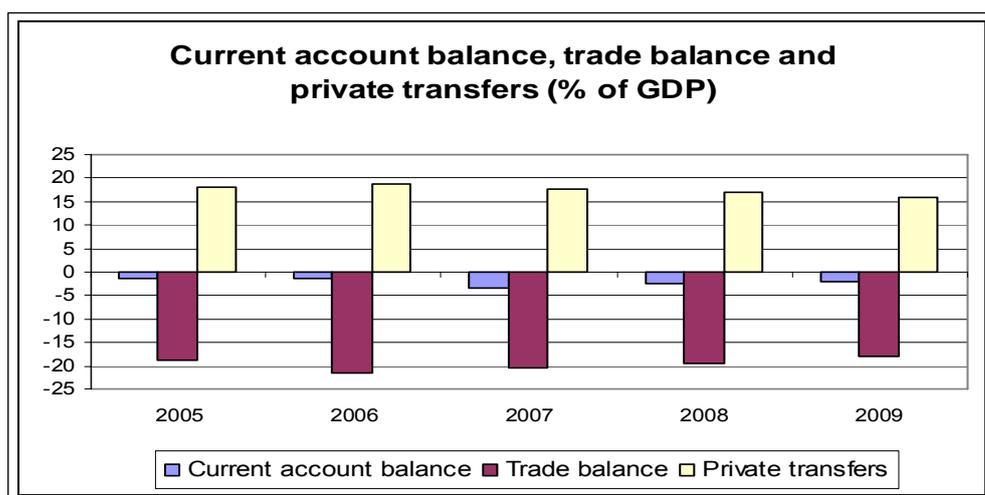
inflows in the following years and thus create a different environment for monetary policy implementation. However, the high pass-through of the exchange rate still exists, even after ten years of fixed exchange rate regime. In terms of low efficiency of the transmission through the interest rate and credit channels, the exchange rate is the most significant transmission channel of the monetary policy. This fact, together with the high level of euroisation and the characteristics of small and open economy, confirms the appropriateness of the exchange rate Euro targeting strategy. This is also compatible with the main features of ERM II, a goal for the Macedonian economy.

2.5. External Sector

The current account of the balance of payments of the Republic of Macedonia registers permanent deficit, which on average during the period 1993-2005 equals 5.5% of GDP. In 2005, a significant improvement in the current account deficit was registered and from 7.7% of GDP in 2004 was reduced to 1.3% of GDP in 2005. Looking at the main components of the current account, the trade deficit for the 2000-2005 period equals around 20% of the GDP, on average, while the private transfers' surplus represents a stable source for its financing and covers approximately 60% of the trade deficit. The balance of services is mainly related to the foreign trade, while the "income" category mainly registers a deficit, although still relatively low, having in mind the low level of FDI.

The improvement in the current account deficit in 2005 is due to the small reduction of trade deficit (by 5%), and the substantial increase of private transfers (by 39.4%). Regarding the export performances, it is important to mention that the export structure is highly concentrated (the Herfindal-Hirschman index for the export components in 2005 equals 0,251). Namely, two product categories - iron & steel and textile, compose around 50% of the total exports. Furthermore, the export is highly import dependent, considering the mainly reprocessing activities and imported raw materials. On the other hand, the share of import of oil and oil derivatives in 2005 increased by 4.6 percentage points and reached 14.8% of total import of goods, determining around 58% of the annual growth of total imports. The private transfers during 2001-2004 period equalled on average 11.4% of GDP, while in 2005 they reached 17.4% of GDP. These inflows are usual for the countries with high number of employees abroad, and most of the private transfers into the Macedonian economy are in cash, on the basis of cash exchange net-inflows

Figure 6: Current account balance, trade balance and private transfers



*For 2006 estimation, for the period 2007-2009 projection.

Foreign trade developments of the Republic of Macedonia in the first half of 2006 were mainly determined by the import of energy and its increased prices at the world markets. Thus, the total export of goods in the first half of 2006 increased by 8.6% on annual basis, while the total import increased by 10.1%, where 43.6% of the import growth is determined by the higher import of mineral fuels. Accordingly, the cumulative trade deficit for the first half of 2006 is higher by 12.7%, compared to the same period of 2005.

On the other hand, private transfers still represent the major source of foreign currency inflows in the country. In the period January-June 2006, private transfers reached EUR 402.6 million, and compared to the same period of the previous year went up by 23.9%. At the same time, the deficit in the trade of services was reduced, while a surplus was realized in the income sub-balance, which resulted in reduction of the current account deficit (despite the deepening of the trade deficit). Therefore, in the first half of 2006, the current account deficit equalled EUR 68.4 million, and compared to the same period of 2005 was lower by 33%. Consequently, in 2006, the current account deficit is expected to reach 2% of GDP, which is a slight worsening compared to the previous year, mainly due to the increase in the trade deficit. Despite the expectations for strengthened external sector, in the next three years the current account deficit is expected to equal around 4% of GDP, mainly determined by the estimated import of energy, expected outflows in the income category based on dividend payments to foreign investors, and gradual stabilisation of private transfers inflows.

The registered FDI in the capital and financial account of the balance of payments are mainly related to the privatisation process. On average, FDI in the 1993-2005 period equal 2.5% of GDP, which mainly reflects unfavourable perception of the investors caused by

the risk in the region from the past and the size of the market. However, the undertaken activities aimed for improvement of the business climate (including introduction of one-stop-shop system for companies registration), the implementation of structural reforms, and the candidate status for entry in the European Union, are expected to attract more FDI in the forthcoming years. At the same time, in March 2006 ESM-Distribution was sold to foreign investor. Trade credits (loans) are short-term and mainly related to the foreign trade, and depending on the business cycle they may result in net inflow or outflow in the capital and financial account of balance of payments during the year.

Gradual liberalisation of the capital account began at the end of 2002 according to the SAA with EU, with faster liberalisation in one part of short-term financial transactions. Thus, in the first stage, besides the full liberalisation of FDI, short-term trade transactions and long-term financial transactions, there was a full liberalization of credit transactions and portfolio investments of the non-residents in the domestic market of securities. After the liberalisation of portfolio investments for the non-residents, beginning from the last quarter of 2004, the continuous increase in inflows from portfolio investments is registered. In 2005, the portfolio investments represent around 1% of GDP and equal EUR 49 million. The inflow of portfolio investments mainly is a result of the positive interest differential, and the positive perspectives of the companies, listed at Macedonian Stock Exchange. At the end of 2005, the share of foreign investors in the stock exchange turnover was 32.6% in total buying and 10% in total selling, indicating the net inflow of assets. Further interest of non-residents for purchasing domestically issued debt and equity securities is registered in the first half of 2006, where portfolio investments equal EUR 37 million, and are by 2.2 times higher compared to the same period of the previous year. From the total stock of portfolio investment of non-residents as of end-June 2006, 51% are investments in shares, while 49% are investments in Government bonds.

At this stage of liberalisation of portfolio investments, in order to protect the economy from the speculative short-term capital flows, if non-residents want to withdraw the invested funds for the period shorter than one year, the commercial banks are obligated to buy so-called foreign currency rights from NBRM for the next foreign currency outflows within the custodian accounts of the non-residents (a type of a “booking” for the purposes of short-term liquidity management). In the next stage of the capital account liberalization, according to the SAA, the portfolio-investments will be liberalized in both directions, as well as the real estate transactions, while after the second stage the opening of accounts by residents in foreign banks will be liberalised.

The Macedonian economy is generally characterized by a low level of indebtedness, with the foreign debt equalling on average around 40% of GDP, which level is expected to be maintained in the following years. Major creditors are the International Bank for Reconstruction and Development and the International Development Association, hence the largest part of the public debt is under concessional terms. The external debt of the private sector gradually increases, according to the liberalization of the credit transactions and at the end of June 2006 composed 28.4% of total long-term foreign debt. Out of the total debt of the private sector, around 1/4 refers to the banks' foreign loans, loans from their major shareholders, which represents a significant resource of financing for their credit activity.

In December 2005 first Government Eurobonds were issued at the international financial market, in amount of EUR 150 million, with 10-year maturity and coupon interest rate of 4,625%. Additionally, compared to the 10-year bonds issued by the countries in the region, Macedonia reached a relatively favourable interest rate. The demand for the Eurobonds amounted to EUR 593 million and outgrew the offered amount by 4 times, which reflects the great interest of the investors. The assets from the Eurobonds were aimed for disbursement to the London Club of Creditors, which was realized in January 2006.

The gross-foreign reserves are gradually increasing and at the end of 2005 (without the inflow from the Eurobonds) equalled EUR 973.7 million, which is equivalent to a 4-months of average monthly import of goods and services in the same year. In August 2005, the Republic of Macedonia signed a 3-year "pre-cautionary" Stand-By arrangement with the IMF, of which EUR 12 million are withdrawn, while other withdrawals are not expected regarding the improvement in the balance of payments and high inflow in the foreign reserves from the privatisation of the state owned capital. In the first half of 2006, the positive movements at the foreign exchange market pursued, which together with the inflows from the privatisation of ESM-Distribution, enabled further increase of the foreign reserves. Thus, as of June 30, 2006 the gross foreign reserves equalled EUR 1,241.3 million, which compared to the end of 2005 (corrected for the amount of the Eurobonds that were utilized for disbursement of the debt to the London Club of Creditors in January 2006) represents an increase by EUR 267.6 million. The current level of the gross foreign reserves enables an average coverage of the import of goods and services from the current year of 4.8 months, or coverage of 4.2 months of the projected import of goods and services for the following year, and similar level of coverage should be maintained in the following three years.

2.6. Alternative Macroeconomic Scenarios

According to the base scenario presented above, structural reforms and their high-quality and timely implementation are the main precondition for achieving the projected GDP growth of around 5.5 to 6.5% in the period 2007-2009. Projected inflation rate for this period will be relatively low ranging between 2.5% and 3.5%. In addition, the Government is committed to run a disciplined fiscal policy, that is maintaining the consolidated budget deficit at 1.0% of GDP on medium term. In such conditions, main driver of economic growth would be private consumption, with a contribution to growth of 3 to 4.7 percentage points. However, given the high export dependence of the Macedonian economy, increased consumption will increase imports rendering a negative contribution of net export in growth of around 1 percentage point. At the same time, gross investments are expected to grow. The projected annual growth of private investments in 2007-2009 is about 10% to 15%, and for the public investments 7% to 10%. Thus, the share of gross investments in the observed period is expected to rise to 23% or 24% of GDP. The level of saving which is necessary for supporting the investment activity is expected to stabilise between 19% and 21% of GDP, whereby external financing or the current account deficit in the period 2007-2009 would range between 2% and 3.5%. On the basis of this scenario, total public debt by 2009, would decline to 37% of GDP.

However, analyses and simulations show that non-fulfilment of the two key factors, i.e. the delay in the structural reforms and the uncontrolled fiscal policy which creates additional fiscal deficits at around 2.5% to 3% of GDP, would have a negative effect on the economic growth. This scenario would lead to a growth rates between 3.5% and 4%. Average inflation would still be low, i.e. not higher than 2.5%. The deteriorated business climate would result in lower inflow of foreign direct investments, lower import of machinery, equipment and raw materials and higher import of consumer goods, which, in turn, would result in rise of the current account deficit at 5% to 7% of GDP. Poor economic growth would affect the slowdown of final consumption which would grow by only 2.5% to 3% on annual level. In condition of stagnation of private investments (growth by only 5% to 7%), the share of gross investments in the period 2007-2009 would be around 21% of GDP. On the basis of this scenario, total public debt would increase, reaching 42% in 2009.

3. Public Finance

3.1. 2007-2009 Medium-term Fiscal Framework

3.1.1. Objectives and Priorities of the Medium-Term Fiscal Policy

Within the budget process defined in the Budget Law, 2007 - 2009 Fiscal Strategy of the Republic of Macedonia was prepared, which provides bases for defining the overall economic policies of the Government of the Republic of Macedonia by setting guidelines of the macroeconomic and the fiscal policy, financial management and control of budget resources of the general government budget.

The defining of the macroeconomic framework for the current year and projections of the basic indicators until 2009; as well as the assumptions and risks determining the medium-term projections of budget revenues and expenditures and policies of the Government for the next years sets a solid basis for achievement of the fundamental goals of the medium-term fiscal policy. 2007-2009 fiscal policy is designed so as to:

- maintain macroeconomic stability and intensify economic growth;
- achieve the strategic government priorities and accelerate the integration processes into EU and NATO;
- maintain the public debt within internationally acceptable frameworks;
- reduce unemployment and poverty by continuing with the existing and commencing a series of new medium-term and long-term structural reforms and
- support private sector development.

Medium-term fiscal policy in Macedonia, supported by 3-year structural arrangement with the IMF, fully confirms its harmonization with the Maastricht criteria, taking into account the exceptionally low level of deficit of the consolidated government budget, sustainable tax burden, controlled and earmarked budget expenditures and regular servicing of domestic and external debt.

Such designed fiscal policy ensures the following:

- Maintenance of low level of deficit of the consolidated government budget of around 1% of GDP so as to achieve fiscal sustainability on medium term, public debt sustainability and loosening of the monetary policy to the end of further maintenance of macroeconomic stability;

- Significant reduction of tax burden, from 31.9% of GDP in 2006 to 28.6% in 2009, whereby in the area of tax policy and the policy of social contributions, significant reforms are envisaged, i.e. introduction of flat tax, at the same time providing for simplification of tax procedures, job creation and attracting foreign direct investments;
- Efficient management and control of public finance by defining expenditure caps and stronger procedures for realisation of budget expenditures that would result in gradual overcoming of the problems, especially in the health sector, successful implementation of medium-term structural reforms and strengthening of the development component of the budget and reducing social expenditures;
- Successful implementation of the decentralisation process, with strengthened role of the local government in the implementation of the delegated competences and management of financial resources;
- Restructuring and privatisation of public enterprises where the state still has predominant share, making them market-oriented, more competitive and attractive for new foreign direct investments; and
- Strengthening the capacity and efficiency of public administration, so as to prepare it for successful implementation of the negotiations and procedures for membership to the EU.

3.1.2. 2007-2009 Consolidated General Government Budget

In order to have consolidated management with public finances, general government budget encompasses total public revenues and expenditures of central and local governments, thus covering the central budget - the budget of the Republic of Macedonia incorporates the central budget and the budgets of the extra-budgetary funds.

Revenues of the consolidate government budget in the next three-year period decline relatively, as a share of GDP, from 39.7% of GDP in 2006 to 34.1% in 2009. The planned reduction is a result of the reduced tax burden, the expected lower level of revenues from foreign donations, as well as lack of capital revenues (dividend) due to privatisation of state capital. Thus, the reduction of public revenues in the next period would provide space for freeing available resources in the private sector and their focusing on greater investments and new jobs, which would directly accelerate development of the domestic economy.

Total expenditures in the period 2007-2009, in conditions of rational management with

public finances at all government levels, according to the planned policies and low level of budget deficit declined as a share of GDP from 40.5% in 2006 to 34.9% in 2009.

Additional contribution to the overall economic development and successful implementation of government policies in the period to come will also be provided via efficient utilization of the pre-accession funds of the European Union.

Table 3: Consolidated general government budget

CONSOLIDATED GENERAL GOVERNMENT BUDGET	2005	2006	2007	2008	2009
(Denar million)					
Consolidated general government budget - Revenues /		117.752	115.975	123.800	131.485
% of GDP		39,7	35,6	35,0	34,1
Consolidated general government budget - expenditures /		120.178	119.369	128.201	134.637
% of GDP		40,5	36,7	36,2	34,9
Consolidated general government budget - deficit /		-2.426	-3.394	-4.401	-3.152
% of GDP		-0,8	-1,0	-1,2	-0,8
Central Budget revenues	69.361	75.244	74.510	79.971	85.031
% of GDP	25,0	25,4	22,9	22,6	22,0
Central Budget expenditures	68.047	76.252	77.315	83.249	88.456
% of GDP	24,5	25,7	23,8	23,5	22,9
Central Budget - deficit	1.314	-1.008	-2.805	-3.278	-3.425
% of GDP		-0,3	-0,9	-0,9	-0,9
Extra-budgetary funds revenues	31.566	30.746	30.855	23.963	25.521
% of GDP	11,4	10,4	9,5	6,8	6,6

Extra-budgetary funds - expenditures	32.172	32.177	31.444	25.086	25.248
% of GDP	11,6	10,8	9,7	7,1	6,5
Extra-budgetary funds - deficit	-606	-1.431	-589	-1.123	273
% of GDP	-0,2	-0,5	-0,2	-0,3	0,1
Local government budget - revenues	/	11.762	10.610	19.866	20.933
% of GDP		4,0	3,3	5,6	5,4
Local government budget - expenditures	/	11.749	10.610	19.866	20.933
% of GDP		4,0	3,3	5,6	5,4
Local government budget - deficit	/	13	0	0	0
% of GDP		0,0	0,0	0,0	0,0
Gross Domestic Product	277.247	296.698	325.509	353.666	386.070

3.1.3. 2007-2009 Central Government Budget (Budget of the Republic of Macedonia)

Central Government Budget

In the next medium-term period, central government budget, as main part of the Budget of the Republic of Macedonia, gradually acquires the features of the budgets in the post-transition countries with stronger development component, i.e. reduction of the so-far dominant share of social expenditures.

The projection of central government budget genuine revenues for the next medium term is based on the following:

- introduction of flat tax, i.e. equal tax rate of 12% at profit tax and personal income tax in 2007, and its further reduction to 10% in 2008, as well as introduction of zero rate on re-invested profit;

- tax policy, encompassing revenue-enhancing measures via more efficient tax collection, amendments and modifications to the tax legislation, that would have positive

implications on medium term;

- expected reduction of the non-tax revenues, as a result of the planned privatisation of the share of the state in the capital of AD Makedonski Telekomunikacii;

- certain decline in revenues the budget users earned from their own sources as a result of the fiscal decentralisation and inclusion of these revenues in the budgets of the local government units; and

- absence of donations intended for BOP support.

Observed by structure, the most significant 81% in the projection of total genuine revenues for the 2007-2009 period refer to tax revenues.

Projections of tax revenues for this medium-term period are based on the realized revenues in the past period, by applying the planned macroeconomic parameters, as well as the effects from the introduction of the flat tax and the expected results from the process of harmonisation of the legislation with the modern tax systems of the developed market economies. Thus, tax reforms will be continued in the tax area, and this process will lead to parallel continuation of all measures and activities for ensuring efficiency in determining and collecting taxes and conducting strengthened fight against tax frauds. Cooperation among the Public Revenue Office, Financial Police and Customs Administration will be intensified in terms of detecting tax evasion and illegal import and their eradication, as well as enforcement of sanctions for the perpetrators will provide for increase in the revenues on the basis of taxes and customs.

In fact, in 2007 it is expected for the economic activity to be strongly intensified, which will lead to improvement of economic performances, broadening the tax base and increasing the revenues at almost all types of taxes, except the personal income tax and profit tax due to the introduction of the flat tax. To the end of attracting foreign investments and job creation, at these two types of taxes precisely, simultaneously broadening the tax base and introducing zero rate on reinvested profit, it is envisaged to introduce flat tax with a single tax rate for the personal income tax and the profit tax. Reduction of the tax rate at the profit tax will be from 15% to 12%, while the tax rate at the personal income tax will be reduced from the existing 15%, 18% and 24% to 12%. At the same time, we also took into account the programmes for improvement of the collection of outstanding liabilities, registration of the taxpayers, the audit, the establishment and integration of the Large Taxpayer Office and the Large Contributor Office and above all, harmonisation of the bases for calculation of personal income tax and social contributions.

Indirect taxes account for most part in the tax revenue structure, whereby VAT accounts for around 50%, i.e. around 10% of GDP, while direct taxes account for around 28%, i.e. around 5% of GDP.

When projecting the expenditures for the next period, the following was taken into account:

- effects of the salary decompression of employees in the education, child and social protection and culture, continuity of the principle of equitable representation of the ethnic minorities in the Republic of Macedonia, as well as the effect of introducing flat tax, i.e. reducing PIT tax rate, and transferring the salaries of the employees in these sectors pursuant to the second stage of the fiscal decentralisation to be implemented in 2008;

- effects from the reform commitments of the Government regarding the intensification of the investment activities in the Macedonian economy, simultaneously intensifying the promotional activities aimed at attracting foreign direct investments, increased support to individual farmers, as well as improvement of the health service quality and promotion of the education process.

Regarding current expenditures, funds are envisaged for regular and timely payment of the obligations stipulated by law in the field of social protection, as well as budgetary support for the structural reforms.

- effects from the full fiscal decentralisation in 2008, which will result in significant increase of transfers to LGUs;

- higher interest expenditures on the basis of domestic borrowing as a result of the gradual increase of the maturity period of government securities.

- the need to strengthen the development component of the central government budget, presented via greater financing of capital investment and infrastructure projects, financing future development government policies, as well as provision of budget contribution for co-financing the projects to be funded with the EU pre-accession funds.

2007-2009 Budget of extra-budgetary funds

Pursuant to the Budget Law, four extra-budgetary funds are an integral part of the Budget of Macedonia, of which three are social funds (Pension and Disability Insurance Fund of Macedonia, Health Insurance Fund of Macedonia and Employment Agency) and

the Road Fund. Overall legal regulation referring to the planning and the realization of budget resources refers to resources of extra-budgetary funds, thus establishing significant mechanism of control and records of the spending of the extra-budgetary funds, i.e. since early 2005, the extra-budgetary funds are part of the treasury single account.

Total revenues and expenditures of extra-budgetary funds are planned at a level of 10.0% of GDP, with an intention to reduce them to 6.0% of GDP in 2009. Observed by structure, most part of the revenues of extra-budgetary funds refer to social contributions paid by the employees, the road fees and motor vehicle registration fee. The expenditure side of social funds includes legal obligations for regular payment of pensions, unemployment allowances and health insurance of the citizens, while the Road Fund shows the expenditures for investments and road maintenance, being under the competences of the government.

Regarding the harmonisation of the revenues and expenditures of extra-budgetary funds, social funds have significant transfer from the central budget, which, in addition to covering the liabilities assumed by the government, includes coverage of the current deficit. Thereby, social funds do not show deficit, but the Road Fund has low deficit of around 0.2% of GDP in 2007 and 0.3% in 2008, which basically is a result of utilisation of foreign credits from EBRD and EIB for investments in national and regional roads.

Local government budget

The successful start of the decentralisation process in the past year, accompanied by a legal solution on the manner of financing the municipalities and their inclusion in the treasury single account ensures full consolidation and management of public revenues and expenditures.

Taking into account the fact that local government units cannot borrow during the initial decentralisation period, the planned revenues and expenditures in their budgets are fully harmonised. Thereby, total revenues and expenditures are planned at a level of around 3.3% of GDP in the first phase of the decentralisation process, while after 2008, by transferring block grants from the central budget that would include salaries of the employees from the delegated competences to local level, revenues and expenditures of local government are expected to rise to around 5.4% of GDP.

Personal tax and utility taxes constitute significant part in the revenues structure, as well

as transfers from the central government. In this period, the expenditure side of the local government budget shows significant share of capital expenditures (around 45% of total expenditures), while after implementing the second phase of the decentralisation, it shows changed structure of expenditures in favour of current expenditures, including salaries of employees in education, child care and social protection and culture.

3.2. Public Debt Management

3.2.1. Policy of Borrowing and Issuance of Sovereign Guarantees

Legal regulations covering the borrowing of public sector in the Republic of Macedonia encompass the following:

- Public Debt Law
- Budget Law
- Law on Local Financing
- Public Debt Management Strategy

Borrowing by the public sector can be in a form of a loan from domestic or foreign creditors or in a form of government securities issued on domestic or foreign capital market.

Public debt issuers, in accordance with the Law on Public Debt are the following: The Government of the Republic of Macedonia, the municipalities and the city of Skopje, public enterprises and companies being fully or predominantly owned by the state, while debt of the National Bank of Macedonia is not included in the public debt.

Basic objectives of public debt management, in accordance with the Law on Public Debt are the following:

- Stable financing of the needs of the state with minimum cost, on medium and long term, and with reasonable risk level; and
- Development and maintenance of efficient domestic financial market.

For external and domestic borrowing and for issuance of sovereign guarantees for external and domestic financing, pursuant to the Public Debt Law, a positive opinion must be obtained by the Ministry of Finance, followed by an approval by the Government of Macedonia, while for borrowing and issuance of sovereign guarantee for external borrowing, a law needs to be adopted by the Parliament of the Republic of Macedonia.

According to the Tariff list for issuance sovereign guarantee, the Ministry of Finance charges a fee for issuance of sovereign guarantees for the liabilities of public debt issuers

on the basis of loans taken from the country or abroad in the amount of 0.5% of the nominal guarantee amount.

Borrowing by the local government units is regulated pursuant to the Law on Local Financing and by the Law on the City of Skopje. Pursuant to the Law on Local Financing, municipalities cannot borrow by July 2007, except with an approval by the Government for credits from international financial institutions.

After 2007, they can borrow both in the country and abroad, according to the limit prescribed in the Law on Local Financing. The municipal borrowing can be short-term and long-term. The total amount of the short-term borrowing cannot exceed 20% for domestic borrowing, and for external borrowing, it cannot exceed the level of the operating revenues realized in the previous fiscal year. Long-term borrowing cannot exceed 15% for domestic borrowing, and for external borrowing, it cannot exceed the level of the operating revenues realized in the previous fiscal year.

The framework for the borrowing policy in Macedonia is the medium-term Public Debt Management Strategy.

It sets the framework for external and domestic borrowing in the period 2006 – 2008 and provides guidelines for improvement of the features of debt portfolio of the Republic of Macedonia.

Public debt management function by 2005 was decentralized in several departments in the Ministry of Finance.

In order to ensure centralized approach and concentration of the competencies for public debt management, in March 2005, separate organization unit - **Public Debt Management Department** was established.

Most important functions of the Public Debt Management Department are the following:

- Enforcement of the public debt management policy
- Preparation and implementation of the Public Debt Management Strategy
- Issuance of government securities (GS)
- Issuance of guarantees and loans
- Recording of external and domestic debt
- Timely servicing of liabilities on the basis of external and domestic debt
- Contact with credit rating agencies, and
- Preparation of information related to public debt

Regarding the organisational structure for the Public Debt Management Department, it comprises two Units:

Unit for Borrowing and Investments (Front Office), and

Unit for Records, Monitoring and Servicing Public Debt Liabilities (Back Office).

According to the Action Plan of the Ministry of Finance, by end-2006, the Department will establish one more Unit (Middle Office) that will perform the activities related to the analysis and research, preparation of debt reports and management of financial risks.

It is also planned to create a software application in 2006, in which integrated database on overall state debt will be created.

Institutions and Departments with which the Public Debt Management Department cooperates when performing its activities and tasks are the following: International Finance Department, Budget Department, Treasury Department, Financial System Department and Macroeconomic Policy Department.

The Ministry of Finance cooperates with the following institutions in managing public debt: The National Bank of the Republic of Macedonia, the Securities and Exchange Commission, the Central Securities Depository, commercial banks and other market participants.

The Ministry of Finance has signed an agreement with the National Bank of the Republic of Macedonia to carry out auctions of government securities and an agreement with the Central Securities Depository, for registering, keeping and submitting data on holders of government securities.

3.2.2. Public Debt Features

The public debt of Macedonia comprises public sector liabilities on the basis of external and internal borrowing. The segments of public sector covered in the calculation of public debt depend on the applied methodology. So far the data on the stock of public debt of Macedonia were presented by applying the GFS methodology and the national methodology. The difference between these two methodologies is in the scope of data encompassed. According to the national methodology, set in the Public Debt Law, the public debt comprises the general government debt, municipal debt and the debt of the public enterprises. Unlike this methodology, the GFS methodology covers also the debt of the monetary authorities, i.e. the central bank. Hereinafter, the data on public debt will be referred to as under the GFS methodology.,

Most part of the public debt portfolio of the Republic of Macedonia comprises debts inherited from former Yugoslavia. This comprises liabilities towards official and private creditors, such as: World Bank, European Investment Bank (EIB), EUROFIMA and the European Resettlement Fund (CERF), the Paris Club of Creditors and the London Club of Creditors. In addition, the portfolio comprises government liabilities that are a result of the resolving of structural problems in the process of transition of the Macedonian economy. To this end, the Government issued so-called structural bonds that significantly influenced the increase of the stock of public debt. Especially significant was the effect of the bond for old foreign exchange saving that dated as a liability from the very independence of the country, still, the Government issued it in 2000 in the amount of EUR 546.5 million to the end of reimbursing the foreign currency deposits to the citizens that were frozen in the banks in the Republic of Macedonia, after the dissolution of the former Yugoslav federation. As a result of the issue of this bond, the stock of public debt formally increased in 2000 to EUR 2.2 billion or 57.2% of GDP.

Since then, the rate has gradually declines each consecutive year and as of December 2004, it amounted to EUR 1.8 billion, while as of December 2005 it amounted to EUR 2.2 billion which is 48.5% of the projected GDP and compared to the previous year, the debt-to-GDP ratio grew by 4.75 percentage points, above all, as a result of the issuance of Eurobond in the amount of EUR 150 million, realized in December 2005. Funds from the issue of Eurobond were used for early buyout of the liabilities towards the London Club of Creditors, leading to offsetting the effects of the increase of the debt realized with this issue. Thus, as of September 30, 2006 inclusive, public debt amounted to EUR 2 billion, i.e. 41.3% of GDP.

General government debt which on September 30, 2006 was 35% of GDP is below the limit set in the Maastricht criteria, according to which government public debt should not exceed 60% of GDP. The objective of the Government is to continue this trend in the future. To this end, the medium-term public debt management strategy sets the objective, to reduce the general government debt until 2008 and to be between 35% to 38% of GDP. Limits are also set for public debt, which will have a declining trend, ranging between 37% to 41% of GDP.

Table 4: Public debt

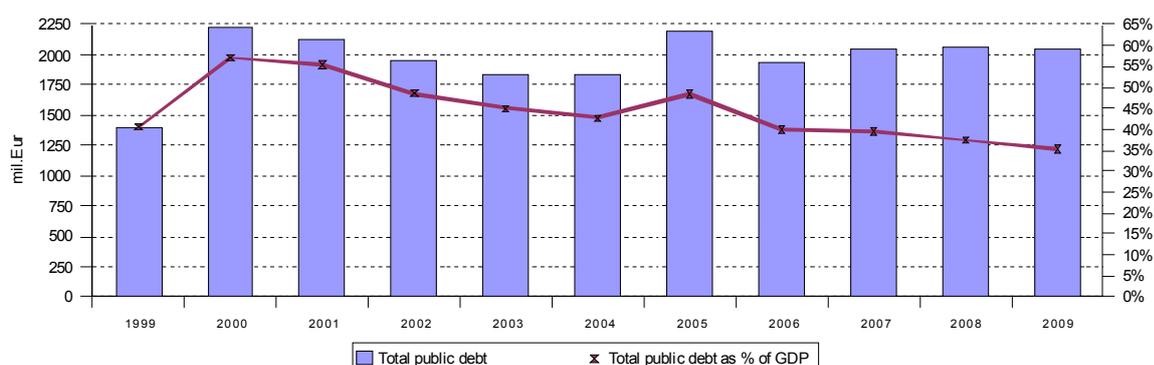
EUR million

Basis	period							
	1999	2000	2001	2002	2003	2004	2005	30/09/2006
EXTERNAL PUBLIC DEBT*	1.290	1.428	1.398	1.268	1.179	1.179	1.441	1.220
General Government Debt	1.025	1.154	1.192	1.089	1.006	993	1.245	1.034
Central Government Debt	972	1.101	1.144	1.050	973	962	1.208	994
Public Funds	53	53	48	39	33	31	37	40
Municipalities	0	0	0	0	0	0	0	0
Central Bank	101	88	80	65	55	46	53	47
Public Enterprises	164	186	125	114	119	139	143	138
DOMESTIC PUBLIC DEBT	114	791	733	676	665	664	750	795
General Government Debt	80	712	682	627	594	590	604	672
Central Government Debt	80	712	682	627	594	590	603	672
Municipalities	0	0	0	0	0	0	0	0
Central Bank	34	79	52	49	71	74	147	122
Public Enterprises*	N/A	1						
TOTAL PUBLIC DEBT-GFS	1.403	2.219	2.131	1.944	1.844	1.842	2.192	2.015
Public debt as % of average GDP	41	57	56	49	45	43	48	41
General Government debt as % of average GDP	32	48	49	43	39	37	41	35

Source: Ministry of Finance and NBRM

**Since April 2006, public enterprises began submitting reports on the debt stock (in line with the Public Debt Law) to the Mof

Figure 7: Total public debt



Source: Ministry of Finance and NBRM

The Ministry of Finance will try to reduce public debt through active public debt management. In this manner, in 2007 we plan to buyback the unfavourable part of debt portfolio of the Republic of Macedonia using the funds that will be received from the privatisation of the energy sector. This means that the buyback of the Paris Club debt in this manner will achieve considerable budget savings and improvement of the currency

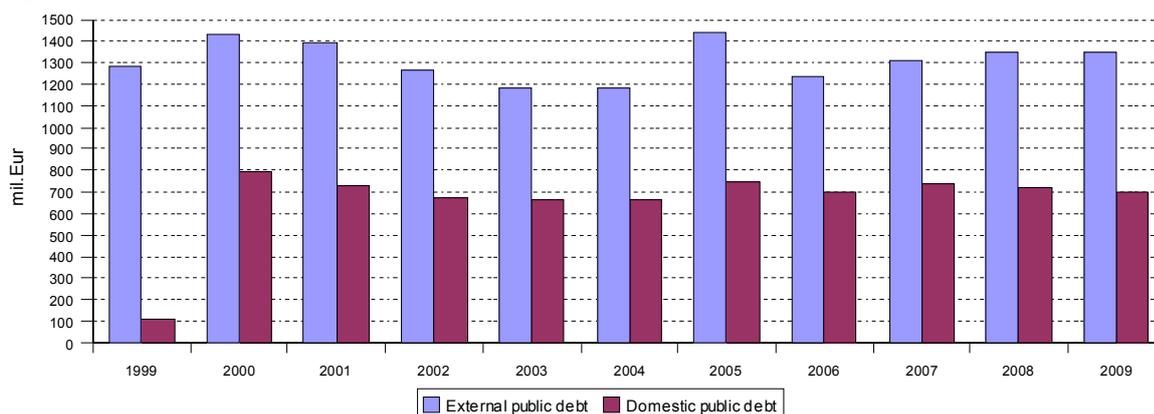
(decrease the non-euro debt) and interest rate structure of the debt portfolio. In 2007 we expect to receive additional funds from the privatisation of the remaining part of the energy sector (Tec Negotino) and the telecommunication sector. These funds may be used for earlier buyback of part of the debt only if the estimates show that this operation is a way to achieve the objects set in the Public Debt Management Strategy. In addition to the abovementioned operation the Ministry of Finance would analyse the opportunity for using those financial derivatives which are currently offered on the financial market.

3.2.3 Structure of Public Debt

Ratio between external and domestic debt, since 1999, shows continuous increase of domestic debt compared to external debt and as of September 30, 2006, it amounts to 39%, compared to 61% of external debt.

The share of domestic debt is envisaged to gradually increase, while the external to decline, in line with the budget needs, the market conditions, the capacity and possibilities of the financial system in the Republic of Macedonia. Thus, sound development of the domestic securities market will be provided, which will be the main support to the state regarding the borrowing policy in the future. At the same time, dependence of the financing side of the budget on the foreign borrowing and the fluctuations on the international market will be decreased.

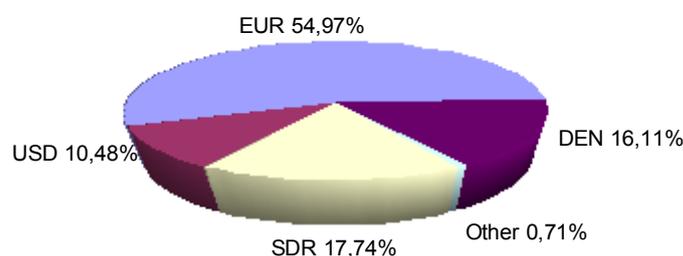
Figure 8: External public debt



Source: Ministry of Finance and NBRM

The high share of external debt in the total public debt, as well as the fact that 59% of the domestic debt is denominated in euros, results in dominant share of foreign-currency denominated debt (84%) in the **currency structure of public debt**, while the share of debt in domestic currency is 16% and refers mainly to securities the government and the National Bank regularly issue on the financial markets.

Figure 9: Currency structure of public debt



Source: Ministry of Finance and NBRM

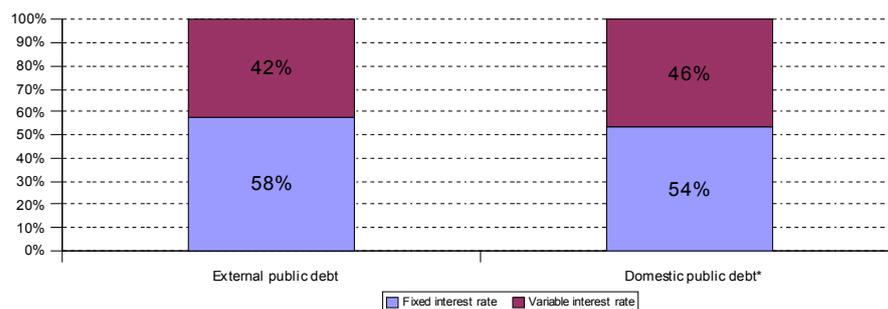
Such structure points to large exposure of the total debt portfolio to a change in the Denar exchange rate against other currencies in which debt is denominated.³ Having in mind the current regime of fixed exchange rate in Macedonia, one could conclude that the level of exposure of debt to foreign currency risk is moderate. However, under the assumption of a significant devaluation of the domestic currency, it would directly affect Budget costs, from the aspect of the need to provide additional funds to cover greater costs for repayment of foreign currency denominated debt. A priority for the Ministry of Finance is to reduce the proportion of foreign currency denominated debt, and to increase the portion of the Denar denominated debt. Therefore, a need arises to develop the domestic government securities market, meaning increased issue of government securities in denars.

The interest rate structure is balanced, with 44% of the public debt portfolio is with fixed rates and 56% with floating rate (this percent includes the debt with a maturity period of 12 months, including treasury bills and central bank bills).

Such interest rate structure is currently relatively favourable, until variable interest rates on the international market are low. On the other hand, the significant share of variable interest rate debt in the overall public debt portfolio exposes the portfolio to a risk of higher interest costs if international interest rates rise. For these reasons, it is necessary to continuously increase the debt with fixed interest rate, and to reduce the floating rate debt.

³ Debt servicing costs are also subject to change, for example the debt in US\$, in case of changes in the US\$-euro exchange rate. But, taking into account the fact that the denar exchange rate is pegged to the euro, the denar-euro exchange rate would probably have less influence compared to the denar-US\$ exchange rate.

Figure 10: Interest rate structure



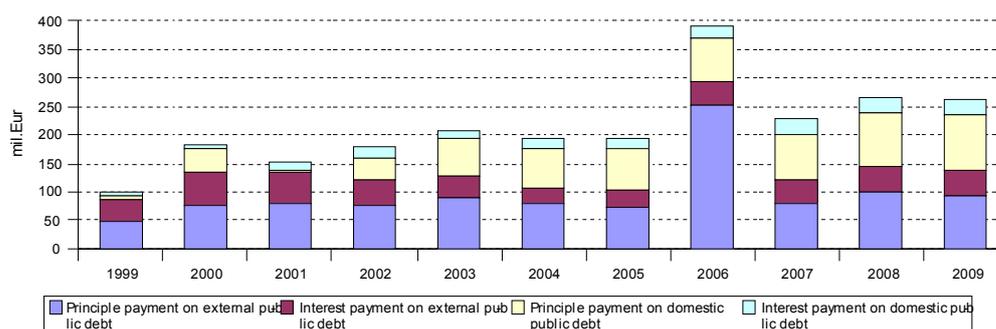
Source: Ministry of Finance and NBRM

*Selective credit bond is an interest-free debt and is not included in the interest structure of the total public debt

As to the maturity structure, the average time to maturity of external public debt, which is 9,5 years at end-2005 and 9 years projection for end-2006 is relatively favourable while the maturity period of the domestic public debt which at end-2005 was 3,7 years and 3 years projection for end-2006 could be considered alarming, since it results from the financing of long-term structural bonds by issuance of short-term government securities. The increase of the short-term public debt means growth of the refinancing risk since greater portion of the domestic financing needs are currently covered by issuance of continuous treasury bills. Refinancing risk will be reduced by introducing instruments with longer maturity periods, although this usually involves higher public debt servicing costs due to the risk premium for the longer-term investments. By increasing the confidence in the issuer and the greater demand by the investors, the domestic government securities market will gradually expand. Each new market segment at the beginning is shallow, with low absorption power, but it will gain in importance over time. Market deepening will be supported by the expansion of the investor base and the participation of the newly established pension funds will be of great significance. This process contributes to declining of the yield of the long-term bonds, as well as to a lower price volatility and greater liquidity, thus enabling lower refinancing risks.

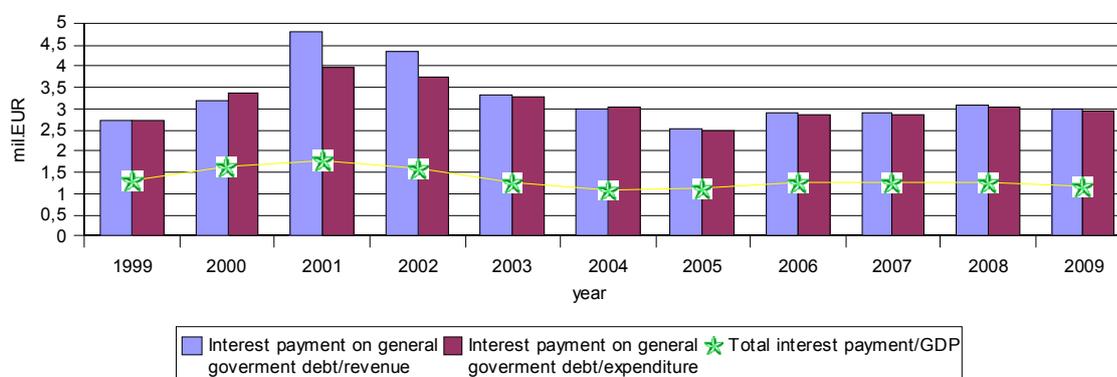
Debt servicing costs are evenly distributed over time, so as to avoid a situation where their volatility or greater concentration in certain period to have a destabilizing effect on the budget. Liabilities on the basis of principal and interest related to GDP continuously decline, except in 2006, when they are significantly higher and are a result of the redemption of debt to the London Club of Creditors.

Figure 11: Debt servicing costs



Source: Ministry of Finance and NBRM

Figure 12: Debt servicing costs



Source: Ministry of Finance and NBRM

3.2.4 Risk Analyse

As mentioned previously, risks to which the debt portfolio of the Republic of Macedonia is exposed are market risks, i.e. exchange rate risk and interest rate risk, as well as refinancing risk. The intensity of the effect of these risks is determined of the uncertainty of the economic growth of the Macedonian economy, as well as of possible shocks in the external environment.

Hence, when designing medium-term borrowing policy of the country for the next period, an analysis was made of the sustainability of the present debt structure to the market risks, i.e. shocks.

The text below explains the **analysis of the sustainability of public debt** to some of the aforementioned risks. The analysis contains a scenario on the movement of the general government debt in the period 2005 – 2010, based on the medium-term projections of macroeconomic indicators, as well as four alternative scenarios testing the effect of the

changes in macroeconomic and fiscal variables on the general government debt.

The analysis covers the following scenarios:

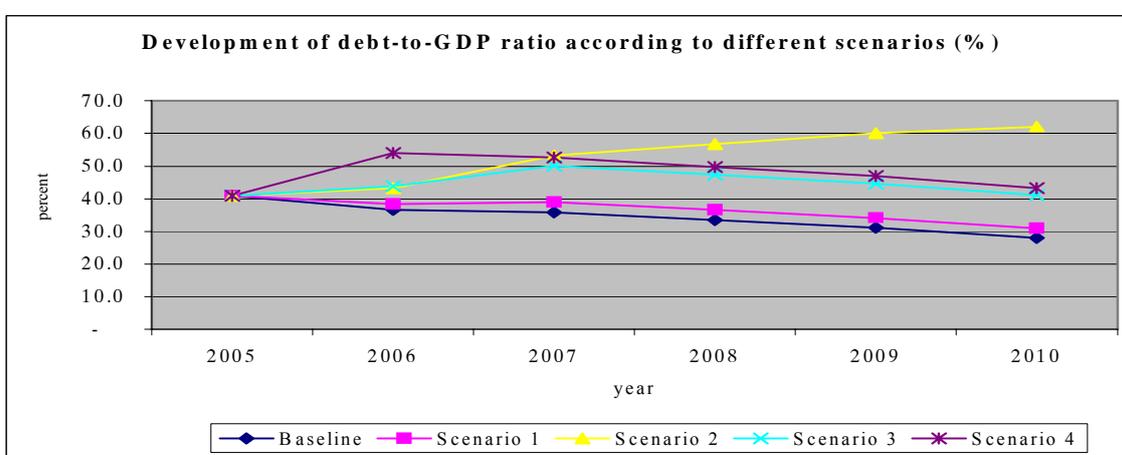
Scenario 1: Average level of historical data on the real interest rates, increased by two standard deviations;

Scenario 2: Average level of historical data on the real GDP growth, reduced by two standard deviations in 2006 and 2007;

Scenario 3: Average level of historical data on the primary balance, reduced by two standard deviations in 2006 and 2007;

Scenario 4: Denar depreciation by 30% in 2005.

Figure 13: Development of debt to GDP ratio according to different scenarios (%)



Source: Ministry of Finance and the IMF

The results of the analyses are shown in the Chart above, which shows that if macroeconomic indicators are realized as envisaged in the fundamental macroeconomic policy, the debt-to-GDP ratio in the period 2005 - 2010 would decline and in 2010 it would reach 30.9%. On the other hand, the analysis shows that the debt growth could be affected at the most if the GDP growth is not achieved as envisaged in the macroeconomic policy. Low GDP growth could negatively affect the performance of the business entities and they would earn lower revenues than expected, which, in turn, would cause lower realization of budget revenues. Thereby, there is a possibility to realize the deficit on higher level than expected and it would need to be financed with new borrowing which would cause rising of the debt more than expected.

Also, for the needs of the borrowing policy, three-year 2006 - 2008 Strategy was drafted and adopted, setting the basic framework for all future borrowings, as well as other operations focused on optimising the debt portfolio.

Also, a simple *model* was prepared for this strategy, making an attempt to define the

optimum debt structure to which the country should be focused on medium term. The model makes projection of the future flows of public debt repayments for alternative structures of the debt portfolio (borrowing strategies) and makes assessment of the relations between the costs and risks arising from these structures under different scenarios on the movement of the fundamental macroeconomic indicators.

As a result of this analysis, it was determined that it is necessary to restructure the debt portfolio as follows:

- Gradual increase in debt with fixed interest rates
- Increasing the proportion of domestic debt while decreasing external borrowing
- Increasing the proportion on debt denominated in Denars
- Increasing the proportion of Euro denominated debt in the structure of the currency denominated debt
- Increasing the share of market instruments, while gradually decreasing the loans from official creditors
- Extending maturity of the public debt
- Ensuring smooth profile of repayments
- Taking advantage of the early repayment of public debt where cost effective to do so
- Restrictive approach to financing public projects with generating government debt or issuing sovereign guarantees

In order to achieve such structure of debt portfolio, the strategy determines the following measures that the Ministry of Finance should undertake in the next period:

- Development of primary market of government securities (Box 1)
 - Introduction of primary dealers;
 - Introduction of a non-competitive offers;
 - Implementation of the project on issue of treasury bills for monetary purposes;
 - continuation of the maturity period of the government securities portfolio;
 - organizing marketing campaign so as to expand the investor base;
 - Improvement of the electronic system used for the auctions;

Box 1. Activities related to the *development of government securities market* began in 2003 when the Government adopted a Strategy for development of government securities market. The adoption of this strategy was basis for initiation of an issue of continuous government securities. In January **2004**, the Ministry of Finance successfully launched the first issue of continuous government securities (3-month treasury bills), and as of December 2005, it regularly issues 3-, 6- and 12-month treasury bills and 2-year government bonds, and it has also issued a 5-year bond. In 2006, in addition to the regular auctions to the aforementioned government securities, 3-year government bonds are planned to be introduced, as a result of the market interest and the public debt management objectives.

Government securities are denominated in denars and are issued in dematerialised form.

As of September 30, 2006, the stock of issued government securities was Denar 10.0 billion, Denar 8.9 billion of which are treasury bills, and the remaining Denar 1.1 billion are government bonds. The charts below show the stock of government securities by maturity period, from the aspect of the issuance date (December 2005 and September 2006)

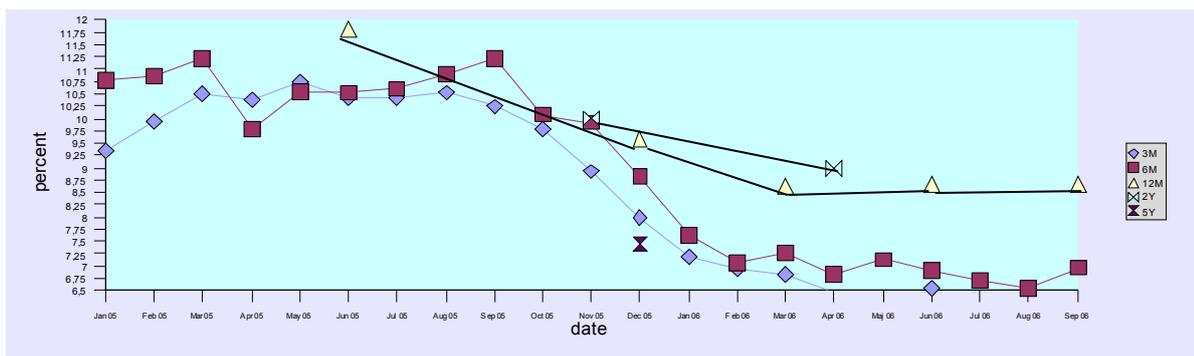


Source: Ministry of Finance

In the ownership structure of government securities, observed cumulatively, the share of banks is 75%, while of the clients - 25%.

Interest rates on treasury bills are market-set since the very beginning, i.e. determined by the auction offer and the demand. The chart shows the trend of interest rates on government securities by maturity period. The chart clearly shows the continuous declining trend of interest rates.

Figure 14: Trend of interest rates on government securities by maturity period



Source: Ministry of Finance

- Development of secondary market of government securities (Box 2)
 - increase of the annual net issue of government securities;
 - using repo operations by the NBRM and the banks;
 - enabling the usage of repo and OTC trading for the continuous long-term government securities as well;
 - monitoring the activities of the banks on the government securities market and possible selection of market makers; and
 - increase of the transparency of the results from the OTC trading.
- Maintain an active dialogue with rating agencies
- Attracting investors and diversification of the investor structure
- Ensuring integrated records in the form of public debt registry

Box 2: The existing regulations on **secondary trading** in the Republic of Macedonia enable trading in long-term and short-term securities on the Macedonian Stock Exchange, as well as trading in short-term securities on the money market and over the counter market.

No transaction was made so far on the money market. Trading in government securities on the Macedonian Stock Exchange is largely limited due to brokerage and stock market fees.

In April 2005, the NBRM, in cooperation with the Ministry of Finance adopted Rulebook on the Manner and the Procedure for Trading and Settling Transactions in Securities on Over-the-Counter Market. By adopting this Rulebook, over the counter market (OTC) for trading in treasury bills, started functioning officially, and as of July 2006 abovementioned Rulebook has been amended with opportunity to trade in continuous government bonds. Thus, functioning of this segment of the government securities market provoked increased

interest at the owners of long-term securities, which could be noted by the larger number of transactions carried out in the period July-September.

Trading on the OTC market currently incurs no transaction costs. The banks that participate in the transactions earn only profit from the spread between purchase and sale price. Additional advantage of this market is that the settlement of the transactions is in real time, i.e. immediately after the transaction is executed. As a result of the aforementioned advantages, the number of transactions on this market continuously increased.

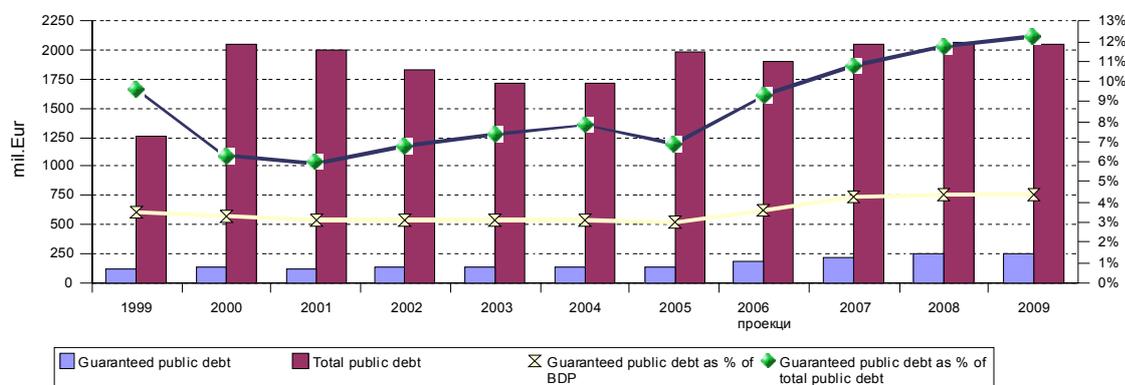
3.2.5 Guarantees

The government guarantee is a potential obligation undertaken by the Republic of Macedonia on behalf of the issuer of public debt for which the guarantee was issued.

Most part of the guarantees was issued to public enterprises and funds that used resources from foreign creditors. Currently there is no domestic guaranteed debt.

The stock of the guaranteed public debt shows gradual growth trend and as of September it is EUR 130.9 million, i.e. 2.7% of GDP and 6,5% of the total public debt. In the so far practice, the main debtors regularly service their liabilities under foreign loans, excluding two public enterprises, which due to their unfavorable financial situation do not pay their liabilities in time, and as a result of this, the issued guarantees were called-up. In order to reduce major risks the country could face in the future if the guarantees are called-up, future policy would be focused on applying restrictive approach in the approval of guarantees, especially to public enterprises which often face liquidity problems.

Figure 15: Guaranteed public debt



Source: Ministry of Finance and NBRM

3.3 Deficit and its Financing in the period 2007-2009

Consolidated government budget of Macedonia in the next medium-term period will be characterized by exceptionally low deficit level of around 1% of the projected GDP. This deficit encompassed the central budget deficit and the Road Fund budget.

Central budget deficit in the period 2007-2009 is planned at around 0.8%, in 2007 and 0.9%, i.e. 2008 and 2009, (including credit disbursements by budget users to their own accounts in the amount of around 0.2% of GDP) in relation to the planned GDP.

According to the Public Debt Management Strategy, on medium-term, the Ministry of Finance will put greater emphasis on domestic borrowing as a source of financing. Continuous increase of the share of domestic borrowing in the debt portfolio, as a trend, would reduce indebtedness towards abroad, thus reducing exposure to business risk. Within domestic borrowing, continuous issuance of government securities would continue, whereby the maturity period of the issued government securities will be increased (increasing the amounts of 2-year government bonds and introduction of 3-year, possibly 5-year government bonds). Still, main instruments of medium-term borrowing would continue to be the government securities in the form of 3-, 6- и 12-month treasury bills.

With regard to external borrowing for deficit financing, advance would be given to borrowings in euros, whereby credit arrangements with favourable fixed rates would be preferred. Still, this commitment is only general, and decisions would be made depending on the trends on the financial markets.

Low deficit level, in conditions of existence of sources for its financing, is a result of the need to keep the fiscal policy coordinated with the monetary policy.

Realised inflows from the issue of eurobond and the successful privatisations of ESM and the state capital in banks and enterprises in 2006 and the planned ones in 2007, foreign borrowing on the basis of the WB arrangement, as well as the planned continuous issuance of government securities, provide financing of the projected deficit, regular servicing of the liabilities resulting from domestic and foreign borrowing.

Table 5: Deficit and its sources of financing

<i>Deficit and its sources of financing</i>	2006	2007	2008	2009
Budget balance	-2.426	-3.394	-4.401	-3.152
Financing	2.426	3.394	4.401	3.152

Inflows	21.907	14.942	12.639	12.628
Privatisation proceeds	17.800	750	0	0
Domestic borrowing	3.000	3.500	4.000	4.500
Other domestic sources	4.792	50	50	550
Deposits	-5.832	7.165	3.474	5.224
Foreign borrowing	2.147	3.477	5.115	2.354
Outflows	19.481	11.548	8.238	9.476
Repayment of domestic debt	4.892	5.087	5.854	6.054
Repayment of foreign debt	14.089	6.461	2.384	2.922
Buying government securities	500			500

3.4 Fiscal Risks

Realisation of the planned medium-term fiscal policy is directly conditioned by the realization of the planned economic policies and the projected macroeconomic indicators, including the following challenges assumptions as well:

- Successful completion of the initiated structural reforms and improvement of the quality of institutions would be necessary so as to achieve the two most important objectives - growth of the Macedonian economy and sustainable growth of 6-8 % on longer run, as well as mitigation of the unemployment problem;
- Improvement of labour productivity, as the most persistent way for faster development, which, by building institutions that support market environment, promoting transfer of ideas and technologies, as well as increasing foreign direct investments, would result in more efficient utilisation of the existing labour and capital and increase employment rate.
- Successful implementation of reforms in the tax area that would ensure regular and full collection of revenues, in conditions of reduction of tax burden, trade liberalisation and reduction of revenues from import taxes, as well as reduction of social contributions from the pension reform;
- Adhering to the principle of budget discipline and rational and efficient utilisation of public revenues, which ensure sustainability of low level of deficit. Improvement of the budget structure so as to reduce discretionary costs and ensuring greater space for development investments and co-financing projects financed from the European funds, as well as reorganisation of the functions of government so as to create new institutions that would respond to priorities for EU membership;
- Efficient utilisation of credit funds earmarked for the cadastre reforms, reforms in the

judiciary, social protection, health and education, municipal development, irrigation rehabilitation and improvement of business environment. Thus, changes have been made to many legal solutions and to the Constitution so as to implement comprehensive judicial reform, however, coherent and credible strategy is needed to implement these changes so as to reduce the lengthy period for resolving court cases and to improve the rule of law. Creating attractive business environment for all investors by improving governance and reducing business costs, enhancing transparency of activities of the Government and liberalisation of the telecommunication sector would ensure greater investments to a level close to the regional average. Education system reforms would ensure creation of human capital matching the employers' needs and contribute to job creation. Restructuring the health sector, the undertaken reforms in financing this area, greater transparency in public procurements, preparation of National Strategy and Medical Map, revision of the positive list of drugs and introduction of reference prices would contribute to improvement of the solvency of the health sector and at the same time, enhance the quality of the healthcare.

- Successful implementation of full fiscal decentralisation, which will ensure strengthening of the influence of the local government units on the overall economic development and their involvement in the implementation of projects financed by European funds;

- Successful and time-accorded privatisation of state-owned capital. Adhering to the legal regulations, full competence and transparency in the privatisation process will ensure successful privatisation of part of the energy sector, health sector and residual ownership in the telecommunications sector, achieving the set targets as part of the arrangement with the IMF, optimum level of foreign exchange reserves and raising the international reputation of the Macedonian economy for investment;

- Potential risk that could generate additional costs in the budget are the issued government securities. The trend of continuous rise of the stock of guarantees in the previous period was alarming. However, despite that, the issued guarantees are usually for borrowers that are credible and that have so far regularly serviced their liabilities under already issued guarantees. Certain risk pose the potential guarantees that would be issued for newly established enterprises having insufficient source of revenues and poor capacity for positive financial operations, thus directly affecting the increase of the public debt on the basis of calling-up such guarantees. The future policy of the state will be focused on their reduction. The Government has issued guarantees to public funds and public enterprises that used loans from foreign and domestic lenders. The stock of the total

issued guarantees as of December 31, 2005 was EUR 137.77 million or 6.91% of the total public debt. The biggest share in the issued guarantees accounts for the guaranteed external public debt, which as of 2005 was EUR 137.01 million, of which guarantees of only two public enterprises were called up, in the total amount of EUR 5.81 million, which, due to the poor financial condition, were unable to settle their liabilities towards foreign creditors. The amount of the domestic guaranteed public debt is EUR 0.76 million.

4. Structural reforms

4.1. Enterprise sector

4.1.1. Privatisation

Basic features and legal solutions -The privatisation process in the Republic of Macedonia has started within the framework of former SFRY with the Law on Social Capital of 1989. This Law stipulated that enterprises may emit so called internal shares, due to additional collection of capital, and the mechanism of collecting that capital was mainly by including the employees, through taking parts of the personal income, who thereby enjoyed huge discounts and other benefits when buying these shares. Macedonia was one of the Republics of the former SFRY, in which, this process of privatisation on the basis of internal shares, was most advanced.

After the independence of the Republic of Macedonia, the new Law on Transformation of the Enterprises with Social Capital was enacted in 1993, which continued the privatisation process. Although the decision for termination of the validity of the existing Law on Social Capital was enacted immediately after the independence of the state in 1991, the new Macedonian Law was enacted two years after, because there was a huge debate regarding the issue of whether privatisation pursuant to the Law on Social Capital would be validated and in which way and which would be the dominant privatisation model. Finally, prevailed the considerations that the results of the previous Law would be acknowledged, on the basis of determined procedure and that for the rest of the capital, the case-by-case privatisation model and paid privatisation would be applied.

The Law on Transformation of Enterprises with Social Capital covered about 1.200 enterprises of the commercial sectors of the economy. The Law excluded privatisation in enterprises and organizations performing activity of special social interest, i.e. public service or have a status of a public enterprise; enterprises that manage waters, forests,

land, apartments and business area; enterprises with social ownership whose activity is organizing games of chance; enterprises that have monopoly position on the market; transformation of the banks and other financial organizations, insurance organizations and agriculture cooperatives. Privatisation of these enterprises and organizations followed at a later stage regulated by special laws. Since 1996 also enterprises of the agro complex were included in the privatisation (about 350), since 1997-the game of chances and insurance companies, since 1998-veterinary cooperatives, or all together, about 1.700 legal entities.

In the later period the privatisation included also part of the health sector: pharmacies, spas, parts of the primary health protection, but also some of the big infrastructure objects, which were privatized pursuant to special laws. In that sense, the biggest privatisations in the field of infrastructure activities were the privatisation of Macedonian telecommunications in 2001 and the restructuring and privatisation of "Elektrostopanstvo na Makedonija"-the power company, where the distribution part was separated from the power system and was privatized in 2006. With special laws gradually is regulated the privatisation in parts of the public sector, such as health, culture and parts of the public enterprises.

The Law on Transformation offered several models for transformation depending on the size of the enterprise, such as: purchase of the enterprise by the employees (only for small enterprises), simple sale of parts or shares, sale of enterprise to persons that take over the management, issuing shares due to additional investment (the last two models were not stipulated for the small enterprises), transforming the creditors' claims in permanent deposit. Other models stipulated as a possibility for transformation were also leasing with purchase and transformation of an enterprise in bankruptcy.

In the application of all models it was enabled that 30% of the social capital, subject to transformation, be purchased by the employees under preferential conditions (basic discount of 30% of the nominal value, plus 1% for each year of work in the enterprise, having in mind that the share with discount couldn't overcome the amount of 12.500 EUR and with many favourable payment conditions-5 years and 2 years grace period.)

Also, the enterprises that were transformed, to the Pension and Disabled Insurance Fund issued for free 15% of the social capital as priority shares.

The Agency of the RM for Privatisation as a competent institution for organizing, control and implementation of the transformation was established in 1993. It had a strictly defined mandate, which was given to it pursuant to the Law on Transformation and the laws

privatisation of certain activities that followed. It was not included in the privatisation of the big infrastructure companies: Macedonian Telecommunication and the Power company of Macedonia, but also the banks. It ceased to exist in October 2005, and the funds, the employees and the responsibilities were transferred to the Ministry of Economy, Ministry of Finance, the Pension Disabled Insurance Fund and part to the Public Enterprise for Management of Household and Business Areas. Hereby, the Ministry of Economy continues to perform the privatisation process of the enterprises with social capital, which have not completed the procedure and privatisation of the state capital in the enterprises; the Ministry of Finance monitors the payment of liabilities in relation to the contracts for sale of the social and state capital; the Public Enterprise for Management of Household and Business Areas manages the facilities and the property transferred to the Agency and to the Fund were transferred the shares and parts that the Privatisation Agency managed, and which were not sold after its closing.

By 31.09.2005 of the portfolio that the Agency had, revenues in amount of 371.366.562 EUR were realized, 126.107.380 EUR in cash, and 245.259.182 EUR in securities. Per years, the situation was as follows:

Table 6: Revenues (per year)

Year	Revenues (EUR)
1994	7.265.242
1995	23.620.700
1996	54.503.800
1997	34.613.170
1998	57.284.186
1999	46.794.467
2000	45.695.135
2001	33.375.539
2002	24.316.211
2003	26.258.071
2004	8.917.338
2005	8.722.683
Total	371.366.562

Source: MoE

Besides these enterprises, the state directly privatised, through its ministries, and without including the Agency, the following big entities: Macedonian Telecommunications AD-Skopje and ESM AD-Skopje. The total revenue from the sale of the state capital in these entities was: 602.844.176. As of 2005 the state, through the Ministry of Finance started selling the residual shares it has had in the banks and of that sale so far 11,7 million EURO were realized.

Special issues treated by privatisation

Privatisation of the loss-making companies-At the beginning of the privatisation process the Government tried to sell the enterprises as they were, without any previous restructuring. As the process developed, it became obvious that some companies could not be sold without previous preparation, so the attention of the Government started to be focused to the restructuring of some activities.

Several restructuring programs were implemented, the first started in 1995 and it covered 25 big companies that generate losses. In 1999 a new list of 12 loss-making companies was identified, and in 2001 additional 40 new loss-making companies were subject of special restructuring programs. These processes have been practically finalized.

The privatisation of the agricultural sector contained a significant element of pre-privatisation restructuring having a legal obligation that the big agro-industrial combines are sold separately, as different businesses, on the basis of separate types of products of the combine.

Denationalisation- All companies are obliged in the process of transformation to publish an advertisement inviting *the former owners* and their legal assignees to report their claims from the companies in order to secure the requests of the former owners. If these objects existed or if there was a basis for that, priority shares were reserved or objects for compensation of the owners, until the enactment of the Denationalisation Law. The Agency kept these shares on behalf of the former owners as a fiduciary, until they themselves don't acquire the right to those shares officially. The Denationalisation Law was enacted in 1998, but in practice it started to be implemented after its amendments in April 2000. Pursuant to the Law, the property that still exists is returned as such, while for the property that disappeared, the former owners get state bonds.

Residual shares-The basic principle contained in the transformation models is that privatisation is considered as completed if at least 51% of the shares have been purchased. On the basis of that, significant part of the shares that were not purchased

from the companies was transferred to the Privatisation Agency for further sale. Also, to the Agency were transferred the shares and part that were not purchased on the basis of terminated contracts. Further on the Agency managed also the shares of the state capital. In practice, in the past few years, the dominant model of sale of the state or residual social capital was the sale of these shares on the Macedonian Long-Term Securities Stock.

Privatisation plans in the forthcoming several years- In the course of 2006 it is expected that the privatisation process will continue by completing the privatisation in the companies with social capital (about 20). It is expected that the privatisation of the spas, pharmacies and cinemas would be completely finished. The shares and the parts of the social capital that were transferred to the Privatisation Agency, have been transferred to Pension and Disabled Insurance Fund of the Republic of Macedonia for further sale and it is envisaged that it will continue with their sale through the Macedonian Long-term Securities Stock.

In the further privatisation process it is expected that as subject of transformation are included institutions, parts of public institutions, parts of public companies, broadcasting companies and other entities depending on the special laws that would be enacted.

As already mentioned, the privatisation of public companies started by sale of the majority package of shares of Macedonian Telecommunications AD, after this company was separated from the bigger public company Macedonian Post and Telecommunications. The rest of the 47,12% of the company's shares, which were in state ownership, in the period 5-9 June, 2006, were offered for sale in four packages of 9,9% and one package of 5,52% (intended for minority shareholders) through the Macedonian Long-term Securities Stock. Of these packages, package of 9,9% as well as 0,41% of the shares were sold. The unsold shares would be subject of new sale.

The privatisation of the Power Company of Macedonia is another structure criterion. The privatisation of 90% of the company was completed at the beginning of 2006. In the course of 2007 it is expected to review the possibility for privatisation of the capacities for electricity generation, after the preparation of a detailed study for the regulation implications from the privatisation of hydro-power capacities. The international financial institutions provide support in the pre-privatisation process in a way that EBRD is a participant in the process and MBOR provide the assessment of the regulatory implications.

The privatisation also started in the social sector and in the public administration. Part of the non-core activities in the health and education sector and the administration was

separated from the state services and was transferred to the private sector. The government started the process of giving concessions for the use of big infrastructure objects, and among them the biggest ones are the state airports, where procedure was started for searching for investors that would be interested in managing the airports on the basis of concession.

The financial sector was subject to a special privatisation program, and some banks have been subject of serious rehabilitation processes. The government started the process of sale of the residual capital in the commercial banks by the end of 2005, excluding the Postal Bank and the Macedonian Bank for Development Promotion. The sale of the other shares in the banks should to great extent be completed by the end of 2006.

Macedonian railways are undergoing a significant restructuring process, where their work would be divided between the transport and infrastructure. The idea is that the part which works with transport to be privatized while infrastructure would stay in state ownership.

4.1.2. Industrial Policy and Strategy

The stabilized political and economic environment in the country and in SEE region as whole, together with the implemented economic reforms, resulted in growth of the industrial production in the Republic of Macedonia of 7% in 2005, in comparison to 2004. Having in mind that the metal and textile industry, together with the agricultural sector are industry with the biggest share in the structure of the Macedonian economy, the following had positive influence on the industrial production growth: increase of the world stock exchange prices and the demand for metals (steal and rolled steal products), foreign investments in textile industry, as well as the increased demand for construction materials. In 2006 it is also expected to have increased industrial production of over 3.5%, if the production conditions remain unchanged. In that sense and for the period 2006-2010 it is expected to have a continuous industrial production growth, where according to the macroeconomic planning of the GDP, the following industrial growth production is envisaged:

Table 7: GDP & Index of physical scope of IP

	2006	2007	2008	2009
GDP	3,5	6,0	6,1	6,5
Index of physical scope of IP	3.5	6.1	6.0	6.5

Source: SSO

It is envisaged that the following would be additional conditions for continuous industrial production growth in the period 2006-2009: more enhanced technological development; restarting the non-active industrial capacities, especially in the mining and metallurgy sector; and enhancing the development of the metal processing and pharmaceutical sector, the sector for processing of agricultural products, the sector of machine construction and production of electrical machines and appliances. On the other hand, several analyses, as well as the indices of export performances show that the basic weakness of the industrial sector in the Macedonian economy is its low competitiveness ability. Hence, in the Republic of Macedonia a strategy for growth of industrial competitiveness has been formulated and its implementation should contribute to industrial production growth and economic development.

Within the Industry and Structural Reforms Department in the Ministry of Economy, a Strategy for Development of the Textile Industry in the Republic of Macedonia will be prepared. This document, planned to be prepared in 2007, would stimulate the development of the textile industry in the future period by its restructuring to production of higher-profit textile items with own brand, slowly abandoning the present low-profit work on a "low" base system.

The directions of the future industrial policy of the Macedonian economy are incorporated in several strategic documents, such as the National Strategy for Integration of the Republic of Macedonia to EU (adopted in the second half of 2004) and other framework documents, strategies or annual programs for current policy related to certain economic sectors. Basic elements of the industrial policy of the Republic of Macedonia are the following:

- Reforms in direction of building an operational market economy. In that sense, gradual harmonization and accepting the Acquis;
- Completing the privatisation process and enliven the process of public-private cooperation;
- Taking measures for strengthening the competitiveness of businesses;
- Implementing measures for stimulating the growth of domestic and foreign investments;
- Promotion of the SMEs and entrepreneurship development.

According to the National Strategy for Integration of the Republic of Macedonia to EU, the industrial policy of Macedonia has been segmented in two related approaches in order to increase its competitiveness: horizontal and vertical (sectoral). The set of measures and

programs of the horizontal dimension of industrial policies are as follows:

- Promotion programs that include: export promotion, FDI promotion and SMEs support;
- Stimulating programs that include: promotion of production factors, construction of information society and development of IT and communication technology as well as stimulating the scientific-research work, economy of knowledge; and
- Programs for promotion of corporative strategies and organizational structures that include: management education, business restructuring (modernization), harmonization and introduction of international technology standards in the Republic of Macedonia and promotion of corporative governance.

In relation to the vertical (sectoral) approach of the industrial policy for creation of competition of the Macedonian economy, general acknowledgement is that it has a lower significance. What has been achieved in that direction in the period so far, is related to the four-year project for creation of competitiveness of the Macedonian economy, which has started in 2003 and is financed by USAID. Within the project a National Council of the Republic of Macedonia for Entrepreneurship and Competitiveness has been established, which is three-party entity that facilitates the dialog between the private, public and the civil sector. Special part of the project is the establishment of five clusters: for lamb meat and cheese, tourism, IT, wine and textile. There is an evident progress from the aspect of accepting the idea of clusters and the understanding for the benefit of associating and establishing a network within the cluster. However, still there isn't obvious growth of productivity or export of the companies within the cluster. It is expected that these results would follow later, since accepting the core of the modern business work, as well as practical implementation of the modern forms and techniques of work are too complex for the bigger number of businessmen in Macedonia.

Beside the competitiveness and clustering project, within the vertical approach of industrial policy, several strategies for development of different sectors (such as tourism) have been prepared.

Within the steel industry, *National Strategy for Restructuring of the Steel Industry and its Implementation*, has been prepared, as an obligation of the Protocol 2 of the SAA, whose basic objectives are the following:

- Stimulating the development of internationally competitive steel industry in the Republic of Macedonia;
- Providing long-term employment;

- Contributing to the development of down-stream industries;
- Increasing the level of added value from the steel and related industries, generated within the industry of Macedonia.

The strategic objective of the National Restructuring Program is in creating conditions where the steel companies in the country may bring to maximum their profitability by increasing the profit and reducing the costs, for which individual business plans for each company¹ were prepared, and at the same time to contribute to the economic development of the country.

In that sense, it is planned to prepare a special Strategy for Industrial Policy, which as short-term priorities are planned to be realized by 2007. As a basis of the Strategy for Industrial Policy it is planned to prepare Study for development of indices for competitiveness of the Macedonian industry (by the end of 2006, i.e. the beginning of 2007).

4.1.3. Competition policy

Legal and institutional framework

The Law on Competition Protection regulates the protection of competition in the Republic of Macedonia and it has been harmonised with the following EU measures: the Treaty Establishing the European Communities, Articles 81,82 and 86, 31962R0017, 32003R0001, 31971R2821, 32004R0139, 31997Y1209(01) and 52001XC1222(03). In 2005 most of the by-laws stipulated with the Law on Competition Protection were enacted. On the basis of the decision of the Government of the Republic of Macedonia, steps have been taken for amendments of the Law on Competition Protection in relation to the status of an authorized institution competent for state aid. The amendments were directed to the transfer of competences in relation to the monitoring and control of the state aid from the State Aid Commission to the Commission for Competition Protection. The further approximation of the regulation to the *acquis* was in the field of professional confidentiality and deadlines for limiting the violation penalties. The amendment of Article 16 of the Law was proposed since its application so far has shown that the determined limit of 5 million Euros total income from the sale of goods or services on the domestic or foreign market, as a concentration indicator, is too high compared to the size of the Macedonian economy. Due to this, in 2005 the Commission for Competition Protection didn't receive any indications, nor itself, has started a procedure for assessment of concentration. The proposed new limit is 2.5 million Euros total income from all transactions. Other

amendments of the Law are more of a technical nature and should improve the text of the Law.

The Commission for Competition Protection, established pursuant to the Law on Competition Protection, is the competent institution for preparation of the legal acts related to competition and implementation of the Law on Competition Protection. It is an independent state institution functioning as a legal entity. The Commission is competent to control the implementation of the provisions of the Law and the regulations enacted on the base of the Law, to monitor and analyse the conditions on the market to an extent necessary for the development of free and efficient competition, to procedure and make decisions, to regulate rules and measures for competition protection, measures for prevention, limiting or distortion of competition; to provide opinions for draft laws or other acts that regulate issues related to some economic activity, which may have influence on the competition on the market; on request of the Parliament, the Government of the Republic of Macedonia, other state institutions, companies or in its official capacity, the Commission provides expert opinions on issues in the field of competition policy and competition protection on the market and other works regulated by the Law. In order to provide transparency in its work, all decisions of the Commission are publish in Official Gazette of RM.

The Competition Protection Commission cooperates with GTZ, German Association for Technical Assistance, and through the World Bank BERIS Project, as a project for reforms in the business environment and strengthening the institutions an operation support for the activities of the Commission is provided.

Envisaged activities and measures-The following activities in the field of competition are envisaged as short-term priorities:

- Enactment of a Law on amending the Law on Competition Protection with the following amendments: regulating official secret; the deadline for persecuting cartels would be increased from two to five years; new provisions would regulate the authorization of the Commission for delivering violation fees determined by the Law and in accordance to the Constitution amendments.
- Enacting guidelines for the implementation of the Law and the by-laws, which on the proposal of the expert services are enacted by the Commission;
- Concluding Memoranda for international cooperation by submitting data, information, joint researches and other kind of cooperation in the field of competition protection between the Commission and other regulatory bodies, State Aid

Commission and other state institutions, Consumers' Organisation, faculties and scientific and research institutes;

- Publishing a brochure with content of the Law and the by-laws.
- In the course of 2006 it is planned that the Commission would be situated in new premises;
- In the course of 2006 it is planned to create a web page of the Commission and publishing the decisions of the Commission;
- In the course of 2006 and 2007, training would be organized for the members of the Commission and the employees of the expert services of the Commission for efficient implementation of the competition on the market.

For the period 2008-2010, the following activities in the field of legislation are envisaged:

- Enacting a Law for supplementing the Law on Competition Protection, where the Article regulating the group exemptions would be added by new provisions where the contracts in the field of air traffic would be defined.
- Further harmonization of the national legislation with the *acquis*.
- Further training of the members of the Commission and the members of the Commission for solving complains in the field of competition, as well as training for the employees in the expert service, for implementation of the Law, especially for the authorization of the Commission for delivering fines for violations stipulated by Law.

4.1.4. State Aid

Legal and institutional frame-On the basis of the discussions on the second meeting of the Sub-Committee for Internal Market and Competition for the status of the State Aid Commission, the Government of the Republic of Macedonia has enacted a decision for transfer of the monitoring and control of state aid to the Commission for Competition Protection.

Thus the Government of the Republic of Macedonia has taken measures for amending the State Aid Law and transfer of the competences for monitoring and state aid from the State Aid Commission to the Commission for Competition Protection. The amendments of the State Aid Law enable adoption of new regulation related to horizontal aid.

The Book of Rules for the conditions of awarding state aid in specific fields and forms has been prepared in draft form and has been submitted to the relevant institutions for an opinion. The Legislation Secretariat had remarks that having in mind the wide scope of the Book of Rules, the subject it regulates may not be regulated by Book of Rules. The Law on

Amendments of the State Aid Law stipulated an amendment that would enable the regulation of these issues to be solved by one or more legal acts.

Within the ATL project, Cards 2004, 7 seminars were held for the state aid providers, where 150 participants took part. The next step is to transfer the employees from the state aid unit of the Ministry of Economy to the Commission for Competition Protection. This should be done immediately after the enactment of the Law on Amendments of the State Aid Law. Within the BERIS project, financed by the World Bank, underway is a procedure for procurement of IT and office furniture, which would create conditions for long-term work of the Commission.

In parallel with the reforms of state aid, Book of Rules: Guidelines for the providers of state aid was published. The main objective of the Guideline is to increase the general knowledge for the state aid rules.

With the objective of increasing the transparency in relation to this issue, the complete regulation related to state aid, the decisions of the Commission and all other relevant information for state aid control would be published on the web page of the Commission for Competition Protection.

Stipulated measures and activities- In the period to come the following activities are envisaged:

- Preparation of a by-law-Book of rules for determining the conditions for granting state aid in certain fields, as well as amending the Regulation for salvation and reconstruction of companies that face difficulties;
- Transfer of the competences for control of state aid from the State Aid Commission to the Commission for Competition Protection in the course of 2006, as well as transfer of the state aid unit of the Ministry of Economy to the expert service of the Commission for Competition Protection;
- Additional employment of 4 persons in the state aid unit in the course of 2006;
- Training of the employees in the state aid unit in the field of research techniques and acting according to cases, as well as training of the state aid providers.

In the period 2008-2010, it is envisaged to have further harmonization of the national legislation to the *acquis*, with the following measures:

- Enacting methodology for determining the level of compensation for the companies that were entrusted of performing services of general economic interest.
- Special attention would be given to harmonization of the industrial policies with state aid regulations.

- Transformation of the state air unit in state aid department by 2008.

4.1.5. Restructuring of public institutions

Similar to other economies in transition, the public infrastructure in the Republic of Macedonia, as well its infrastructure policies don't match the needs of a young market economy. In the energy sector, for example, the main heritage from the past is the high energy intensity, infrastructure capacities that need enlargement, maintenance and reconstruction, as well inadequate results in the field of environment. On the other hand, the transport sector is also characterized with several problems. The transport flows are very much concentrated on the road transport, that has exposed the country to significant environmental risks and that was related with insufficient level of road security. These factors are partially related to geographic specifics of the country (short distances between the final destinations of country), and partially to the technical; and technological equipment of PE "Macedonian Railways", enterprise in charge of the railway transport in the country. As far telecommunications are concerned, the fixed and mobile telecommunication network is based on modern digital technology and their rate of penetration (number of telephone lines in comparison to the number of population) is relatively high in comparison to other transition economies.

Strategic objective of the Republic of Macedonia is the development of infrastructure and regional connection of infrastructure in the sectors of energy, transport and other sectors. This would lead to secure and economic development of energy, transport and telecommunications, where taken into consideration will be the safety of offer and population, rational use of energy and environment protection. By providing cheap transport, better communications and better approach to clean and cheap energy sources, the infrastructure sectors would contribute to increasing the productivity and thus increasing the international competitiveness of the country.

In order to achieve this objective, range of coordinated measures should be prepared and implemented. The objective of the country is to implement projects with regional component, which would improve and modernize the Pan-European Corridors VIII and X. This would open the doors of the Republic of Macedonia to a better cooperation with the neighboring countries and wider cooperation with the EI countries in all segments of the economy. What they have in common is the bigger commercial approach to the development of the infrastructure sectors.

These reforms would be implemented together with the increase of the physical scope of

infrastructure. It is expected that the gross investments in the Republic of Macedonia would be increased from the present level of 21% of GDP to about 25% of GDP in 2007, as a result of the structural reforms program agreed with IMF and the World Bank, directed mainly to improvement of the business climate in the country. Within the total investments, public investments have a significant participation of 3,7% of GDP. Big portion of investments in the public sector have been directed to the infrastructure sector by strengthening the infrastructure connections with the neighboring countries, as a precondition for successful integration of the Republic of Macedonia in EU.

The Republic of Macedonia prepares a mid-term strategy of infrastructure projects that should be implemented, called Public Investments Program (PIP). This program includes priority projects for which the Government estimates that may significantly contribute to the development of the country. The program, that covers a period of three years and is updated annually, includes projects of all economic infrastructure sectors, including energy, transport, water supply, irrigation, environment, as well as non-economic activities. On the basis of data for the PIP and according to the priorities determined by the Government of the Republic of Macedonia, it is expected that significant number of infrastructure projects would be realized in the period 2005-2007.

The financing of these projects would be done in accordance to the possibilities for further get in debts of the country given in the Strategy for Management of the Public Debt, at the international financial institutions, as well as with domestic budget funds that are annually planned for co-financing of foreign loans and credits. Concessions and other types of public-private partnership in some areas of infrastructure would also be examined.

4.1.5.1. Energy sector

The legal frame on the energy market in Republic of Macedonia is consisted of *Law on energy* and more by-law acts. In that direction, the legal changes from 2002 and 2003 are significant, by which the establishment of independent regulatory body in the area of energy, especially the Law on changing and amending the law on energy is secured. (Official gazette of R. Macedonia No.40/05) by which Directive 2003/54/EC and Directive 2003/55/EC are implemented which refer to the relationships in the Internal markets for electric energy and natural gas of European Union and certain conditions in the cross-border trade, the organization and functioning of these sectors is arranged, the access to the market and the conditions and procedures which are applied in the giving of authorization for executing actions and conducting the systems in objective, transparent

and indiscriminating way. With this changes and amendments of the law the basic principles of competition are introduced as a right to indiscriminating access of third persons to the web, qualified consumers of electric energy and natural gas and the thresholds of initial opening of the markets for electric energy and natural gas are defined. Also, the government decision in the creation of energy politics, from regulatory, ownership and managing role is separated.

The delivered secondary regulation is adopted on the basis of the Law on amendments of the law on energy is greatly harmonized with the European legislation. The Ministry of Economy is responsible for the creation of policy in the energy sector.

The Law on energy is published on 23 May 2006 (Official gazette of Republic of Macedonia No.63/06). By passing the new Law on energy provisions are introduced by which arrangement will be made of the goals of the energetic policy and the way of its realization, the energetic activity, the construction of the energetic objects, the functioning of the Regulatory Commission for energy, introducing of the markets of electric energy, natural gas, oil and oil derivates as well as the market of heat i.e. geothermal energy, conditions for establishing energetic efficiency and promotion of usage of renewable sources.

With the new Law on energy the Directives which arrange the way of functioning of the energy sector will be implemented together with the introduction of energy market, promotion of renewable sources of energy, increase of energy efficiency as well as the way of constructing the energy objects. In accord with the Energy Law, emerges the obligations for passing the by-laws acts from the area of energy efficiency, renewable sources of energy as well as in the part of stock reserves of oil derivates which have to be delivered till the end of 2009 and by which the EU Directives will be totally transported in this areas.

With the Law on energy the energetic national policy is confirmed through bringing the Strategy for development of the energy of Republic of Macedonia and the program for proceeding the strategy. Also it is necessary the policy for promotion of energy efficiency and use of the renewable energy sources to be defined through the innovation of the Strategy for improving the energy efficiency and executing the Strategy for use the renewable sources of energy.

In the Ministry of Economy, in the Energy Sector, there are four departments:

Regulatory Commission for energy is founded with the changes of the Law on energy form December 2002 and functions from 01.01.2004. The Republic of Macedonia Regulatory

Commission of energy has the following authorities: follows the functioning of the market for electric energy and proposes measures for improving in order to provide non-discrimination, efficient competition and efficient functioning of the market; follows the mechanisms which are applied for dealing with the suffocation of the electro energetic system facilities and the natural gas system of Republic of Macedonia; fosters the promotion for protection of energy users rights; brings regulations for establishment of prices of certain types of energy and services in relation to the execution of regulated energy activities; provides tariff systems for certain types of energy ; brings decisions for prices of certain types of energy, in accordance with the regulations for establishment of prices of certain types of energy and services in relation to the execution of the regulated energy activities, publishes, changes, takes out and follows the execution of licenses for execution of certain activities in the energy area: participates in the solving of and solves disputes which occurred between the energy market participants, including the cross-border disputes etc.

Also the Regulatory commission approves the market rules, network rules and regulated commercial agreements.

The Energy Agency of Republic of Macedonia is founded in July 2005 with the Law on establishing the Energy Agency of Republic of Macedonia (Official gazette of Republic of Macedonia No.62/05)The energy Agency of Republic of Macedonia provides support of the Government of Republic Macedonia in implementation of energy policy. The specific activities of the Agency would be in direction of preparation of mid-term and long-term strategies and development plans, preparation of long-term and short-term programs, energy efficiency and using renewable energy sources, preparatory and coordination activities for implementation of investment projects, regional cooperation and coordination of regional projects, preparation of draft laws, by-laws and technical regulations in energy field and performing other activities in the field of energy, determined by law. The Agency will start its work in the course of 2006.

The Republic of Macedonia is a signatory of the *Treaty Establishing the Energy Community* among the SEE countries and the EU, ratified by the Parliament of the Republic of Macedonia on May 29, 2006, and entered into force on July 1, 2006. The basic objective of the Treaty is to provide liberalization of the electricity and natural gas market among the SEE countries, and between these countries and the EU member states under transparent and sustainable conditions. The Treaty contains obligations for the SEE countries to implement the *acquis* in the field of energy, competition, environment and

renewable energy sources, as well as to introduce adequate measures in the safety of supply. With the Treaty the Republic of Macedonia has committed to open the market of all energy types for all consumers, except households by 01.01.2008, and for the households by 01.01.2015. It is also expected that deregulation of the energy sector and the established policy for construction of new energy facilities in the course of this period would give initial results in effectuating private investments, especially in the field of electricity and natural gas generation and distribution.

Direct and indirect determinations for energy efficiency are contained in the Energy Law, as well as other related laws and by-laws. The Energy Law is the main legal frame for this sector. This Law determines the national energy policy, which, among the other, emphasizes the importance of: increasing the use of natural gas as a priority environmental fuel; inclusion of energy efficiency in the standards for building construction; allocation of necessary funds for realization of energy efficiency projects; identification of possibilities for efficient energy consumption; adoption of measures and activities for realization of all above-mentioned activities. In 1999 the Government of the Republic of Macedonia has enacted *Program for Efficient Energy Use in the Republic of Macedonia by 2020*. The preparation of this program is legal obligation resulting from the Energy Law. This Program stipulates numerous measures for increasing energy efficiency among which are the following: preparation of an Energy Efficiency Strategy in the Republic of Macedonia by 2020; legal and other stimulating benefits; establishment of a Financial Support Fund; preparation of an investment-technical documentation for realization of specific documents; realization of specific projects; preparation of legislation, standards and other acts; information and educational activities; publications and brochures; as well as international activities.

Important program initiatives stipulated in Energy Efficiency Strategy in the Republic of Macedonia by 2020 includes the following: Household Facilities Program, Commercial Facilities Program, Public Institution Buildings Program, Industrial Facilities Program, Street Lightening Program. With financial support of the Swiss Government, in final phase is the realization of the Efficient Energy Distribution Project.

The energy policy is realized by: safe, secure and quality supply of consumers with: electricity, natural gas, heat energy, geothermal energy, oil and oil derivatives; creation of transparent and stable conditions for competitive and economically functional energy sector, promotion of market competitiveness in providing competitive services for consumers; promotion of energy efficiency and stimulating the use of energy resources;

sustainable development of energy sources; environment protection from the damage influences in performing energy activities; meeting the obligations resulting from the ratified international documents. Energy policy is determined in the Strategy for Development of Energy and the Program for realization of the Strategy for Energy Development.

The adoption of the Book of Rules for using renewable energy, which in details would regulate the measures and the ways for using renewable energy, is stipulated for the beginning of 2008. As addition, the Energy Agency, as of 2008, should start issuing certificates of origin for electricity generated by RES. On mid-term basis, it is expected to establish functional mechanism for the feed-in tariffs, as a support to RES, and the results from the implementation.

Electricity-the electricity sector is relatively developed and at the moment substantial energy resource. The total installed capacity for electricity generation is 1.524 MW with total annual generation of 6,5 GWh, 1.010 MW of which are from thermo plants with annual generation of about 5GWh (not including TPP ‘Negotino”), and 514 MW are from HPP with annual production of about 1,5 GWh.

The Law on Transformation of Elektrostopanstvo na Makedonija, AD for generation, transmission and distribution of electricity, in state ownership was enacted with the aim of realizing the determined policy of the Government for reforms of the power sector, and especially achieving the following objectives: restructuring of vertically integrated company, as well as functional unbundling of generation, transmission and distribution system operator; establishing competitive electricity market and its gradual liberalization; governing of economic principles for efficiency and effectiveness in the work of the power companies, i.e. their commercialisation; and providing conditions for transparent, non-discriminatory and objective privatisation of companies for generation and distribution of electricity.

The restructuring process of the energy sector is done on several levels. The privatisation of the electricity sector was initiated since 2002. The process was assisted by an international advisor and coordinated by EBRD. Pursuant to the Law on Transformation of “Elektrostopanstvo na Makedonija, AD in state ownership, Skopje” at the beginning of 2005, the vertically integrated service was subjected to the first phase of restructuring – unbundling of the electricity transmission and system operations. In accordance to the criteria given in the acquis, in the course of 2005 the process continued and the present structure is composed of 4 legally independent entities: company for electricity generation

“ELEM AD”, Joint Stock Company for electricity transmission and management of the power system, in state ownership “AD MEPSO”-Skopje, Company for electricity distribution and supply ESM AD and the only thermo power plant “Negotino”. MEPSO implements also the organization and the management of electricity market, i.e. it has the function of electricity market operator. The operator, which would be separate organizational unit within MEPSO, would be responsible for organization of the electricity market on bigger national level.

After the unbundling of ESM AD, next step was its privatisation. EVN AG of Austria was selected as best bidder among the four participants and the transaction was closed on April 7, 2006. EBRD has expressed interest for buying of no more than 19,9% of shares. The rest 10% of the shares in ESM AD are still in state ownership. The privatisation of ESM AD was estimated as successful with sale of 13.438.718 shares for 225 million euros and obligation for 92 euros investments in material goods.

It is expected that in the course of 2007, privatisation of AD ELEM-company for electricity generation-would start, and the process of privatisation of TPP Negotino is underway.

As far as investments in the power sector are concerned, underway is construction of two 400KW long-distance interconnections: Stip (R. Macedonia)-Crvena Mogila (R. Bulgaria) and Bitola (R. Macedonia) – Florina (R. Greece). In the future period it is envisaged to start the construction of 400 KW long-distance transmission lines Skopje (Republic of Macedonia) -Nish (R. Serbia) and Republic of Macedonia-Republic of Albania (R. Italy).

Also in the field of generation energy capacities underway is the construction of HPP Matka 2, and public international tenders for construction of SHPP, HPP Cebren and HPP Galiste are published. In the forthcoming period planned for realization are HPP Boskov Most and small HPP.

Gas Sector-In the gas sector, the only transport pipeline projected for nominal flow of 800 million cubic meters annually, is exploited from the Bulgarian border to Skopje, plus 25 km of distribution pipeline and 40 km of gas line of city of Skopje, which was until recently managed by AD Makpetrol, a private company. The present system is used with minimum capacity, mainly for supply of industrial consumers and local heating facilities. The Government of the Republic of Macedonia has established a public company GAMA for transport operations in 1996, and in 2006 this company was transformed in joint stock company in state ownership.

The plans in near future for development of the gas system include construction of two main gas lines for continuing the transport pipeline in the Western and Eastern part of the

country. It is also envisaged development of distribution network in the cities where the main gas line goes. Also, there are possibilities for construction of thermo power plants on gas in the cities where the main gas pipeline goes. In the period to come by extending the gas system in the country, possibilities are created for construction of co-generation thermo-power plants heating plants and thermo-power plants for generation of electricity in several city centres.

The gas prices are regulated. The present regulation (Energy Law) takes into account the EU criteria for regulation of the approach to third parties and determines rules for non-discrimination in using the existing capacities, which are in accordance to the *acquis*. In accordance to the commitments taken by the signatories of the Treaty Establishing the Energy Community, in creation of the rules on gas market, the *acquis* would be implemented.

The following activities are stipulated for the future:

- Giving under concession the development and management with the distribution network of foreign investors;
- Construction of different interconnections with the neighbouring countries and transit gas pipelines, such as the interconnection from Kumanovo, through Leskovac to Nis in Serbia, continuation of the existing gas line to Albania, other interconnection with Bulgaria-Petric, which would be connected to Negotino-Prilep-Bitola-Ohrid and to the Albanian border, transit gas line with origin from the Caspian basin which, through Turkey, Greece, Macedonia, Albania and/or Serbia would go to Western Europe, Trans-Adriatic gas line that would connect Bulgaria, Macedonia, Albania and the Adriatic sea to Italy.

Oil sector- The privatisation in the oil sector was completed in 1999. 54% of OKTA, the oil refinery of the Republic of Macedonia, with capacity of 2,5 million tones and production of about 800.000 tones annually, was taken over by the Greek company Hellenic Petroleum. Constructed and operation is an oil pipeline that connects the port in Thessalonica in Greece with the refinery OKTA, near Skopje, with capacity of 2,5 million tones annually. Construction of a pipeline from the refinery to Pristina has been started, with capacity of 300.000 tones annually. Hellenic petroleum also intends to build oil pipeline from the refinery to South Serbia.

The demand of the country for oil products is relatively stable at about 800.000 tones annually. Main products in the demand are the gasoline (20%), diesel (40%) and hard fuel (30%). Different products (LPG, airplane fuel, etc) represent the rest of it or some 10% of

consumption. The biggest distributor of oil derivatives in the Republic of Macedonia is the privatized company "AD Makpetrol". Of the total 200 gas stations in Macedonia, Makpetrol owns 114. Most of the other 130 gas stations are owned by retail owners. One of the OKTA's strategic objectives is to extend its distribution network by construction of about 30 modern gas stations. Russian Lukoil, in May 2005 has signed a Memorandum of Understanding with the Government in order to facilitate the access to gas stations location, which the company intends to build.

The regulatory Energy Commission established the prices of oil derivatives in accordance to the methodology for establishment of prices. The Government has the oil derivatives reserves and the oil companies may not create additional reserves.

At present, the standards for oil derivatives that are in force are the ones that were valid in former Yugoslavia. Within the Ministry a Commission has been established for creation of new standards that would start be implemented in 2006.

The research of carbohydrates in the Republic of Macedonia was done in the 6-ties and the 70-ties, with several drills. The found carbohydrates were of very insignificant nature. Oil deposits were identified, but not very well examined. The existing reserves were estimated as 25-50 million tones. No studies for possible production were made.

One of the most important pipeline projects in the Balkan Region is 750.000 barrel-per-day (BBL/D) pipeline connecting Black Sea port of Burgas with the Albanian Adriatic port in Vlore through the Republic of Macedonia. Albanian-Macedonian-Bulgarian oil pipeline Corporation (AMBO) was established with exclusive rights to build the pipeline. However, attracting foreign investments was not that easy so far. Once the necessary funds are provided, it is expected that the construction would take 3 years.

The new Energy Law defines the rights and obligations of the participants on the market of crude oil and oil derivatives. The Law defines the activity performers in oil processing and production of oil derivatives; transport of oil and oil derivatives through oil pipelines and product lines and other forms of transport; wholesale trade with oil derivatives; retail trade with oil derivatives; as well as transit of oil and oil derivatives through oil pipeline and pipelines.

Pursuant to this Law, the obligation for providing the stock reserves would be transferred from the state as an obligation to the participants on the market of oil derivatives. The highest level of refinery and retail prices of oil derivatives is determined pursuant to the Book of rules for the methodology for establishing prices of oil derivatives. The Government of the Republic of Macedonia, pursuant to this law would enact a regulation

that would more closely prescribe the conditions, procedure and the way of establishing, keeping, using and renewal of the stock reserves of oil derivatives.

Heat energy-There are 5 autonomous regional heating systems in the Republic of Macedonia, among which the biggest is the private company “Toplifikacija AD”, Skopje, with annual production of heat energy of about 700 GW/h, mainly for household and business facilities. Its system is modern, with high degree of automatisations and fully computerized monitoring of heat energy production. The other 4 companies are with total capacity of 123 MW and all are private entities.

The regional heating policy is decentralized and developed by the local self-government authorities. The Energy Regulatory Commission is responsible for the rules for heating prices and marking the margins in this sector. The development of the regional heating in future is envisaged by the entry of private investments.

Pursuant to the new Energy Law, the municipalities and the city of Skopje, within their competences for heat supply to the end users in their area, would have an obligation to create conditions for performing activities of distribution and supply of heat energy. The Law would define the rights and obligations of the heat energy producer, i.e. the producer of geothermal energy and the performer of the activity of distribution of heat i.e. geothermal energy.

Renewable energy-The new Energy Law defines the policy for promotion of energy efficiency and use of the renewable energy sources. The Government of the Republic of Macedonia creates its policy by enacting a Strategy for Promotion of the Energy Efficiency and Strategy for the Use of Renewable Energy Resources for a period of 10 years. In the field of energy efficiency, after the entry into force of this Law, as an obligation there is the enactment of by-laws that should be enacted by the Minister in charge for works in the energy field. These closely determine the requirements and the conditions that should be met and the reconstruction of the existing construction facilities from the aspect of energy efficiency. With technical specifications and standards for efficient use of fossil fuels, closer are determined the criteria that the new motor vehicles, facilities for generation of electricity and heat and other appliances should meet, from the point of view of energy efficiency. The technical specifications for combined facilities include Methodology for determining efficiency in combined processes, which is used for determining the qualification of the process of combined facility used for production of heat and electricity as highly efficient combined production. The Minister in charge for works in the energy field closely determines the criteria and the conditions that the new home appliances

should meet from the aspect of energy efficiency and marking their energy efficiency.

In the field of using the renewable resources, the Minister in charge for works in the energy field closely defines the measures for use of the renewable energy resources, the whole percentage and year of including the renewable energy resources in the energy balance, the percentage and time-table for realization of the whole participation percentage of the renewable energy resources in the energy balance, measures for stimulation of the use of bio-fuels in the transport sector, in pure and non-processed form, agriculture policy with aim of providing quantities of bio-mass, procedure for issuing and registration of guarantees for origin of electricity produced by renewable energy resources, procedure for certifying preferential electricity producers and other necessary information.

This Law introduces issuing *“electricity origin guarantees for electricity produced from renewable energy resources and from highly efficient combined facilities in the Republic of Macedonia.*

4.1.6. Business environment and SME's

Support of the entrepreneurship and small and medium enterprises

Activities and movements in 2005 and the first half of 2006

One of the special fields which are important from the aspect of improving the business climate is the support of the small and medium enterprises (SMEs). The Government of Republic of Macedonia defines its support of SMEs in several documents which also give the framework for development of the SMEs sector. They are:

- National strategy for development of small and medium enterprises;
- Programme with measures and activities for support of entrepreneurship and creation of competition in small and medium enterprises in Republic of Macedonia which refers to a period of four years;
- Annual programmes with measures and activities for support of entrepreneurship and creation of competition in SMEs; and
- National reports for the European charter for small enterprises.

In 2004 the Agency for support of the entrepreneurship in Republic of Macedonia (ASERM) is established with the purpose of realization of the Programmes for SMEs support. There are also 9 regional centers for support of the entrepreneurship (connected informatically, 8 incubators, 4 centers for transfer of technology, 5 clusters, offices for local

economical development as well as chambers and associations. There is also Euro info correspondence centre, as well as Fund for development of human resources. Through the National council of entrepreneurship and competition and Forum for SMEs a dialog is developed between the private and public sector. Also the Observatory for SMEs is formed.

The auditing of the National Strategy for SMEs and the preparation for a new midterm Programme for measures and activities for realization of the Strategy is in progress.

Table 8: Number of SME enterprises

	Number		Structure in %	
	2003	2004	2003	2004
Number of enterprises				
Small	55.267	61004	98.3	98.6
Medium-sized	475	483	0.8	0.8
Total SMEs	55.742	61527	99.2	99.4
Big	459	368	0.8	0.6
Total:	56.201	61895	100.0	100.0

Source: State statistical office

Table 9: Employment in SME enterprises

	Number		Structure in %	
	2003	2004	2003	2004
Employees				
Small	269.583	273267	58.41	59.34
Medium-sized	83.917	93467	18.18	20.30
Total number of employees in SMEsV	353.500	366734	76.59	79.64
Big	108.060	93762	23.41	20.36
Total:	461.560	460496	100.0	100.00

Source: State statistical office

The data for SMEs indicate that they take part in the Gross added value with 72% (in 2004) of which only 20% is due to the middle, and half of the participation (52%) is due to the small enterprises. Besides this, the SMEs sector participates with 53% of the total export (2003).

The short term goals (by the end of the year) that should be realized for the development of the sector are:

- Revising of the National strategy for the development of SMEs
- Preparation of the new four-year Programme for measures and activities (Action plan) for the realization of the Strategy;
- Fully operative Fund for development of human resources
- Fully operative Guarantee Fund;
- Continuing work of the Forum for SMEs;
- Continuing of the activities of the Observatory for SMEs;
- Establishing system for monitoring and evaluation of projects;
- Expanding of voucher system for consulting services in other parts of the state.

Plan 2007-2009

The midterm goals which are related to the support of the SMEs sector development which will be formalized in the new Programme for support of SMEs (2007-2010) should contribute for more efficient work of the enterprises and creation of competition, refer to:

a) Establishment of favorable climate for development through the strengthening of the institutional and business infrastructure.

In the framework of this measures the development projects will be implemented in: consistent and new institutional infrastructure especially by creating business centers in municipalities, strengthening the capacity of institutions which create new enterprises. The creation of a net of small consulting firms engaged in the elaboration of new business plans, marketing strategies, by concluding deals.

b) Stimulation of the existing and development of small companies through the development of instruments for financial and non-financial support.

The target of this programme is specific developing alleviations to be created, support of the innovations, strengthening of the guarantee fund and issuing of guarantees, support for introducing new technologies, creation of investing funds, expansion of mortgage instruments, and program for microfinancing of specific target groups which are less engaged (women, youth, students, farmers, single parents, handicapped, first employment etc). Specific training programme, strengthening of the voucher system, support of export SMEs , support of artistic hand-crafts, support of small craftsmen workshops from the type of family business, stimulation of the horizontal and vertical connection of the firms, promotion activities, innovative development projects of enterprises, strengthening of private and public dialogue, usage of standards for quality, regional connection of the clusters etc.

c) Development of entrepreneurship culture and spirit through the entrepreneurship studying the educational system and lifetime study.

Within frames of this measures special stress will be put on the introduction of entrepreneurship study as part of the regular school and university educational program, promotion of the principle of lifetime study, permanent education of entrepreneurs, support of incubators for small entrepreneurs – graduated students or before graduation, to direct the graduates towards entrepreneurship and self-employment, co-financing of post-graduation studies in the area of entrepreneurship, transfer of knowledge from other countries, training of the unemployed and etc.

d) Support for strengthening of the competitive ability(clusters, innovation, export)

It will be especially encouraged by providing support creation of incubators, clusters, innovative projects and support for activities related to the promotion of possibilities for export of domestic products. The joining of small homogenous enterprises in mini-associations for realization of mutual goals will be encouraged.

e) Regional and cross-border cooperation

Through projects, the cooperation with the entrepreneurs from the neighboring countries and the countries from the wider region will be strengthened.

As a result of the realization of these activities an increase of the number of SMEs of about 5 % is expected, as well as increase of the number of working places of 4-5 % average annually, in the planned period 2007-2009.

4.1.7. Tourism

Tourism contributes significantly in the economic development of R. Macedonia and the welfare of its citizens, based on sustainable use of the natural resources and the cultural and historic potentials, with active cooperation in their protection and development, creating an environment for attracting FDIs. Tourism as a sector is an important economic branch for the development of the economy of the Republic of Macedonia, in GDP participation, positive growth of the foreign currency inflow and total employment, seen through the following data given in the table:

Table 10: Tourism turnover

Tourism turnover					
	2002 Annual	2003 Annual	2004 Annual	2005 Annual	2006 Semestral
1. Number of tourists					
Total	441.712	483.151	465.015	509.706	283.947
Domestic	318.851	325.459	299.709	312.490	170.187
Foreign	122.861	157.692	165.306	197.216	113.760
Participation in the total number (%)					
Total	100.0	100.0	100.0	100.0	100.0
Domestic	72.2	67.4	64.4	61.3	59.93
Foreign	27.8	32.6	35.6	38.7	40.07
2. Number of over-nights					
Total	1.850.38 4	2.006.86 7	1.865.43 4	1.970.04 1	1.046.991
Domestic	1.575.66 4	1.660.66 7	1.504.84 5	1.547.05 3	805.844
Foreign	274.720	346.200	360 589	422.988	241.147
Participation in the total number (%)					
Total	100.0	100.0	100.0	100.0	100.00
Domestic	85.2	82.7	80.7	78.5	76.9
Foreign	14.8	17.3	19.3	21.5	23.1

Source: SSO

From the given statistical data it may be noticed that the total turnover in tourism is in constant growth, with the exception of 2004 when it marked small downfall. The growth index of the total turnover, expressed in percentage for 2005, in comparison to 2004, marks growth of 9,6%, in the domestic turnover for 4,2%, while it is significantly increased in the foreign turnover of 19,3%, which overcomes even the world stipulations on the international market. The total number of over-nights marks a growth of 2,8%, while it is significantly increased for foreigners for 17,3%. In the period January-June 2006, as compared to the same period of 2005, the number of tourists has been increased for 0,4%,

and the number of over-nights has been reduced for 1,6%. In 2006, based on the given data, it may be concluded that there is a mild growth of the number of tourists followed by reduction of over-nights. Continuously, per years, the number of foreign tourists and over-nights mark continuous growth of about 3%, and on the other hand there is a constant reduction of the domestic number of tourists and over-nights, each year of about 3%.

Table 11: Foreign tourists

Foreign tourists						
	2002	2003	2004	2005	Index 04/02	Index 05/04
EU countries	49 365	67 514	69 498	79 897	140.7	114.9
Neighbouring countries	44 028	53 560	56 379	73 477	128.0	130.3
Other EU countries	14 444	21 787	20 635	27 953	142.8	135.4
The rest of the world	15 024	14 831	18 794	15 889	125.0	084.5
TOTAL	122 861	157 692	165 306	197 216	134.5	119.3

Source: SSO

Table 12: Foreign over-nights

Foreign over-nights						
	2002	2003	2004	2005	Index 04/02	Index 05/04
EU countries	57 576	149 071	152 034	190 200	264.0	125.1
Neighbouring countries	95 574	111 666	114 794	154 590	120.1	134.6
Other EU countries	82 286	36 926	42 562	54 114	051.7	127.1
The rest of the world	39 284	48 537	51 199	44 084	130.3	086.1
TOTAL	274 720	346 200	360 589	422 988	131.2	117.3

Source: SSO

On the basis of the table it may be concluded that the Republic of Macedonia as an interesting tourism market is acceptable for big number of tourists that come from different

world regions. From the given statistical data, the highest number of tourists comes from the EU countries (included also are the countries that entered EU later, 2004) and from the neighbouring countries. Each year the number of foreign tourists increased. The biggest increase of 17,3% was marked in 2005, and seen per structure, this increase is biggest for the tourists coming and spending nights from the neighbouring countries and EU. However, on the other hand, there is a decrease of tourists coming from the other countries in the world of 13,9%. It may be said that the biggest potential tourism market for Republic of Macedonia is the European market and the neighbouring countries.

Table 13: Tourism revenues

in \$	2002	2003	2004	2005	2010 P
Tourism net	-5.510.000	8.730.000	17.340.000	24.250.000	60.000.000
Inflow	39.020.000	56.680.000	71.810.000	83.900.000	180.000.000
Outflow	44.530.000	47.950.000	54.470.000	59.650.000	120.000.000

Source: NBRM

Through tourism and catering in the past three years, positive balance has been realised in the payment turnover and thus tourism is a significant export branch in improving the foreign currency inflow of the Republic of Macedonia. In 2005, it marks a growth of 16.8% in the total foreign currency inflow, while in the net realised growth of 39.8%. The number of employees in tourism, as a total number of employees in the economy doesn't mark a significant growth, but it keeps the same level each year. The stipulations are that the realised foreign currency inflow in 2010 would reach percentage of 114,5%, while the net income would increase for 147.4%, while the total number of employees in the hotel business would grow for 33.3%, if, of course, the trend of growth of average annual growth of 20% continues for all indicators.

Table 14: Investments in tourism

Investments in tourism in \$					
	2001	2002	2003	2004	2005
Hotels and restaurants	1.283.000	1.646.000	7.200.000	6.611.000	5.262.000

Source: NBRM

As a positive feature, in the past three years, the total investments in this field are improved, with biggest investments in 2003 of 7.200.000 US \$. Total investments for the

past 5 years are 22.002.000 US \$. These are investments mainly in construction of hotels, family hotels and private apartments, basically in reconstruction and modernization of existing hotels and apartments. The past 5 years a lot of small family 3 star hotels have been constructed, which confirms the growth of SMEs. This also adds to the quality standards for accommodation, both in hotels and restaurants. Also numerous private rooms and apartments were build, mainly in rural areas, for development of the village and alternative tourism, taking into consideration all necessary quality standards.

In 2004, two new laws that govern these activities were enacted: the Law on Tourism Activity and the Law on Catering Activity. Both Laws are fully harmonized with the acquis (EU Directive 90/314) with technical cooperation with international EU experts from France. Pursuant to the Law on Catering Activity and Law on Tourism Activity, the Ministry of Economy is preparing the regulations and acts resulting from those laws, such as the by-laws: Book of rules for the minimal technical conditions for performing catering activity; Book of rules for the minimal technical conditions for performing tourism activity, Book of rules for categorization of facilities for performing catering activity and several books of rules for forms envisaged for making registration pursuant to these Laws.

In 2007 the Republic of Macedonia plans to continue in direction of realizing positive growth in the field of tourism by completely realizing the Tourism Development Program for 2007, based on the Strategic Plan of the Department for 2007-2009. What remains also for 2007 is that R. Macedonia continues to realize the growth of the total tourism turnover with the measures planned to be taken in the program for development of tourism for 2007, such as:

- General tourism promotion of country:
- Promotion of R, Macedonia as a recognizable touristic product through international events, fairs and permanent and strong media promotion campaign in several world media, TV, newspapers; thus contributing to creation of recognizable touristic product that is competitive both on the domestic and the foreign market;
- Promotion of international touristic cooperation of RM;
- Cooperation with foreign tour-operators and journalists;
- Strengthening of capacities of the network institutions for tourism support;
- Development of the accommodation capacities and tourism infrastructure;
- Improving the condition of the selected tourism sites;
- Sustainable development principles;
- Protection of environment and tourism sights;
- Development of new touristic products (health, rural, cultural and other types of

tourism);

- More quality regulation for the working conditions of the catering facilities and stimulation of tourism development by intended use of funds paid in the budget of RM;
- More quality regulation for the working conditions of the tourism economy.

4.4 Financial sector

4.2.1. Banking system

Background - As of June 30, 2006 the banking system in the Republic of Macedonia comprised 20 banks and 14 savings houses. Excluding the Macedonian Bank for Development Promotion (MBDP) A.D. Skopje all other banks are universal-type banks. Out of these, 15 are licensed to carry out financial activities in the country and abroad, while 4 banks carry out financial activities only in the country. The savings houses mainly provide retail banking services.

Banks constitute account for a dominant 90.3% share in the total financial potential of the financial institutions². Compared to this, savings houses have only marginal share – as of June 30, 2006, their share was 1.33% in the total assets of the banking sector, i.e. only 0.55% in the total deposits of the non-financial entities (citizens and non-financial legal entities).

From the aspect of the ownership structure, private capital is prevalent. As of June 30, 2006 the privatisation level of the equity capital⁴ in Macedonian banks is 93.1%. According to the category of shareholders, the share of non-financial private legal entities is 41.4% in the total nominal value of the equity capital, and the share of the banks and other financial institutions is 37.7%. The share of public sector and public enterprises in the total nominal value of the equity capital of banks is 6.9%⁵.

As of June 30, 2006, the share of foreign shareholders in the total nominal value of the equity capital of banks is 53.6%. Foreign capital is present in 17 banks, whereby in 8 of them foreign shareholders hold majority package. As of June 30, 2006 the share of these 8 banks is 51.9% in the total assets at the banking system level.

In parallel with the privatisation, the banking system underwent restructuring and consolidation processes. By mergers, acquisitions, bankruptcy and liquidation of banks, the number of banks declined from 23 in 1998 to 20 banks at present. The operational

⁴ Face value of ordinary and preferential shares

⁵ The Macedonian Bank for Development Promotion AD Skopje is the only fully state-owned bank.

restructuring of banks intensified after the entry of foreign strategic financial institutions in two major banks.

Continuous strengthening of confidence in the banking system in Macedonia and the increasing propensity of the population to save has directly reflected on the continuous growth of the deposit potential, hence on growth of the overall financial potential of the banks. At end-2005, compared to December 31, 2004 total assets of banks grew by 19%. As of June 30, 2006 total assets was denar 149.873 million and grew by 6.7% compared to December 31, 2005. The deposit potential of the banks grew by 16% during 2005. This trend continued during the first half of 2006 as well, when deposits of the non-financial entities grew by 8.8% compared to end-2005. This created conditions to intensify lending activities of banks and during 2005, the credit activity grew by 19.9% compared to 2004. As of June 30, 2006 total credits to non-financial entities grew by 15.7% compared to December 31, 2005. These trends also positively affected the continuous growth of the level of financial intermediation in the Macedonian economy. Thus, as of December 31, 2005 the financial intermediation, calculated as ratio of total assets, gross credits to clients and total deposits to GDP of Macedonia was 49.4%, 24.2% and 34.5%, respectively. As of June 30, 2006 these indicators were 52.8%, 28.0% and 37,5%, respectively⁶.

Despite the intensified lending activities of banks, the credit growth during the past years was moderate and generated low risk for the financial stability in the country. Despite the intensification of the credit activity, the quality of the credit portfolio continuously improved. As of December 31, 2005, the share of banks with higher risk (credit exposure classified in the risk categories C, D and E⁷) in the total credit portfolio of banks is 10.9% and compared to December 31, 2004, it declined by 2.3 percentage points. As of June 30, 2006, this indicator was 9.9%, i.e. 1 percentage point less compared to December 31, 2005. Also, the indicators of average risk of credit portfolio (ratio of contingent loss provisions and total credit exposure) continuously improve. As of December 31, 2006, this indicator was 8.4% and compared to December 31, 2004 declined by 1.3 percentage points. As of June 30, 2006 the indicator grew by additional 0.2 percentage points compared to December 31, 2005 and was 8.2% (risk category B).

The exchange rate risk to which banks are exposed as a result of the currency inconsistency of the balance sheet positions of banks is relatively low. Almost all banks are

⁶ The calculation of financial intermediation indicators on June 30, 2006 used data on the GDP level from December 31, 2005.

⁷ According to the Decision on establishing the methodology for classification of credit balance and off-balance positions of banks according to the level of risk, the credit exposure of banks is classified under five categories of risk: A, B, C, D and E.

within the prudential limits for open foreign currency position. Other market risks have marginal share in the range of risks the banks face. Banks have insignificant trading portfolio, having in mind the insignificant initial activities related to securities operations and other activities that generate market risks.

Banks maintain relatively high liquidity position. As of December 31, 2005, the share of average liquid assets of banks in the total assets was 45.1%, while the degree of coverage of sight deposits of banks with average liquid assets was 126.5%. As of June 30, 2006 these indicators were 46.1%, i.e. 135.1%, respectively.

Another indicator of the stability of the banking system is the solvent position of the banks, which is a basic prudence indicator. With regard to the legally prescribed 8% minimum, banks in Macedonia are relatively well capitalised. As of December 31, 2005, the average capital adequacy ratio of banks was 21.3%, and as of June 30, 2006, 19.6%.

While maintaining relatively high solvency and liquidity position, during the last year the profitability and efficiency of banks significantly grew. During 2005 a positive financial result of Denar 1,704 million was registered, which is 1.37 times more than the one in 2004. The return on assets is 1.32%, while the return on equity is 8.06%. At the end of the first six months of 2006, a positive financial result of Denar 1.031 thousand was achieved. ROAA and ROAE (on annual level) are 1.4% and 9.3%, respectively.

Legislation – Reforms in the banking sector continue and are in an advanced stage. As a result, the national legislation is partly harmonised with the acquis.

During 2004, with the help of the CARDS programme, analysis was made of the degree of harmonisation of the banking sector. The analysis and the reports of the project realisation also show high degree of harmonisation with the national legislation in the area of banking. The existing Banking Law was adopted in 2000 and it regulates the establishment of banks in Macedonia, the necessary level of capital for conducting financial activities, defines the financial activities of banks in accordance with their capital level, sets the supervisory standards and limits the banks are obliged to comply with in their operations, defines the bank bodies and bank management, establishes the basic principles of accounting and audit, establishes the basic elements of banking supervision, enforced by the National Bank of the Republic of Macedonia, defines measures to be undertaken to improve a bank status and determines the activities in case of bankruptcy and liquidation of a bank. On the basis of this Law, the National Bank has adopted positive secondary legislation regulating in more detail the obligations and requirements defined in the Law.

The National Bank of the Republic of Macedonia enforces banking supervision. Banking

supervision is being continuously strengthened in all aspects: issuance of licenses, on-site and off-site supervision, corrective actions. This process was supported by the several-year presence of resident foreign consultants, as well as by permanent training of supervisors via attendance at trainings, seminars and conferences and by the technical assistance from the IMF, World Bank, Financial Services Volunteers etc.

Weaknesses of the banking system:

High level of concentration (market share of the three largest banks, measured by total assets, total credits to non-financial entities and total deposits of non-financial entities is 65.5%, 68.1% and 71.9% respectively).

Low level of banking intermediation, compared to the CE countries, recent EU members;
Low level of international competitiveness, in terms of diversity of products and efficiency;
Improper ownership structure, with a dominant share of non-financial legal entities;
Concentration of approved loans to existing clients from medium-size and large enterprises, while the credits to small enterprises and individual entrepreneurs lag behind due to the anticipated high risk and operational costs.

Envisaged activities and measures – Basic objectives of future reforms in the banking sector in the Republic of Macedonia are the following:

Further stability growth; and

Raising the international competitiveness of the banking sector to a level that would enable its successful integration in the global financial service market.

The objectives set would be achieved via the following:

strengthening the competition;

internal reorganization and restructuring;

strengthening of the supervision; and

further harmonization of the national legislation with the *acquis*.

The competition would be fostered by stimulating the entry of internationally active, respectable banks, branch offices of foreign banks, as well as development of innovative financial instruments and non-banking financial instruments (credit companies etc.).

Internal reorganization and restructuring of the banking sector would be stimulated via the following:

Promotion of corporate governance in banks and strengthening of the internal control systems, especially ensuring transparency in the operations, consistent application of the fit and proper criteria to shareholders and members of the management bodies

Strengthened of the supervision by adequate measures;

Stimulating bank mergers;

Strengthening the capacity of banking supervision has a significant role in enhancing the stability of the banking sector. Although the Banking Law is harmonized with the acquis in terms of all important elements of supervisory function, additional adjustments would be necessary with regard to the definition and strengthening of the authorizations of supervision and enhancement of its capacity. The authorizations would be strengthened by further strengthening the fit and proper criteria for the founders and the management bodies by requiring permanent fulfilment of these criteria, strengthening of the corrective measures and sanctions towards banks and shift towards risk-based supervision. The capacity of the supervision would be strengthened by establishing standardized supervisory approach, enhancing capabilities of supervisors and enhancing transparency. To the end of further strengthening of the supervisory function of NBRM, in early 2006 Supervision Development Plan was adopted, which was prepared in cooperation with the World Bank, as a detailed review of all activities to be undertaken in the next few years so as to establish risk-based supervision. The Supervision development plan was a result of the efforts made by NBRM to further strengthen its capacity, as well as of the intention to establish adequate basis for gradual application of the New Capital Accord (Basel II), especially the implementation of the second and third pillar (Supervisory Review and Market Discipline).

In addition to strengthening of the capacity of banking supervision, NBRM has started developing the concept of analysis of financial stability. This activity was institutionalised in 2004 by establishing special organizational section for analysis of financial stability. One of the instruments used in the financial stability analysis is the stress-test analysis of the stability of the banking system. By applying Financial Sector Assessment Programme (FSAP) methodology, by applying a series of simulations, stress-test analysis of the resilience of the banking system to the mix of credit risk, foreign exchange risk and interest rate risk shows that relatively high level of capitalization of banks provides a solid basis for covering the contingent losses.

In order to achieve full harmonization with the acquis, the following would be carried out:
Harmonisation with the Consolidated Banking Directive (2000/12/EC) with regard to certain definitions, minimum-founding capital, supervision on consolidated basis etc.
Deadline: 2006;

Ensuring freedom to provide banking services in the Republic of Macedonia via branches of banks from EU member states and non-members. Deadline: January 1, 2008;

regulating the institutions that issue payment instruments as electronic money. Deadline: end-2007;

harmonisation and implementation of the Capital Adequacy Directive (93/6/EEC) with regard to market risk. Deadline: end-2006;

preparation of legislation on protection of financial services users, in accordance with the Directive 87/102 for harmonization of laws and administrative services of member states referring to consumer credits;

defining the scope of financial conglomerates and their supervision in accordance with the Directive 2002/87/EC. This activity will be implemented until 2008;

preparation of legislation and providing an opportunity for cross-border banking services. the implementation would begin with the accession of the Republic of Macedonia into the EU

.

4.2.2 Capital Market

4.2.2.1 Background

The basic feature of the capital market in the Republic of Macedonia is its continuous growth and development trend.

Long-term securities on the capital market in Macedonia are traded on the Macedonian Stock Exchange, established in 1995, and the official trading started in March 1996. At present, 17 authorised participants are active on the Stock Exchanges, of which 11 are brokerage houses and 6 are banks, comprising special directorates for operations with long-term securities. Shares issued by joint-stock companies and bonds issued by the Republic of Macedonia – five issues of denationalisation bonds, old foreign currency saving bond, the first continuous government bond and Stopanska banka rehabilitation bonds. Denationalisation bonds old foreign currency saving bond and the bonds for the redeemed claims of Stopanska banka Skopje are denominated in euros and are paid in denars. In November 2005 the Republic of Macedonia issued the first 2-year government bond denominated in denars, and in December 2005, the first 5-year government bond for covering the loss of the National Bank of the Republic of Macedonia.

The biggest growth of trading in shares on the stock exchange occurred in 2005, with the growth of the trading volume by Denar 2.7 billion at end-2004 to Denar 6.7 billion (EUR 109.5 million) at end-2005, which is 143.5% growth. Market capitalization of the shares at the Macedonian Stock Exchange on December 31, 2005 was Denar 50.4 billion (EUR 824 million), or 18.2% of GDP. Market capitalization of shares at end-2005 grew by 52.2%

compared to end-2004. Trading in bonds issued by Macedonia in 2005 grew compared to 2004 by 42.3% and is Denar 2 billion (EUR 34 million). Market capitalization of the bonds at the Macedonian Stock Exchange on December 31, 2005 was Denar 23.9 billion (EUR 392 million), or 8.6% of GDP.

Total trading on the Stock Exchange on December 31, 2005 was Denar 8.88 billion (EUR 145 million) which, compared to end-2004, is a growth by 6.9%. Total market capitalization of the securities at the Macedonian Stock Exchange on December 31, 2005 was Denar 74.3 billion (EUR 1.2 million), or 26.8% of GDP. Total market capitalization on the Macedonian Stock Exchange at end-2005 grew by 36.7% compared to end-2004. MBI-10 – the Macedonian Stock Exchange Index – on December 31, 2005 was Denar 2.292 (EUR 42).

In the period January-June 2006 the traditional trading was Denar 4.5 billion or EUR 74 million, which compared to the same period in 2005 was 44.02% growth, whereby the trading in shares was Denar 3 billion or EUR 49.4 million and compared to the first half of 2005, grew by 46.45%, and the trading in bonds issued by the Republic of Macedonia was Denar 1.5 billion or EUR 24.5 million and compared to the same period in 2005 grew by 39.37%.

On June 30, 2006, 50 joint-stock companies were listed on the Macedonian Stock Exchange and total trading on the Stock Exchange was Denar 22 billion or EUR 361 million and compared to June 30, 2005 it grew by 368.86%.

On 30th June 2006, total market capitalization of securities on the Macedonian Stock Exchange amounted to Denar 85.6 billion or EUR 1.39 billion, accounting for 28.85% of GDP. Total market capitalization on the Macedonian Stock Exchange on 30th June 2006, in relation to 30th June 2005, increased by 32.04%.

On 30th June 2006, MSEI-10 amounted to Denar 2,911.68 or EUR 47.6, and it increased by 58.74% in relation to the first half of 2005.

Stated increase in the trading with securities on the Macedonian Stock Exchange in 2005 and in the first half of 2006 was a result of the following: increase transparency in the financial operations of the companies listed on the Stock Exchange, marked inflow of foreign portfolio investors, permanent expectations for strategic takeovers of part of the listed companies, commenced pension system reforms (establishment of two companies to manage the pension funds), large number of banks listed on the Stock Exchange in conditions of intensified activities in the banking sector, attractive tax environment for the market functioning, commenced process of integration of the Republic of Macedonia into

the European Union and acquiring the status of a candidate country for EU membership. Trading on the OTC market in the Republic of Macedonia commenced in April 2005, and it is in a stage of development. On 30th June 2006, total trading on the OTC market in the Republic of Macedonia amounted to Denar 30.1 million (EUR 492,000), having the number of transactions constantly increasing.

4.2.2.2 Regulations and supervision

Basic law that regulates the securities operations is the Securities Law from 2005. This Law is to a great extent harmonized with the European directives in the field of securities operations. Other laws regulating the capital market are the following: Law on Investment Funds, Law on Takeover of Joint Stock Companies, as well as bylaws adopted on the basis of the above-mentioned laws.

Competent body for supervision over the work of the institutions engaged on the capital market is the Securities and Exchange Commission, established in 1992, as an independent regulatory body regulating and controlling securities operations in the Republic of Macedonia. SEC, within its legal competences and authorizations, deals with the legality and efficient functioning of the capital market, as well as the protection of investors' rights, to the end of permanent strengthening of public confidence in the securities market institutions.

Central Securities Depository was established at the end of 2001 in the Republic of Macedonia, performing the activities related to registering securities, settlement of commercial transactions and executing non-commercial transfers with securities. Central Depository of the Republic of Macedonia performs the settlement of commercial transactions for the T+3 period. The Depository operates as a self-regulatory organization, established as a joint stock company.

4.2.2.3 Envisaged activities and measures

Main objectives of future reforms on the capital market in the Republic of Macedonia are the following: increase of confidence of the investors to invest in securities on the Macedonian capital market, increase of the interest of both domestic and foreign entities in investing in securities in the Republic of Macedonia, increase of public awareness of the benefit of securing additional capital through primary issues of shares on the capital market and intensification and greater revival of the secondary trading in short-term securities, and later on, in long-term securities on the OTC market.

In June 2006, Code on Corporate Governance of Listed Companies was adopted, to be applied from January 2007, in line with the Company Law. Code on Corporate Governance is expected to improve the management practice by the managers, directors, as well as shareholders in the joint stock companies. Good corporate governance will ensure most adequate allocation of capital, easier access to financial resources outside the companies, all this aimed at increasing the value of the company, i.e. share prices in the company, and increasing the confidence of the investors to invest in securities on the Macedonian market.

In future, promotion activities will continue through public media in the country, as well as the organizing of campaigns, to the end of introducing the public with the possibility for secondary trading in short-term securities on the OTC market.

Priority need aimed at promotion of capital market in the Republic of Macedonia is further improvement of the regulation and its continuous harmonization with the EU Directives and IOSCO principles. In 2006 and the beginning of 2007, it is envisaged for the Securities Law to be fully implemented, new Law on Investment Funds, as well as modifications and amendments to the Law on Takeover of Joint Stock Companies, to be adopted.

No investment fund has been organized in the Republic of Macedonia so far. However, development of the capital market and intensification of the volume of trading in securities on the Macedonian Stock Exchange in 2005 and 2006, appearance of short- and long-term government securities on the capital market, commencement of the work of the two pension funds in October 2005, as well as the adoption of new Law on Investment Funds in 2006, are expected to contribute to increasing the interest in establishment and commencement of work with investment funds in the Republic of Macedonia.

By 2008, it is planned to complete the systemic measures for normative functioning of the transactions with securities, the ultimate goal being the creation of mass usage of securities by the issuers and by the investors.

4.2.3. Pension System Reform

New pension system in the Republic of Macedonia comprises pension and disability insurance on the basis of generation solidarity and capital-funded pension insurance, as multi-pillar pension system. A multi-pillar pension system is based on three types (pillars) of insurance: mandatory pension and disability insurance based on generation solidarity (first pillar); mandatory capital-funded pension insurance (second pillar) and voluntary capital-funded pension insurance (third pillar). Law on Pension and Disability Insurance

was modified and amended in March 2000, to the end of gradual reduction of the pension contributions from the solidarity-based system and introduction of a framework for multi-pillar pension system. This has led to adoption of Law on Mandatory Fully Funded Pension Insurance in April 2002, being the basis for implementation of the mandatory fully funded pension insurance.

Implementation of this kind of insurance started with the establishment of the Agency for Supervision of Fully Funded Pension Insurance – MAPAS, and it continues with the adoption of bylaws and establishment of the pension companies governing the pension funds in April 2005. The two pension companies were selected on an international public tender. They have been given licences for establishment and approval for pension fund management for a period of 10 years. The pension companies were established with mixed, foreign and domestic, capital. They started the marketing activities in June 2005, and the process of membership commenced in September 2005.

The two-pillar pension system is mandatory for all newly employed persons, employed for the first time after January 2003. Membership for the persons already employed is on voluntary basis. Number of persons in the second pillar as of 31st March 2006 is 105,861. Since January 2006, the contribution has started to be distributed to the second pillar, being the final stage of the implementation. Pension contribution for the members in the two-pillar pension system is divided between the two pillars (65% in the first pillar and 35% in the second pillar). First contributions to the second pillar were paid in January 2006, at the same time with the payment of the January salaries. So far, around Denar 180 million was paid in the second pillar.

Resources of the Pension Fund can be invested only pursuant to the provisions in the Law and the bylaws, to the end of maximizing the return on investment, only to the benefit of the members of the pension fund, at the same time providing for the following: safety of the funds of the pension fund, diversification of the risk of the investments and maintenance of adequate liquidity. Now, we are at the very beginning of the investment process. Pension companies started investing the funds of the pension funds mainly in government securities and bank deposits (66% government bonds, 23% short-term treasury bills and 11% bank deposits). Large number of measures has been introduced to protect the funds of the pension funds. They include the following: establishment of strong regulatory and supervisory body (MAPAS); establishment of custodian pension funds' assets – banks or specialized depository institution in charge of safe keeping of the securities and keeping records, executing the orders for investments pursuant the Law,

etc. (in the first 5 years, the National Bank of the Republic of Macedonia will have the role of the custodian); licences for establishment and management with the pension funds were given to two quality pension companies that met the strong criteria; segregation of the funds between the pension fund and the pension company; strict legal framework for investments; sovereign guarantees in case of fraud or theft and high fines in case of breaching the Law.

On the medium term, priority in the field of pension insurance is the continuation of the commenced reforms, mainly by finalizing the legal framework, by adopting the Law on Voluntary Pension Insurance and the Law on Payment of Pensions. Deadline to adopt these two laws is 2008, whereby, like so far, the Ministry of Labour and Social Policy is the policy creator, and the Supervisory Agency carries out the supervision. In addition, regarding the Law on Payment of Pensions, from the point of view of voluntary pension insurance, it is envisaged for the programmed withdrawals to be made directly from the Funds, and the annuities to be paid by a special institution to be authorized therefore. The above-mentioned institutions are to be determined by the Law.

4.2.4 Insurance

4.2.3.1 Background

Insurance market in Macedonia records an upward trend and development in continuity, both in terms of increase in the number of active entities and of deepening the quality of insurance products and distribution channels.

At end-June 2006, there were 10 insurance companies who actively participated in the insurance market, 8 out of which in the field of non-life insurance, 1 in the field of non-life insurance and re-insurance, and 1 in the field of life insurance. By the end of 2006 entrance of foreign life insurance company is expected (request for issuance of working licence has been submitted to the Ministry of Finance), which is expected to upgrade the professional standards on working and diversity and quality of the insurance products in Macedonia.

Private capital dominates the ownership structure in the insurance companies, accounting for 91.45%. According to the category of shareholders, financial institutions are dominant (insurance companies and banks) with 57.3%, followed by non-financial legal entities and physical persons with total share of 34.15%, while the share of state capital in the Macedonian insurance companies accounts for 8.55%. At the end of 2005, share of foreign capital in the total equity of the insurance companies amounted to 63%. Share of

foreign capital in the four insurance companies is 100%.

Calculated gross premium at the end of Q2 in 2006 amounted to Denar 2,509 million. Out of the total calculated gross premium, Denar 78.5 million, i.e. 3.13%, accounted for life insurance.

Total assets of the insurance companies amounted to Denar 13,617 million at the end of 2005, being an increase by 5.6% in relation to 2004. In 2005, insurance sector realized positive financial results in the amount of Denar 185.7 million, being by 1.17 times less than the financial result realized in 2004. Rate of return on assets amounts to 1.71%, while the rate of return on equity amounts to 8.35%. Main indicator (prudent indicator) for the stability of the insurance sector is the solvency of the insurance companies, whereby the surplus of capital above the necessary level of the solvency margin is 226.8%.

Offer of insurance products, measured according to the standards of the European Union, is relatively weakly developed both in terms of the premium amount and of its structure. This is also confirmed by the fact that the insurance of owners of motor vehicles against damages caused by third parties (motor TPL insurance) accounts for 46.4% in the total calculated premium, followed by property insurance with 24% share in the total premium, according to the data from the insurance companies in Q2 in 2006.

4.2.3.2 Legal framework

Main legal framework that governs the terms and conditions and the manner of performing insurance activities, supervision over the operations of the insurance companies and insurance-brokerage companies, and intermediation and representation in the insurance, is the Law on Insurance Supervision and the Law on Motor TPL Insurance.

Law on Insurance Supervision, adopted in April 2002, contains the principles and the standards for insurance of the International Association of Insurance Supervisors (IAIS). The Law harmonizes, to a great extent, the national legislation in the field of insurance with the respective EU acquires, especially in terms of establishment of detailed criteria on licensing the insurance companies and insurance-brokerage companies, setting strict rules on the suitability of the shareholders and the management bodies in the insurance companies, change of control, status changes and other forms of licensing, introduction of strict rules on risk management, financial reporting, as well as strengthening the supervision measures and cross-border insurance activities.

Law on Motor TPL Insurance from 2005 was prepared for the purpose of improvement of the motor TPL insurance in the Republic of Macedonia and implementation of the EU

Directives and principles in the field of motor TPL insurance (in particular the Fourth Motor Insurance Directive). The envisages the following: (1) greater protection of the interests of the claimants/victims in car accidents, by increasing the amounts of insurance and their gradual harmonization with the amounts of insurance adopted in the EU Directives; (2) regulation of the deadlines for application and damage compensation by the insurance companies; (3) determining the right to mediation; (4) alleviation of the cross-border rendering of insurance services by establishing so called claims representatives; (5) strict regulation of the competences of the Guarantee Fund; (6) establishment of Claims Compensation Service; and (7) change of the manner of setting the tariffs of premiums tariffs by establishing Motor TPL Insurance Commission (this decision will apply by the moment the Republic of Macedonia joins the EU).

Competent body to supervise the operations of the insurance companies and insurance-brokerage companies in the Republic of Macedonia is the Ministry of Finance, and its operations are carried out by two Units: Insurance System Unit (in charge of preparing legal acts and bylaws in the field of insurance and licensing of the insurance companies, insurance-brokerage companies, insurance brokers and actuaries), and Insurance Supervision Unit (in charge of implementing on-site and off-site supervision over the work of the insurance companies and insurance-brokerage companies).

Identified weaknesses in the insurance system

Absence of well-set, independent and well-capacitated supervisory body, as well as of established supervisory practices and mechanisms

High concentration of market power (market share of the three insurance companies by the end of 2005 was 75%)

Inadequate corporate governance

Low level of premium collection

Small share of life insurance in the total gross premium

Insufficient and inadequate capitalization

Underdevelopment of the actuarial profession

Inadequate investment structure

Low level of international competition in terms of diversity of products, stability and costs.

Envisaged activities and measures

To the end of strengthening the stability of the insurance sector and insurance market competition, following measures are envisaged:

- (1)strengthening insurance supervision;
- (2)harmonization with the EU legislation and IAIS principles and standards;
- (3)internal restructuring and reorganization; and
- (4)strengthening insurance sector competition.

(1) Taking into account that the structure and setting of the existing supervisory body over the operations of the insurance companies and insurance-brokerage companies in the Republic of Macedonia – Ministry of Finance, together with the two Units – is not in line with the core IAIS supervisory principles and standards, especially regarding its (in)dependence, in the course of H1 in 2007, it is planned to establish an independent Insurance Supervisory Agency. For the purpose of setting the legal basis for the establishment of this Agency, Law on Modifications and Amendments to the Law on Insurance Supervision is in the process of preparation, December 2006 being the deadline for its adoption. By amending the Law, supervisory measures and authorizations will be strengthened by: (1) additionally regulating and strengthening the „fit and proper” criteria for the shareholders and the members of the management body in the insurance companies; (2) improving the risk management measures; (3) strengthening the preventive and corrective supervision measures; and (4) shifting towards risk-based supervision. At the same time, in addition to achieving independence, it is planned to also strengthen the capacity of the supervisory body through continuous education and training of the supervisors, increasing the transparency and establishing standardized supervisory approach and supervision procedures.

(2) To the end of further harmonization with the EU acquis, EU Directives will be fully transposed, the ones covering co-insurance, tourist assistance, credit insurance, legal assistance insurance, consolidated financial reports, additional supervision over the insurance companies in the insurance groups, reorganization and liquidation of insurance companies, necessary level of solvency margin, life insurance, financial conglomerates, insurance mediators, re-insurance.

(3) Internal restructuring and reorganizing of the insurance sector will be provided through: strengthening the internal audit standards in the insurance companies; strengthening the corporate governance; strengthening the „fit and proper” criteria for the shareholders and the members of the management body in the insurance companies; increasing the transparency of the insurance companies.

(4) Strengthening the competition in the insurance sector is expected to be attained through: (1) stimulating the entrance of foreign capital in the insurance market; (2)

abolishing and limiting any monopolistic and oligarchic behaviour on the market that are aimed at influencing the prices of insurance products; and (3) strengthening the measures against unfair competition.

4.3. Labour market

4.3.1. Employment

In the Republic of Macedonia, the employment rate declined until 2004, but since has slightly increased. Employment growth is basically resulting from increased economic activity. However, the number of unemployed has also declined in the first half of 2006. The unemployment decline attributed to the following: correcting the database of unemployed by deleting persons who were employed, but registered as unemployed or refused to work; increased labour inspection activities resulting in registering more employed persons; and more flexible forms of employment provided under the new Labour Law.

Private sector employment was around 57% of total employment in, a 20% increase compared to 1997. There is a potential for further employment growth in the private sector. Most of the private sector employment growth was due to the privatisation reforms, very little was related to newly established companies. The Labour Force Survey, small business owners and the self-employed constituted 16.1% of the total number of employees in 2004. Compared to 1997, there is a growth of the number of employers, however, the number of self-employed has continuously declined since 1997. One of the reasons is employment in the informal sector, where the majority of the self-employed work. The cost of the social contributions for pension, health, and unemployment insurance discourages registration and becoming formally employed. Hence, the number of the self-employed is expected to increase in the informal sector.

An important aspect of the relatively high unemployment in Macedonia is health insurance for the unemployed. According to the research of the Employment Agency made in 2005, 75.000 unemployed persons stated they register as unemployed only to receive health insurance, even though they do not seek jobs or work in the informal sector. Hence, the self-employed should have access to the social security system, which would increase the financial base of such social systems.

The employment rate in Macedonia for the population aged 15-64 in 2005 was 37.9%, which is very low, compared to the level in the EU member states. Regarding the gender structure, employment among men was higher at 45.4%, and among women only 30.1%.

The major difference in the employment rates between men and women is due to the lower activity of Albanian, Roma and Turkish women. Increasing their participation in the education system would improve their employment potential.

Unemployment rates for men and women are very close. In 2005, the unemployment rate for men was 36.5% and 38.4% for women. Greater differences in the unemployment rate exists among young persons aged 15-24. Employment rates among young people is a major problem with an overall rate of 12.2% in 2005. Young men have a higher employment rate of 14.1% compared to young women at 10.3%.

Table 15: Unemployment rates for youth aged 15-24

Year	Total	Men	Women
2004	21.2	25	17.2
2005	20.6	24	17
Source: Labour Force Survey, State Statistics Office			

Lack of a four year high school education could explain part of the youth unemployment problem. EU guidelines suggest that at least 85% of persons aged 22 should have a four-year high school education by 2010.

Around 7% of the unemployed youth have no education or have not completed their education, 36% have primary school, 54% have graduated from high school, 0,8% have completed community college and 1% have completed university education. Long-term unemployment among youth is also significant, around 70% were unemployed longer than one year. Therefore, the lack work experience adversely affects their ability to gain employment.

The length of the unemployment period is also a relevant feature of the unemployment in Macedonia. Around 64.3% of the total unemployed persons have been unemployed over 4 years, 63.4% for men and 65.7% for women.

Legal and institutional framework on the labour market has changed. In August 2005, new Labour Law was effective introducing a number of reforms Employment agreements were extended from 3 to a maximum of 4 years, more flexible bases were introduced for agreements covering temporary employment for work in the home and for hiring housekeepers, and broader opportunities for part-time work. The new law made the Employment Agency the competent instituion for collective redundancy..

The new law also set a full working week at 36 to 40 hours. Part time employment, defined at less than the full time employment was permitted. Overtime work was authorised within

certain limits. Data from the Labour Force Survey regarding the share of part-time work and full time work show that in 2004, 5.3% of the employees worked under part-time arrangement, which is significantly lower than the EU average of 18%.

According to the Labour Law, temporary employment agreements could be concluded for “work which according to its nature, is of limited duration, with or without periodical terminations, during five years”. After that period, the temporary employment would be converted to full-time employment agreement, if the employee continued to work. A total of 13.6% of the total number of employed in 1998 worked under temporary employment agreements, but in 2003 this percentage grew to 18,1%. This trend is expected to continue in the future.

Labour market policy improvement in the Republic of Macedonia has begun and covers many programmes, including the Law on Employment and Unemployment Insurance. The programmes are most often supported by donors and are focused on providing advice on employment, training, public works, employment of mentally disabled persons and measures for encouraging start up of new businesses. However, financing of these labour market activities is quite insufficient and was below 0.09% of GDP in 2003.

The National Programme for Adoption of Acquis Communautaire (NPAA) points out the following priority objectives regarding the encouragement of the development of human capital and labour market:

1. stimulating the process of job creation;
2. stimulating continuous investment in human capital by providing an appropriate network of both public and private education;
3. eliminating the institutional inflexibility of the labour market and social protection;
4. increasing labour market mobility;
5. reducing employment in the informal sector of the economy, “grey economy”

Recent policy measures and programmes in the Republic of Macedonia regarding labour market, employment and social policy are included in the Action Plan for European Partnership from January 2006. Therefore, the following are envisaged as short-term policy measures:

- supporting job creation and initiating additional efforts for creating jobs for women and young people;
- ensuring quick implementation of the new Labour Relations Law and reform of the Employment Agency;
- ensuring further harmonisation with the EU acquis for professional health and

security, labour law and anti-discrimination, and strengthening the respective administrative structures;

- strengthening the Labour Inspectorate regarding personnel and equipment so as to provide for the application of efficient and dissuasive sanctions;
- developing and implementing comprehensive employment strategy, covering all relevant participants so as to further participate in the European Employment Strategy, related to building capacities for analysis, implementation and assessment.
- undertaking steps for integration of the informal sector into the formal economy, especially for the purpose of full inclusion of the employees in the social security system and elimination of unfair competition from the unregistered companies.

The National Employment Strategy (NES) is a document which contains the medium-term employment strategies. It comprises the main labour market challenges in the 2006-2010 period. It covers microeconomic and macroeconomic policies social protection and social insurance policies. It also defines targets and specific employment policies, which will achieve the aims and the objectives of the employment strategy.

The strategy is a base for drafting the National Action Plan for Employment (NAPE) for 2006-2008, National Employment Program and other operational documents, through which the NES will be implemented

4.3.2. Safety at work

The Law on Safety at Work regulates work safety by defining the obligations of the employer and the rights and obligations of the workers in this field. Safety at work, pursuant to the Law, is an integral part of the work setup and of the working process, and it is organized, managed and provided by the employer. In addition, 50 or so bylaws are in force pertaining to different technical and technological processes, covering large numbers of general and special measures for safety at work.

The Ministry of Labour and Social Policy (MLSP) is responsible for the oversight of the Law on Safety at Work, while the State Inspectorate is responsible for enforcement.

Much work needs to be done regarding the harmonisation of the Macedonian legislation with the EU Directives. Preparations for a new Law on Safety at Work is in progress, as well as a plan for preparation of the Rulebook on Personal Safety at Work, Rulebook on Signs on Safety at Work and Rulebook on Measures and Norms on Safety at Work of Production Tools.

4.3.3. Social Security System

The legal framework for social protection in Macedonia is the Law on Social Protection, governing the areas of social protection, specific needs of the population and manner of exercising social protection.

Social protection was decentralized through modifications and amendments to the Law on Social Protection in 2004, as well as the bylaws. The transfer of founder and ownership rights of homes for elderly from central government to municipalities where they are seated was authorised, as well as the manner of distribution of earmarked donations for public institutions for social protection. Daily centers for socially excluded persons, established by the Government of the Republic of Macedonia, will be transferred to local level with an agreement with the Ministry and the municipal bodies, i.e. the city of Skopje. Decentralization of social protection can also refer to organizing the social protection for certain categories of population at municipal level or at regional level, the premises, equipment, employees and financing resources of which are to be provided by the municipality. It is expected that such organized social protection will lead to improvement of service quality.

De-institutionalization is a process to be realized through measures and programmes of the Ministry of Labour and Social Policy by opening daily centers for mentally disabled children, victims of family violence, children using drugs, homeless and street children, and other categories of socially excluded persons. De-institutionalization is also supported with active measures for support of biological families for care of children with special needs, shelter families and other forms of non-institutional protection. Ministry of Labour and Social Policy will, in particular, support the opening of small group homes for social protection at local or regional level. The process of de-institutionalization of social protection also covers the "Municipality Development Project", supported by the World Bank, enabling construction and equipping of daily centers for mentally disabled children and for elderly persons in the rural municipalities in the Republic of Macedonia.

Modifications and amendments to the Law on Social Protection have created conditions for inclusion of associations of citizens, typically Non Governmental Organizations (NGOs), and of physical persons to perform certain works in the field of social protection. The Registry of Association of Citizens has been established in the field of social protection. A public tender for awarding part of the funds has been announced for implementation of certain projects by registered NGOs. The procedure for including the private sector in providing certain social protection services is improved. Other legal

entities and physical persons are now authorised to perform certain activities in the field of social protection as a professional activity. Preconditions are also created for the private sector to participate in institutional and non-institutional protection.

Under the social protection reform, realization of the Social Protection Implementation Loan (SPIL Project) will continue. Regarding social protection, the objective is to improve efficiency and effectiveness of the social protection system by improving the administration through preparation of a single software application for all social work centers and mutual electronic connection.

The Law also regulates the inspection surveillance over the implementation of the laws and other relevant regulations so as to more efficiently and more suitably exercise the rights of the citizens in the field of social protection. Exercising the right to social pecuniary allowance for the citizens able to work and citizens without any source of income is means tested and from the point of view of the need for certain adjustments to the requirements and the procedure.

Short-term priorities in reform programme in the field of social protection are envisaged as follows:

- application of Laeken indicators by the State Statistics Office, and intensification of the social inclusion process undertaken on the basis of the results;
- preparation of National Programme on Family Violence;
- preparation of National Programme on De-institutionalization;
- preparation of protocols on the operations of the following ministries: MLSP, MIA, MJ, MH and NGOs to determine the procedures for the operations regarding protection of victims of family violence;
- establishment of a multi-sectoral coordinative body to include all necessary resources in the preparation and realization of comprehensive policies to tackle social exclusion and poverty;
- development of a programme for alternative forms of protection of the most vulnerable groups of citizens;
- preparation of new Law on Social Protection; and
- adoption of National Programme on Social Protection.

4.4. Agriculture

4.4.1. Agriculture Land Reform

Within the country, some 1.3 million ha (50%) of the total area of 2.57 million ha is classified as agricultural land⁸. Of this resource, 600 000 ha (51%) is classed as cultivable land and 700 000 ha as permanent pastures (mainly upland). Of the remaining, approximately one million ha is upland or mountainous forest land and about two percent is taken up by lakes, of which Lakes Ohrid, Prespa and Dojran are the largest. Individual farmers own or rent approximately 80% (around 463,00 ha) of all arable land; with the remaining 20% (196,841 ha) being owned by the state. The majority of pastureland is owned by the state and managed by public enterprises.

Being regarded as special resource of the Republic of Macedonia, land enjoys special protection under the Constitution as stipulated in Article 56, paragraph 1. The Constitution also provides the conditions under which one can be granted use rights on public assets, while one of the basic values of the Constitution is the protection of nature. Thus privatisation process failed to include state-owned agricultural land managed by public enterprises and agricultural companies, allowing the state to maintain the title to this agricultural land.

Effective use of agricultural land is hindered by significant land fragmentation that stems from earlier limitations on land use and ownership, inheritance practices, and a long history of informal land market activity⁹. Despite the imposition of “land maxima” of ownership, the 1986 Law on Land Use regulated the transfer of privately held agricultural land while attempting to prevent fragmentation and promote consolidation. This law was amended in 1991 to reduce some of the restrictions on transfers. It also prohibited the division of land parcels by way of sale, inheritance, or gift. The latest amendments to the Law for Agricultural Land from 1998 did not introduce any changes regarding marketing of state-owned land. Still, this category of the land cannot be subject to trading but is allowed to be managed as follows: *given with concession* to both domestic and foreign natural and legal entities for the period depending on the particular production¹⁰; *leased* to the domestic and foreign entities on short-term (for 5 years) and on long-term (from 5 to 40

⁸ Agricultural land includes cultivable land and pasture land. Cultivable land includes land available for arable crops, plus land planted to orchards, vineyards and improved pastures. Arable land includes land planted to annual crops (cereals, industrial, vegetable and fodder crops), plus nurseries and fallow land.

⁹ Until 1988, the land maximum owned by rural inhabitant was 10 hectares (or up to 20 ha in mountainous and hilly regions).

¹⁰ a) fodder and field production for the period of 20-30 years, horticulture and semi-annual plants production for 30-40 years, and wild animals and fish ponds for the period of 10-30 years. The procedure of concession is realized through public announcement with auction by the commission on the basis of the Government decision and organized and supervised by the MAFWE.

years) with public announcement, and *given usage of land free of charge* for categories of socially unsecured population¹¹ and *contracted for one year renting* of free agricultural land that is without owner.

Land acquisition in Macedonia is dominated by inheritance, though land is also secured through gift, purchase, lease, trade and the granting of use rights. The lack of land, as well as the lack of social security, keeps feeding the process of fragmentation¹² and diversification of production in small plots in order to offset market fluctuations and satisfy food needs. The activity of the land market has so far failed to contribute to consolidation. Consequently one of the key measures in the period from 2007 and onwards is to accelerate the process of improvement of the management of state owned land relating to the ownership of agricultural land owned by the state and to the creation of conditions for the functioning of the agricultural land market. During the said period, agricultural policy measures will be directed at the development of the agricultural land market, improvement of the management system of state owned agriculture land and pastures following the principle of transparency and efficiency, enlargement of fragmented agricultural land and improvement of the protection of agricultural land. In order to accomplish the mentioned measures in 2007, it will be necessary to start with amendments to the Agricultural Land Act. The process of harmonization of the National land cadastre records with the actual situation is a precondition for the implementation of the agricultural land policy. The development of a comprehensive, national real estate registration system is central to establishing agriculture land registry.

Activities in the forthcoming period will be directed at the strengthening of state administrative capacity to implement the system of disposition with agricultural land owned by the state, and in that regard activities have already begun on the establishment of an information system for disposition with agricultural land owned by the state. In addition, the positive experiences of the CARDS Project for Vineyard Monitoring and Management System piloting vineyard cadastre in Tikves wine region will continue as phase 2 in 2007 to cover the total vineyard area in the forthcoming period. This system is planned to be a sound base for development of agriculture land registry for the whole agriculture land area.

¹¹ As farmers without land, unemployed persons, users of social assistance, unemployed from the former state owned companies closed down as loss-makers, etc.

¹² There is a serious problem of fragmentation of agricultural land in Macedonia. According to the population census in 1994, around 178,000 agricultural households were cultivating approximately 460,000 ha, with the average size of the individual farm of 2.5-2.8 ha, with internal parcelling of 0.3-0.5 ha in fields and diversified production structure.

4.4.2. Rural Development and Agriculture Restructuring

According to the Population Census 2004, the rural population's share in the total population is 43% and occupies more than 86.7% of the territory of the Republic of Macedonia. At the moment, in the Republic of Macedonia, out of 1,700 settlements, 1,003 are classified in the group of economically underdeveloped regions (Less Developed Areas). Accordingly, "beneficial" position have 38 per cent of rural settlements located on plain terrains and additional 40 per cent located on low hills, while 22 per cent of the rural settlements are located on mountainous terrains. Almost 90 per cent of rural settlements have compact structure, while the remaining settlements, of which over 90 per cent are mountainous settlements, have non-compact structure. Favourable position in terms of close proximity to road connections enjoys 11 per cent of the rural settlements, while around 20 per cent have very unfavourable position in those terms. The infrastructure in the rural areas is in need of investments. Except for electricity, majority of the rural population does not have access to quality water supply and sewerage systems as well as public services (waste disposal, health care, education and culture). The percentage of the registered rural unemployment in the Employment Agency of the R. Macedonia by January 31, 2006 is 119,342 or 33.2% of the total unemployment.

The development of rural areas has a close relationship with the development of agriculture and forestry. Agriculture has traditionally been one of the most important sectors in the national economy and a main source of income for a large portion of the rural population (around 40% of the total population lives in the rural area). The agriculture sector plays a key role in the successful implementation of structural reforms in the country, due to its social role in providing food and stable income for approximately 20% of the working force in the country. Without reducing or losing its important role, the share of the agriculture sector in the overall GDP (nominal and real) has remained relatively stable (of around 10%), contrary to the experience of most economies in transition. Still the production tends to be rather volatile and dependent on the weather conditions. The importance of the sector increases since 50% of the population lives in the rural area and around 20% of the total working force is engaged in agriculture (full time and part time). That is also because rural areas with a higher share of the population depending on agriculture income are typically and chronically less developed regions and more often with natural disadvantage for productive and efficient performance of the agriculture activity and, more importantly, have an insufficiently diversified economic infrastructure, and the related lack of quality jobs.

Since the structure of Macedonian farms are predominantly small individual self-sufficient farms on a low level of technological development forces employment in sectors other than agriculture. A high percentage of farms are run on a part-time basis. The inconsistent agriculture policy and the restructuring of the national economy in the period of transition, boosted the risk-aversion attitude in farm business planning which resulted in diversified cropping patterns on small plots within a small farm size overall. The small size of the farms and scattered plots and the immobility of productive factors are slowing down the process of accession to the common-market conditions in the EU.

The countryside is often exposed to significant negative demographic changes such as a growing share of the older population and a growing rate of non-employed people, especially the young generation¹³. Marginal and remote rural areas in the last few decades faced problems of dramatic rural-urban migration and the natural reforestation of agricultural land. The loss of the active population due to the migration results in devastated village, whereby cultural and natural heritage as important assets in Macedonia's identity are destroyed.

The natural resources for performing agriculture activities are characterized more as diversified than abundance. Although relatively modest, resources are not a precluding factor for agriculture development. Major constraints appear in land fragmentation and diversified production pattern on small plots and deteriorated irrigation and drainage systems which affect the possibility of introduction of income earning crops and limit the opportunities of organising the production in efficient and productive manner.

The technology production systems are not very modernized, the use of fertilizers, certified seeds and improved varieties is also relatively low and the insufficient access to irrigation are the factors reducing yields and discouraging production of high-value crops. Macedonia's irrigation schemes have been in decline in the transition period and by 2004 the total area under irrigation constituted only 18 percent of the once-irrigated area. As a general rule, private farms have higher productivity and yield levels than larger agricultural enterprises, however a big impediment to further increases in the productivity of small farms is fragmentation of private farms and poorly-functioning land and leasing markets.

13

Considering demographic and socio-economic development, under the direct influence of the de-agrarisation and de-ruralisation processes, the number and the size of the rural settlements are exposed to constant changes. The development of rural settlements and regions in Macedonia has been carried out in terms of dominant influence of the urban centres, especially the big cities. By the same token, the changes which occurred since the 1980s' reflect an increase of the number of settlements above 2,000 and of those below 100 inhabitants, while the number of settlements with inhabitants between 100 and 2.000 has decreased. In most cases these changes actually reflect a polarization of the rural population, and they stand as typical under the influence of the socio-economic changes (industrialization and urbanization) which have occurred – flourishing villages (those near bigger cities) grow in demographic, infrastructural and economic terms, while poor ones depopulate and deprive; rural population (in general) decreases, as does the size of agricultural land. In future additional significant demographic and socio-economic changes of the rural settlements can be expected (National Development Plan 2006).

Land policy is one of the priorities of the agricultural policy of Macedonia, the first step of which will be to provide a reliable analysis of land ownership.

It should be noted that the agricultural production was performed with bad practices (long-lasting tradition of mono-cultural production, lots of non-forested areas and inappropriate intensification of the agriculture) that have to a certain extent polluted the soil, the waters, the air, the biodiversity. Some evidence of this damaging process exists in the drying of the soil, pollution of lakes, and loss of local crop sorts. Another aspect of loss of cultivable land comes from its use for other, non-agricultural purposes. Some 18.6 per cent have been lost because of this reason since the 1960s, which also had its negative impact on the environment. This situation positions the integration of the agriculture with the environment protection and incorporation of the ecological component in the creation of the agricultural policy as one of the crucial goals of the agricultural development in the future.

In view of the unfavourable structure of agricultural farms in the Republic of Macedonia (large number of small family farms with diversified production pattern), the volatility of production, lack of investments in technological improvement and increased trade liberalisation, it is the goal of the agricultural policy to accelerate structural changes focusing on strengthening the competitiveness of the agriculture products and improving the farm income with respect to the optimal and balanced use of the natural resources in the frame of sustainable environmental development. The main “cells” identified for agriculture development are the individual farm holdings, food processing capacities and building the agriculture markets. The implementation is through the required structural policy measures - land policy, rural development, enlargement of family farms, increase of the competitiveness of agricultural farms, strengthening the agriculture markets, development of the food processing plants and through enhancement of the provision of public services in agriculture (research, veterinary and phytosanitary services, advisory etc).

4.4.2.1. Agriculture and Rural Development Policies

In the process of EU integration and following the trends of the EU CAP where the second pillar gains increasing prominence, the rural development is a major effort of the Republic of Macedonia both in institutional and policy terms.

However, the process of adaptation is in initial phase and there is currently no overall strategy or coherent rural development policy and until 2006 there was no institution with overall responsibility for rural development policy. In 2006 MAFWE has been appointed by

the Government as a Managing Authority for Rural Development (Official Gazette No 5/2006) and in coordination with other relevant stakeholders in the country should develop policy and necessary institutions to assure sustainable development of rural areas. In accordance with this Decision, it has the obligation to establish an Inter-institutional body for rural development, which will guide the preparation of the Rural Development Plan. In addition, MAFWE has been appointed to program the measures and activities, to monitor and evaluate the RD program implementation, to coordinate the related activities in terms of policies carried by various institutions, to ensure inclusion of all relevant institutions and parties and to supervise the financial functions which apply to the rural development. The managing institution will be act as responsible for the entire cooperation with EC in the area managing the agriculture and the rural development.

The rural development policy in Macedonia is not yet articulated within a single comprehensive law, but certain aspects are enclosed in the Law on Stimulation of the Development of Less Developed Areas, in the Law on Self-government and the Law on Spatial and Urban Planning. The Law on Stimulation of the Development of Less Developed Areas regulates the development issues of those areas which, under the criteria set by the Law, have a status of less developed, which are mostly rural centres, mountainous areas and areas close to borders. In order to close the development gap and secure their balanced and sustainable economic growth a special system has been designed. By the measures of this policy, the development is supported through support and building of technical and non-business infrastructure, support to agriculture (especially sheep-breeding characteristic for the hilly-mountainous rural areas), and also support to industrial SMEs and some services. The measures are implemented through the Bureau for less developed areas, while the eligible areas are set by a Government decision. In this respect, the Decision of eligibility for the 2004 - 2007 periods encompasses a total number of 1,092 settlements, out of which 500 in mountainous areas, 319 in mostly deprived areas and 116 settlements established as rural centres. The total area of the less developed regions covers 64 per cent of the total area of the country, and is a living place for 21 per cent of the total population. The Law stipulates that the funds for development support of less developed areas are generated from the central budget, in the amount of 1 per cent of the GDP p.a. Eligible areas of development support include: (i) support to development industrial, agricultural and tourist projects; (ii) subsidies for new employment in small industrial capacities and development of human resources in them; (iii) building of water supply systems; (iv) electrification of rural settlements; (v) building of road network; (vi)

support to SMEs; technical support to energy projects; (vii) employment of disabled people; (viii) support to increase employment (through subsidising employment contributions); (ix) re-qualification and training of unemployed; etc.

Besides these funds, other line ministries (for Agriculture, Economy, Transport), within the scope of their activities, also undertake measures for development support to rural areas.

Of the total MAFWE budget, a high proportion of operational expenditure appears to be allocated to rural development measures. Funded activities include forestation and revitalisation of rural villages although these two measures account for only a small proportion of total support. Maintenance and renovation of irrigation systems currently represents a major part of rural development activity, and receives significant state funding. Existing rural development measures consist, in some cases, of activities which are not a major part of EU-funded rural development programmes (e.g. provision of rural credit, micro-credit facilities, etc.) but which are more important in candidate countries. There are some valuable elements such as training in business management, which is provided to potential beneficiaries of rural credits for farmers (through IFAD lending program), and provision of advisory and extension services. There appears to be little agro-environment activity, although some support for organic farming is provided in 2005.

The institutional capacity for inducement of rural development within the Ministry of Agriculture, Forestry and Water Economy is in its initial stage. In January 2004, a Department for Support of Agriculture and Rural Development has been established involving a Unit for Rural Development, which task is to start the process of overcoming problems of the rural population by defining and implementing the rural development policy measures. The establishment and accreditation of the IPARD (Paying Agency) is a major challenge to be addressed as priority in the period 2007-2008. The overall objective is to put in place systems of support for facilitating rural development measures according to CAP and to build administrative systems capable to meet EU pre-accession IPA funds. To that end, the 2006 activities regarding introduction of integrated rural development approach accompanied with setting up of optimal institutional capacity are focused to:

- Introduction of pilot RD measures covering integrally RD-like measures funded by MAFWE and for the first time be introduced as separate programme in the MAFWE 2006 budget,
- Establishing Inter-Institutional Co-ordination body for Strategy for Rural Development and Rural Development Programme Monitoring,
- Developing National Agriculture and Rural Development Strategy (NARDS) and

National Agriculture and Rural Development Plan (NARDP) & adoption as well, and

- Development of IPARD Plan
- Strengthen existing RD capacity to gradual achieving of level capable and accredited to manage the EU pre-accession funds (IPARD) with national co-financing by 2008.

The wider objective of the rural development policy is aimed towards reverting the process of rural urban migration promoting balanced regional economic development. The areas targeted are diversification of the economic activities, improvement of irrigation and water management, forestation and management of forests, building transport infrastructure in terms of better access to urban centres, accessibility to quality health care and education, public utilities in terms of promoting rural tourism.

4.4.2.2. Strengthening Agriculture Institutional Capacities

To support these challenges for structural adjustment of the agriculture sector, institutional and administrative capacities will be strengthened and the institutional framework for the implementation of agricultural policy measures in accordance with EU requirements will be developed to be capable for policy design, evaluation and monitoring of the reforms in line with the trends of the Common Agricultural Policy and gradual adjustment to the mechanisms of structural, market-pricing and trading policy of the EU. These actions will be followed with appropriate legislative adjustments and optimal capacities for policy enforcement.

A comprehensive National Strategy for Agriculture and Rural Development will be prepared beginning of 2007 and enrolled to the Government for adoption. This document is aimed to provide sound basis and guidelines for future agriculture and rural development policy and institutional development, merging the national priorities within the EU integration agenda.

The Agriculture Census Law has been amended in 2006 and the actual Agriculture Census will be performed in June 2007. There has been no agricultural census since 1968 and the need to complete an agricultural census is among the priorities in the agriculture sector. This is largely needed for enhancing planning of the EU accession. Establishment of Single Farm Register will be a follow up of the Agriculture Census results upgraded by integration of different registers/databases on the basis of standardized procedures and methodologies of managing, access and exchange of information supported by appropriate software and hardware facilities. An appropriate IT Strategy will be developed

in 2007 for the purpose of creating and Integrated Agriculture Information System in the period 2007-2008. In accordance to these efforts the upgrade of the existing Farm Monitoring System will take place to be upgraded to National Farm Accounting Data Network “Macedonian FADN” supported by a Law on Farm Accounting taking into consideration the features of agricultural activity as specific economic activity.

Concerning the increase of the IPARD absorption capacity, establishment of IPARD Agency will be in focus intensively in 2007 and 2008. Employment, capacity building, IT systems and appropriate training will be performed in the mentioned period. The activities will be supported by grants mainly through the CARDS Program, other donors and MAFWE Budget.

In terms of strengthening the agriculture services, the focus in the forthcoming period 2007-2009 will be on reorganisation of the veterinary service and inspection in line with the EU and will focus on permanent improvement of the system of controlling animal health, improvement of the system of veterinary-public health, introduction and implementation of efficient and sustainable control system of animal food i.e. its production and distribution, Introduction and implementation of efficient and sustainable system of production adjustment and control, traffic and utilization of animal feed and animal diet, creating laboratory for research on infectious animal disease, animal food, appropriateness of the animal feed up to accreditation as reference laboratory, Introduction and implementation of efficient and sustainable control system of veterinary – medical appliances, complete implementation of efficient and sustainable animal identification and registration system supported by Animal I&R CARDS Project phase 3, carrying out a system for harmless animal waste removal to protect the environment from pollution, preparation of animal welfare legislation, introduction and implementation of efficient and sustainable traceability system, control and prevention of infectious animal disease and animal health protection through carrying out preventive vaccinations and eradication/control programmes.

In the phytosanitary area, the already commenced activities of reorganizing the existing service for plant protection and establishing of the State Phytosanitary Laboratory (supported by CARDS Project “National Integrated Phytosanitary System”), which includes administration, inspection and diagnostics, will continue. The existing Phytosanitary Directorate within the Ministry of Agriculture, Forestry and Water Economy will be reorganized by strengthening the department in charge of plant protection products and residues, which will also be responsible for future communication with the EC relating to issues of agricultural pesticides and residues, and another department that will be

responsible for plant health issues and communication with the EC regarding the health of plants on the single market of the EU. Specific actions will be taken in the period 2007-2009 in terms of establishing traceability system over the whole territory to prevent occurrence, spreading and reduction of damages done by harmful plant organisms, Regulating the traffic and use of fertilizers by passing new national legislation and upgrading the State Phytosanitary laboratory and raising it up to a level of referent laboratory for plant health protection.

With the aim of boosting the efficiency of work of the agricultural inspection, inspection structures will be re-organized and strengthened in order to achieve a higher degree of protection of legislation and harmonization with EU standards. In specific the agriculture inspection will be strengthen wit human capacity with appropriate training and equipment to be capable to support the implementation of the IPARD Plan.

Reorganisation and strengthening of the National Extension Agency will continue as a priority on the agriculture policy agenda. Passing effective plan for efficient internal reorganization of Nation Extension Agency (NEA) by separating the managing and advisory function Reaching agreement regarding the type and quality of services which are to be carried out by NEA will take place in 2007 including a preparation of training plan on increasing the advisors' preparedness to carry out the agreed action directions. Setting up educational and certifying system for the persons responsible for advisory activities and passing new Law on Advisory Services will be taken in the period 2008-2009.

In addition, an upgrade in ancillary services will take place in order to bring Macedonian legislation in line with the EU requirements (Agriculture Institute, Livestock Institute, Institute for Southern crops, and Institute for Tobacco crops). A multi-annual agriculture research programme in cooperation with the five Agriculture Public Scientific Institutions (PSI) will be prepared for the period 2007-2009 in line with the strategic directions of agricultural development. Accordingly a National Committee on creating and transfer of knowledge will be established in 2008. In parallel constructing of the institutional capacity of informal education and training in the field of agriculture will be supported at the Agricultural Education Centre (AEC) within the Agricultural Institute – Skopje to represent a link between the research centres and the advisory services and farmers directly.

4.5. Transport and communications

4.5.1. Road transport

The priorities for development of the road and railway infrastructure in Republic of Macedonia are the transnational axes: Corridor 10, the North-South axis that connects the country with the Republic of Serbia to the North and the Republic of Greece to the South; and Corridor 8, the East-West axis that connects the country with Republic of Bulgaria and Republic of Albania.

Infrastructural development in the Republic of Macedonia has achieved significant results in the past period, but the level of progress is still insufficient to fulfill current requirements of the society and economy for transfer of passengers and goods. Construction and completion of transport axes will lead to achieving greater economic results.

The transfer of passengers and goods is regulated by the Law on Road Transport. The provisions of the law are compatible with the European legislation allowing transport companies equal participation on the transport market.

Preparation of the Law on Carriage of Dangerous Goods is underway and it will be harmonized with the European Agreement for International Transport of Dangerous Goods, in particular with the part concerning safety requirements. In order to implement the provisions of the laws, support for strengthening the education of the institutions operating in this area is required.

In order to ensure safe and efficient regulation of the transport activities concerning sharing evidence, access and exchange of data with all bodies and institutions that operate in the field of transport are designed. The issues related to road traffic safety are regulated with the Law on Road Transport Safety that is under competency of the Ministry of Interior.

The future plan for development of the transport infrastructure involves priority projects, identified by the High Level Group for Transport as well as the initiatives of South East Europe through SEETO and will be defined in the five year rolling plan 2007-2011. The following priority projects for development of Road Infrastructure are identified in the Priority List 1 as High Level:

- Construction of highway Kumanovo-Tabanovce;
- Construction of highway Demir Kapija-Udovo-Smokvica; and
- Construction of highway border with R.Albania-Skopje-border with R.Bulgaria.

The management of roads is performed in accordance with the Law on Public Roads that

regulates rights, obligations as well as the relationship between Fund for National and Regional Roads (FNRR) and PE Makedonijapat. With regards to the planning, financing, construction, reconstruction, maintenance and protection of national and regional roads in Republic of Macedonia, FNRR performs its duties on the basis of Annual Programme. The Fund is financed by excises on gasoline revenues from the central budget, own revenues including remuneration for the use of roads by foreign vehicles, car registration duties, tolls charged on highway sections, loans of IFIs and an insignificant amount of donations.

The Annual plans are drafted on the basis of the funds of the FNRR, comprising further investments in the road sector, construction of new sections and maintenance in accordance with the medium and long term priorities identified in the Public Investment Programme (PIP) as a framework for the investments in the road sector in Republic of Macedonia.

From these funds many investments in the road sector in Republic of Macedonia have been financed and will continue to be implemented in accordance with the Public Investment Programme of 2007-2009:

Investments in the Corridors VIII and X financed by IFI (EIB, EBRD) and funds from FNRR:

Bypass Skopje Phase I (K-8);

Bypass Skopje Phase II (K-8);

Enforcement of bridges and rehabilitation of the part of E-75 (K-10), financed by NATO;

Investments from own funds for the national and regional road network in Republic of Macedonia:

- Radovis-Strumica;
- Maintenance of the national and regional road network in Republic of Macedonia;

PE Makedonijapat is a public enterprise that in accordance with the Law on Public Roads and is responsible for maintenance of the national and regional road network in Republic of Macedonia. For its duties, the public enterprise signs Annual Agreement with the FNRR.

A study for restructuring the road sector financed by EBRD has been prepared, elaborating the possibility for introduction of competition for road maintenance

Under CARDS 2006 technical assistance is provided for elaboration of Study for Restructuring the Road Sector in Republic of Macedonia ,Road Investment Plan and

National Transport Strategy for Roads. The studies will explore alternatives in order to increase the effectiveness and efficiency of the road sector including restructuring administrative and management arrangements for the sector, introducing competition, development of appropriate investment and maintenance plans.

In the upcoming 2006-2009 period, there will be important activities for institutional capacity building of the road sector institutions, as well as enhancing physical and human resources in order to reach higher efficiency in the road sector. These activities will be undertaken in accordance with the new Law on public roads that will be harmonized with the acquis.

It is noteworthy to mention that the Government of Republic of Macedonia undertakes preparatory activities for involvement of the private sector in the financing and management of the public services and physical infrastructure in order to increase the financial viability, improve the quality of the public services, develop infrastructure and introduce the business principles into the public sector. This will be done through cooperation between the public and private sector Public Private Partnership (PPP) for the infrastructure projects especially in the road sector.

4.5.2. Rail transport

The Republic of Macedonia undertook activities for restructuring of PE Macedonian Railways. The Action Plan for restructuring of PE Macedonian Railways contains the following basic principles:

Liberalization of the market for railway services by allowing access to railway infrastructure by the national and foreign transporters under equal conditions;

Modernization of the railway infrastructure as one of the conditions for attaining the European standards and connection to the integrated railway network of Europe; and

Promotion of the advantages of the railway transport over other forms of transport.

In order to implement restructuring of PE Macedonian Railways, the Parliament of Republic of Macedonia adopted the following laws: the

Law on transformation of the PE Macedonian Railways that divides the enterprise into two new entities for infrastructure and transport; and

the Law on Railways that regulates organization of the railway system, manner and conditions for performance of the railway transport, the status of the railway infrastructure

and conditions for access to the railway infrastructure, performance of services that are of a public interest and management of the railway transport.

In accordance with the Law on Railways, the financing of the construction, reconstruction, modernization, repair and the maintenance of the railway infrastructure is regulated with a dynamic National program for railway infrastructure that is adopted for the period of five years. The National program is adopted by the Parliament of Republic of Macedonia acting on a proposal by the Government of Republic of Macedonia after the adoption of the fiscal strategy of Republic of Macedonia. Based on the adopted National Programme, the Annual plan for construction, reconstruction, modernization, repair and maintenance of the railway infrastructure is prepared.

Till the end of 2006 within the Ministry of Transport and Communication a new Railway Sector will be established. The new Sector will act as a regulatory body, until Republic of Macedonia become a member country to the European Union, in the same time will deal with issuing the licences and safety certificates to the railway undertakings, licences and safety authorization to the railway infrastructure, according to the European Union's Directives, and will create transport and infrastructure policy in the railway sector. Also, during the first half of 2007, division of the two enterprises should be completed in accordance with the Law on Transformation of the PE Macedonian Railways. The transformation should be made by restructuring of PE Macedonian Railways-Skopje into two new entities: Public Enterprise for Railway Infrastructure "Macedonian Railways "Skopje and Joint Stock Company for Transport "Macedonian Railway Transport" JSC Skopje.

In order to complete the legislation for restructuring of the railway system it is necessary to adopt the Law on Railway Transport Safety, Law on Railway Transportation as well as many other bylaws that are necessary for successful implementation of the laws.

Development of the railway infrastructure, in the future, will be focused on realization of projects that belong to the Pan European railway corridors passing through the territory of Republic of Macedonia:

- Corridor 10: Tabanovci-Skopje-Gevgelija;
- Rehabilitation of the railway line Tabanovci- Gevgelija;
- Upgrading safety and telecommunications devices on Tabanovci- Gevgelija;
- Rehabilitation of the railway line Veles-Kremenica (Corridor 10);

- For Corridor 8: Border with Republic of Bulgaria-Skopje-Struga-Border with Republic of Albania Granica so R. Bulgaria-Skopje- Struga-Border with R. Albania:
- Completing construction of Kumanovo-Beljakovce-Border with Republic of Bulgaria
- Construction of railway line Kicevo-Struga-Border so R. Albanija; and
- Rehabilitation of the railway line Skopje-Kicevo.

So far, the projects were funded by the state budget, foreign donations, credits and co-financing. According to the EU recommendations, financing will be made by Public Private Partnerships.

4.5.3. Air transport

The Public Enterprise for Airport Services “Makedonija Skopje”, established by the Government of Republic of Macedonia, manages the Skopje and Ohrid airports. There is an ongoing procedure for transformation of the Public Enterprise into a stockholding company with state ownership.

On the basis of the two completed studies, the future development and modernization is planned to be based on the concessions model, by signing a Build Operate and Transfer Contract for Skopje and concessions for Ohrid with a private operator.

Enlargement of the capacities of the Skopje Airport is foreseen, particularly in the terminal building from the current 4000 m² into 20.000m² in order to reach the international standards for passenger access, increase the level of services, as well as, create opportunities for development of commercial activities. It is projected that the transfer of passengers will reach the number of 1.3 million passengers by 2030. The cost of the modernization is estimated in the amount between 40 and 50 million EUR that will be subject of a concession agreement.

In 2002, the Government of Republic of Macedonia concluded the Loan Agreement with EBRD for the “Civil Aviation Upgrading Project and Rehabilitation of Ohrid Airport” in the amount of 11.2 million EUR to be implemented by the Civil Aviation Administration. The Loan was intended to support the acquisition of a series of surveillance and air navigation equipment, the reconstruction of the runway at Ohrid Airport and the institutional strengthening of the civil aviation on the territory of RM. The purpose of the Project is to assist the RM in upgrading its civil aviation infrastructure in order to improve air traffic safety and comply with the international requirements set forth by ICAO and Eurocontrol.

The Civil Aviation Administration of RM will keep working on fulfilling the short term key

priorities of the European Partnership for the Republic of Macedonia in respect to further harmonisation of the legislation with the EU legislation, improving the functioning of the internal market by promoting safe, efficient, environmentally sound and user-friendly air transport services.

In accordance with the Aviation Act from 2006, CAA will perform regulatory functions and the Joint Stock Company under state ownership will provide air transport service.

The CAA is an independent body of the state administration with capacity of legal entity that will determine and implement the national strategy for the development of civil aviation. It will perform supervision of the implementation, prepare the regulation in accordance with the international institutions EU, ICAO, ECAC, EUROCONTROL, JAA/EASA, carry out administrative procedures in the field of aviation, perform registration of aircraft, airports, airfields and keep records of landing strips in order to maintain safe and regular performance of the civil aviation.

The Joint Stock Company with Government as the sole shareholder will provide air navigation services and flight control inside the limits of separate airspace blocks to ensure safe, regular and efficient air service operation. Air navigation services shall be provided exclusively by the services provider designated by this Act.

Accordingly, the administrative capacity will be significantly strengthened, and the division of tasks between the different organizations with responsibilities in the field of civil aviation will be better defined.

The Republic of Macedonia is still a candidate member of Joint Aviation Authorities (JAA). So far, JAR 145 and JAR FCL1 are already incorporated into our legislation. All three JAR regulations are core preconditions for full membership status of RM into JAA. Therefore, it is expected that after the JAAs' Fact Finding Mission, the RM will be approved for membership.. The new Aviation Act of RM provides the possibility of implementing all other JAA's safety requirements by direct reference to the original JAA documents (JAR's). With this possibility, the process of all other JAR's legislation implementation will be expedited.

In terms of the European Commission Initiative for establishment of European Common Aviation Area, the Republic of Macedonia decided to become a part of this project and taken all the necessary steps. The benefits of this wide-ranging agreement can be summarized by ensuring a common aviation market. It is worth mentioning that the basis for the Republic of Macedonia to become an associated state to the ECAA Agreement lies

in the provisions of Article 57 of the Stabilization and Association Agreement between the EU and the Republic of Macedonia. Therefore, after completing the related activities in June 2006, Republic of Macedonia signed the agreement in Luxembourg. The Regulations of Annex I to the ECAA Agreement shall become a part of the internal order of the Republic of Macedonia, and the legal basis for their implementation is provided by the new Aviation Act of the Republic of Macedonia. For this multilateral agreement the Government of Republic of Macedonia decided not to apply interim implementation from the day of signing but after the ratification. Concerning the provision of regulation of air services tariffs, the Republic of Macedonia does not have this regulation, however it is contained in the bilateral agreements on scheduled air services between the Republic of Macedonia and other countries.

Also, the CAA is following the European trend with respect to liberalization of the air traffic tariffs, and in practice the overall policy regarding this issue is liberal.

As for the charter flights tariffs, the Republic of Macedonia policy is that this kind of air traffic is considered as an agreement between the airline and the customer. The conditions of application nor the fares can be covered by law.

In accordance with the imminent Law on Contractual and Basic Material Legal Relations in Aviation of the Republic of Macedonia, the Council Regulation 2409/92 EEC of 23 July 1992 on Fares and Rates for Air Services shall be implemented.

4.5.4. Telecommunications and postal services

Electronic communications

The primary goal in the field of electronic communications in accordance with EU legislation is to diminish the obstacles for efficient functioning of market of telecommunications services and networks, promotion of competition and protection of the interests of users in the sector including universal access of services. The new Law on electronic communications that is effective from March 2005 realises the above mentioned obligations because the law incorporated the regulatory package of the EU for electronic communications of 2002 and established the basic conditions for liberalization and creating a competitive market for electronic communications.

Most of the bylaws for implementation of the law were adopted in 2005 and 2006 by the Agency for Electronic Communications and the remaining should be adopted by the end of the year. Establishment of a new organisational structure for the Agency, strengthening of

the capacity and independence are conditions that will allow complete implementation of the liberalisation policy and by that introduction of information society. The law for electronic communications foresees harmonisation of the existing concession contracts with the provisions of the Law on Electronic Communications. Harmonisation of concession contracts is of significance for realization of the liberalization process.

Ensuring universal service is an efficient instrument for promotion of social, economic and cultural cohesion that is of crucial importance to the Republic of Macedonia in the context of European integration process. The Republic of Macedonia through its policy should provide the citizens right to access of the public communications networks and services with acceptable costs. The Interim Strategy for Universal Service was adopted in June 2006 and will be part of the National Strategy for development in the field of electronic communications and information technologies, Broadband Strategy.

The Republic of Macedonia has excellent telecommunications infrastructure in the basic backbone or network, as well as in the access for users, last mile access. The liberalisation will allow other operators to use the network capacities and advantages of this infrastructure which is a basis for introducing the information society to the overall territory of Republic of Macedonia both urban and rural regions.

The preparation of the Broadband Strategy is included in the plans and must be prepared by June 2007. This Strategy will be complementary to the already prepared and adopted National Strategy for Information Society (NSIO). These two strategies will strongly support balanced economic process that will lead to establishment of Information Society in Republic of Macedonia, from the aspect of demand as well as supply. Broadband as technology service will be the basis for realization of other advanced services. The Strategy will foresee all measures that need to be undertaken for introducing broadband as a technological basis for information society. The Broadband Strategy will suggest measures for realisation of the electronic communications network in Republic of Macedonia (iNetwork) in the first phase, in accordance with NSIO, and will connect the governmental and public institutions and local communities in the future phases. The concept for this network will have to be aligned with similar projects that are developing especially those that already have reached certain level of development, i.e. MARNET.

The Strategy will also define the funding. Partnerships between the public and private sector are eligible to use EU funds for structural reforms. It specifies the involvement of municipalities as important participants in the information society, opening the possibilities for local communities to enter the market of electronic communications under market

oriented and commercial conditions. This will ensure decentralisation and balanced economic growth in the overall territory of Republic of Macedonia.

The involvement of small and medium size enterprises in the information society is of significant strategic importance in Republic of Macedonia. The Broadband Strategy should foresee measures for their better inclusion.

The Post

Until 1996, postal activities in the Republic of Macedonia were performed by the PTT, an enterprise for carrying out telecommunications and postal services. At the end of 1996, the Government of the Republic of Macedonia adopted a decision for separation of the Public Enterprise for PTT traffic “Makedonija” – Skopje into a Public Enterprise for Postal Traffic “Makedonska posta” and a Public Enterprise for Telecommunications “Makedonski telekomunikacii”. The Public Enterprise for Postal Traffic “Makedonska posta” was registered as a special legal entity for performing of postal services.

The performing of postal activities is regulated by the Law on Postal Services adopted in July 2002. The Law on Postal Services regulates the conditions and methods for performing postal services in the national and international postal traffic, the provision of access for each user to the universal postal service on the entire territory of the Republic of Macedonia, the introduction of competition in the performing of postal services, the relations between the users and the providers of postal services, the issuance of postal stamps and postal bonds, as well as other issues regarding the provision of postal services. The Law on Postal Services was prepared on the basis of Directive 97/67/EC of the European Parliament and of the Council which refers to the joint rules for development of the national market for postal services of the Community and to the improvement of the quality of the service. Directive 2002/39/EC has not been implemented in the Law.

The Law on Postal Services is harmonised with the goals and requirements of the EU for introduction of a gradual liberalization of the market for postal services. In a competitive postal market, the performance of postal services as regards the non-reserved postal services is regulated with the Law, through issuance of concession to other postal operators, which on the postal market are competitors to the PE “Makedonska posta”, the incumbent operator.

The effective competition in the postal sector exists in the part relating to provision of courier services. The Law permits courier services to be performed by national and foreign legal and natural entities as postal operators, based on a license issued by the Minister for Transport and Communications. The license is issued for a period of five years with the

right to extension. There are several operators in the Republic of Macedonia that provide courier services, which are international reputable companies such as DHL, UPS, FedEx, TNT, and others.

Pursuant to the Law on Postal Services, the universal postal service is performed by the incumbent postal operator, PE "Makedonska posta". The universal postal service should be available to all users throughout the territory of the Republic of Macedonia under equal conditions, and it should provide confidentiality and security in the delivery of postal items.

The Law on Postal Services will be adopted in 2007 and will transpose the new Directive 2002/39/EC. The weight of reserved postal service items will be reduced from the current 350 grams. Furthermore, the new Law will establish a special regulatory body; the functions of that body will be carried out by the Ministry of Transport and Communications. The Ministry of Transport and Communications implements the policy of the Government of the Republic of Macedonia in the field of national and international traffic. It also proposes to the Government measures for gradual and controlled liberalization of the postal services; monitors and analyses all aspects of the universal postal service and the other postal services; and proposes undertaking of appropriate measures; controls the use of approved tariffs for the universal postal service; supervises and controls the enforcement of this Law, regulations or international agreements; determines the strategy for postal services development, including steps to introduction competition; as well as other issues determined with the Law on Postal Services.

For the purposes of liberalization of the postal sector, the existing Law on Postal Services foresees a possibility for restructuring of the Public Enterprise for Postal Traffic "Makedonska posta" into a Shareholding Company with state ownership, pursuant to the Law on Public Enterprises, the Company Law. That restructuring process of the Public Enterprise for Postal Traffic "Makedonska posta" into a Shareholding Company with state ownership is currently ongoing, whereas the Government of the Republic of Macedonia will be the sole shareholder.

4.6. Administrative reforms

Introduction

Public administration reform began in May 1999 with the Government's adoption of the Strategy for Public Administration Reform. This document defined the following reform principles: rule of law; transparency; competency; stability; accountability; predictability;

equal treatment; efficiency; and ethical behavior. The Strategy identified the following areas of public administration reform (PAR): the civil service system; the state administration system; the public administration system in a broader sense; the system of local self government; the role of state; the citizen's rights; public finance; and the IT system.

The goals formulated in the Strategy for Public Administration Reform of 1999 are valid and fully compatible with the goals of the European Integration process. Additional priorities were imposed by the implementation of the Constitutional provisions that arise from the Framework Agreement with respect to the equitable representation of the members of the communities and with the decentralisation process. The current decentralisation process requires major changes in the manner in which many public services will be provided, with a considerable transfer of competences from central to local government in the areas of education, social protection and local economic development.

The European integration of Republic of Macedonia as one of the strategic priorities of the Government, presupposes development of public administration capable to carry the burden of the overall EU integration process. The key objectives of PAR within the EU integration process are: adjustment and development the public administration in the RM for the continuous process of transposition and implementation of the *acquis*; development of the public administration for designing and implementing the overall reforms in the economic, political and legal system; and building institutions necessary for the free movement of goods, capital, services and people in the EU.

4.6.1 Institutional and material conditions for accomplishing the public administration reform

The Law on Organization and Operation of the State Administrative Bodies regulates the organizational structure and the competencies of the state administrative bodies. A total of 14 ministries with 45 administrative bodies within ministries are established according to the Law, 13 of which have the capacity of a legal entity, 5 are autonomous state administrative bodies and 3 are administrative organizations.

The Law on the Government of the Republic of Macedonia regulates the organizational structure and the manner in which the functions and competencies of the Government of the Republic of Macedonia are carried out. Subsequent to the amendments of the Law in 2003, the competencies of the Legislative Secretariat were additionally specified. The duties of the Legislative Secretariat include ensuring consistency of the legal system, as

well as providing expert opinions for harmonising proposed laws and other regulations with the Constitution of the Republic of Macedonia, with the legislation of the EU and other international agreements that have been ratified in accordance with the Constitution of the Republic of Macedonia. At the request of the Ministry of Local Self-government, it provides expert opinions in concurrence with municipal regulations. According to the amendments of the Law on the Government in 2005, the position and functioning of the General Secretariat as an expert service of the Government of the Republic of Macedonia has changed. The Secretariat for European Affairs was established and is responsible for coordination of the issues related to European integration; as an autonomous service of the Government presided by the Deputy President of the Government responsible for European affairs.

During the preceding period, the Government has adopted a number of acts¹⁴ with the aim to create legal assumptions, institutional and material conditions for implementation of the public administration reform.

In order to establish a legal framework for the functioning of the new civil service system and to realise the objectives of the state administration reform, the Law on Civil Servants was adopted in July 2000. The Law introduced the term civil servant, and regulated the status, rights, duties and responsibilities of civil servants, as well as the salary and salary contributions system. The Law also established the competencies of the Civil Servants Agency, an autonomous state body accountable to the Assembly of the Republic of Macedonia. The Law set the strategic principles for professional, efficient, accountable, politically neutral and service oriented civil service. Several amendments to the Civil Servants Law were made in May 2006 caused by the adoption of the Electoral Code. Civil servants were required to participate in the election bodies as a guarantee for fair, democratic and professional elections. Amendments to the Law in September 2005 strengthened the consistent implementation of the established principles and standards regarding the selection and employment; the accountability and assessment of civil servants; the alleviation of horizontal mobility; the collection of data on civil servants, processing and entering the data in the Civil Servants Register; and the diminishment of discretionary rights of the officials. Moreover, the amendments and supplements to the Law

¹⁴ Rulebook of the Government; Guidelines for identification of categories of questions in the laws, which can be transferred from the Government to the ministries and other state administrative bodies; Guidelines for cooperation of the state administrative bodies, public institutions and other state entities which operate with state capital with the State Commission for Prevention of Corruption; Annual Decisions on strategic priorities of the Government of Republic of Macedonia; Decision on Methodology on strategic planning and preparation of the annual programme of the Government of Republic of Macedonia; Methodology on policy analyses and coordination; Policy development Handbook and Decision on forming the Prime Minister's Office with the aim of creating legal assumptions and institutional and material conditions for accomplishing the public administration reform

on Civil Servants were directed towards support of the changes that resulting from the decentralisation process.

The payment and salary contribution system for civil servants entered partially into force in April 2004, (only the basic salary component, not including the career salary supplement), and its full implementation will commence on January 1, 2007. The implementation of the salary system, i.e. its basic component, took place over a two-year period, during which the amounts of current salaries was gradually harmonized with those of civil servants, calculated in accordance with the Law and ended in April, 2006.

In order to address the ethical principles of the functioning of the public administration, the Code of Ethics for Civil Servants was adopted. It defined the ethical standards regulating the code of conduct and performance of civil servants, and ensured the adherence to the principles of legality, professional integrity and efficiency in the work place.

The Law on Civil Servants established a framework for professional adhering to the fundamental principle of the right and responsibility of every civil servant to training, based on annual programmes adopted by separate bodies and funded by the Budget of the Republic of Macedonia. The following are among the most significant examples of human resource investment: Strategy for Training of civil servants on the European integration process adopted by the Government of the Republic of Macedonia in 2000 and the two operative training plans which resulted from the Strategy for the period 2001-2002 and 2003-2004; provisions in the Law on Court Budgets for allocating at least 2% of the court budget for training of judges, civil servants and other employees in the courts and provisions in the Law on Public Procurement for training. The Civil Servants Agency adopted the "National system for training coordination and professional development of civil servants in the Republic of Macedonia" which defined the fundamental postulates of the training policy: division of roles between the Civil Servants Agency and every body that employs civil servants; the financing model; and responses to questions of providing training. In this manner, the Agency realized concrete activities for institutionalising the training support through establishing training support units. This type of unit exists in Bitola, and currently the preparations are underway for establishing a similar unit in Skopje. Regarding the local administration and the necessity for expertise upgrade, on the basis of the signed Memorandum in 2003, the threelateral committee for coordination of the trainings on local level, composed of members from AULSG, MLSG and CCA make assessments for trainings of the civil servants on local level, prepare quartal and annual plans for training and coordinates the training which is being implemented by the donors.

The five- year Strategy for training the local administration has been adopted.

Increasing the capacity of the administration and strengthening the capacity for human resource management is another central priority of the public administration reform. Information was collected regarding the conditions, management, development and challenges of the human resources in the state administration of the Republic of Macedonia. As a result, specific measures and activities were identified that needed to be undertaken, including the conditions and risks that could result from the implementation process, and a mechanism for monitoring the progress was designed. The General Secretariat and Civil Servants Agency prepared an Action Plan for implementation of these conclusions and recommendations.

Because of the complex nature of the public administration reform which needed managing and monitoring in all areas, the President of the Government and the Government of Republic of Macedonia represented the political leaders of the public administration reform. Each minister was responsible for implementation of the reform in the area of his/her authority; however, political decisions regarding PAR were made by the Government. The Government in 2005 also established the Mechanism on decision making and coordination for public administration reform. The mechanism consists of the President of the Government of the Republic of Macedonia and the Government of the Republic of Macedonia, Collegium of State Secretaries, the General Secretary of the Government and the General Secretariat.

The Government of Republic of Macedonia has adopted the Review of the achieved progress and future priorities of the public administration reform according to the Strategy for public administration reform. This document covers the achievements in the eight priority areas defined in the Strategy for the period 1999- 2005. It also specifies the activities and measures which need to be undertaken in the future. The Ministry of Justice in cooperation with the Ministry of Economy and Ministry of Finance will prepare recommendations to implement the abstraction of non core functions of the state. The Ministry of Justice in cooperation with the General Secretariat of the Government and the Secretariat for European will prepare a catalogue of civil service organs and their citizen services. Additionally, analyses and assessments will be done on the need for adopting a particular Law on public servants by the line ministries to determine where questions of employment and status would be regulated; a procedure to monitor and ensure equitable representation of the members of the communities in the civil service bodies will be developed; and a Code of Ethics for ministers and managers of public functions appointed

by the Government of RM by the Ministry of Justice will be prepared.

All line ministries and other state administrative bodies prepared 3-year strategic plans in 2005. The plans contained strategic goals and planned results, programmes that would accomplish the goals and results, financial and human resources required for accomplishing the current and planned programmes, as well as the necessary measures for restructuring the administrative body and human resources aiming to implement the strategic plan. Strategic planning is an ongoing governmental process. Plans developed in 2006 cover 2007-2009.

Much more remains to be done in the areas of organizational theory, strategic planning, policy analysis, human resources management, internal control and information technology to develop into modern organizations.

4.6.2. Economic area

Progress in redefining the role of the state has been made through a group of activities, in particular: divestment and transfer of the non-core functions of the Government to the private sector; restructuring and privatisation by introducing market economy elements in the work of the public sector; more efficient discharge of the regulatory function of the state; and de-concentration of the responsibilities of the state.

According to World Bank requirements for the first phase of PSMAC, the Government segregated non-core functions of the Government at the end of 2001. The purpose was to identify those functions which are not directly connected to the core functions of the Government and to transfer them to the private sector. The expected results were more efficient execution of duties and accomplishing savings. Thus according to the analyses results, the following activities were identified: logistics services; financial services; food and hotel trade services; certain education services; and production and maintenance of manufacturing capacities.

Redefining the role of state was done by introducing market elements in the public sector. The state withdrew from providing direct services by privatising and accepted the role of market regulator. Certain activities were restructured and privatised through transformation of the public enterprises. The railway and energy sectors were handled this way.

Regarding the achievement of better efficiency and introducing market elements in the work of the public enterprises, the Law on public enterprises introduced numerous innovations which will contribute to higher quality services, financial transparency and management accountability.

The adoption of the Law on the One-Stop-Shop System and the Maintenance of the Trade

Register and the Register of other Legal Entities simplified the procedure for registration of the legal entities. Registration was centralized by transferring responsibility to the Central Register from three registration courts. A major advantage to the new system is that only one company registration number will be assigned in accordance with the national classification of activities (NCA). The Central Register will assign a code for organizational mode of the company, a uniform tax number (UTN), and will have electronic exchange of data with the Public Revenue Office, and other services. One-Stop-Shop is based on principles of public disclosure and accessibility, independence and professionalism and efficient and thrifty. The registration is completed within 5 days which represents a significant improvement when it previously took many weeks or months. The experience from the one-stop-shop system should be analyzed and applied to improve the quality of all government services.

The Government formed several agencies to reform the consultation role and develop suitable conditions for economic development. The Agency for Promotion of Entrepreneurship was established to help the enterprises in consultative services, educational courses and information. Local centers for economic development were formed to assist in restructuring of the Macedonian economy and promote entrepreneurial activity while decentralisation is occurring. The Agency for foreign investments was formed to improve foreign investments and to boost economic development in Macedonia.

Significant support for the reform activities has been provided by the World Bank Project for reforms in the business sector and institutional building (BERIS). Its goal is to simplify administrative procedures and is completely compatible with the Government's efforts to improve the business climate. The project is addressing: business legislation; meteorology system, standards, testing and quality (MSTQ); competition policy; and access to information. Significant results of this project are improvement of institutional capacity and full functionality. The results are measured through appropriate indicators and are constantly monitored and evaluated. Also, these results are connected to the goals of the "pillar of investment climate" in PDPL arrangement.

Cooperation with the business community is one of the basic competences of the newly established Sector for Economic Systems, Current and Development Policies, within the General Secretariat. It is responsible for communicating with the domestic and international business community, syndicates, NGOs and media to realise the strategic priorities of the Government in the field of economy. This reform will provide for the "regulative impact assessment (RIA)" to be implemented requiring dynamic cooperation

between the Government, private and civil sector to improve and simplify the governance in Republic of Macedonia. Programme documents of Secretariat General of the European Commission will be used to accomplish this reform.

The priority activities for redefining the role of the state will be: regulating the general principles directed towards protection of public interest and in the field of free market the process of deregulation and reform of regulatory institutions will be carried out through simplification of legislation, consistent implementation and harmonisation with the EU legislation; continuous introduction of market elements in the functioning of the public sector; improvement of the bankruptcy procedure; complete implementation of judiciary system reforms to provide independence and judicial efficiency; concluding the privatisation process; concluding the transformation in the field of health; implementation of an IT system in the institutions involved in the implementation of the Law on the One-Stop-Shop System and the Maintenance of the Trade Register and the Register of other Legal Entities; continuing to separate the non core functions in certain areas such as elder people homes and students campuses; and introducing the procedure of regulative impact assessment (RIA).

4.6.3. Public finances

The introduction of a central treasury system has enabled the realization of the basic objectives of the treasury: legal and comprehensive budget execution; consolidation of public funds; funding of the policies approved by the Assembly; transparency and accountability of the public funds expenditure; efficient management and comprehensive records; reporting of the state's financial position; and improvement in the decision-making process.

The Law on Public Debt determined the basic objectives of public debt management. It defined the responsibilities of the Ministry of Finance to achieve a more efficient and effective public sector debt management; to establish the procedures and manners of indebtedness in the country and abroad; the purposes of public debt; the procedures for leasing, servicing and termination of state guarantees; and transparency of the public debt. Following the adoption of the Law on Public Procurement, the Bureau for Public Procurement was formed which is responsible for the development of the public procurement system by providing legal basis, rationality, efficiency and transparency in the implementation of public procurement. At the same time, the Bureau is responsible for encouraging competition and equality for tenders in the public procurement procedures.

The internal audit function was part of the public administration reform established by the Law on Budgets. The Strategy for public internal financial control (PIFC) for the period 2006-2008 in the Republic of Macedonia determines a comprehensive and effective system for public internal financial control. It provides for the development of modern systems for internal control in the public sector combining of management accountability and functionally independent internal audit.

The budget process reforms began with the implementation of budget programmes to provide the Government and the Assembly of the Republic of Macedonia more comprehensive information on the activities of governmental institutions to make budget decisions.. The budgetary reforms continued with full development of budgetary programmes the introduction of sub-programmes to provide a more detailed explanation of activities, and use of government programmes covering the government's priorities to be accomplished by multiple governmental institutions. The budget circular now sets limits for the amount of funding that can be requested in a functional category. The budget reform also standardized budget economic classifications to facilitate identifying, monitoring and analysis of the budget funds.

The activities that will be undertaken in the field of public finance in the forthcoming period encompass further budgetary reforms, financial management and control and further development of the current IT system for budgetary and treasury activities. A comprehensive financial controls law is planned to address management accountability, independent internal control, harmonisation on central level, as well fraud prevention. Currently, the activities for introducing a decentralised system for the implementation of EU assistance are in process. The National Fund and the Central Financing and Contracting Unit (CFCU) within the Ministry of Finance has been established and currently in preparation is the Payment Agency within the framework of the Ministry of Agriculture, Forestry and Water Economy. In the forthcoming period procurement of an integrated software solution to support the treasury system is projected, which will enable direct connection of the budget users, the funds and the local self-government units to the treasury thus increasing the level of transparency in the expenditure of public funds. The Strategic Plan of the Sector for Central Internal Audit for the period 2006-2008 will prepare bylaws and continuing to establish internal audit units in the public sector. The Unit for Harmonisation of Internal Audit and Financial Management and Control is projected to be formed in Ministry of Finance.

4.6.4 Decentralisation and the reform of the local self- government

Implementation experience

Decentralisation remains one of the key priorities of the Government of Republic of Macedonia. The obligations from the Ohrid Framework Agreement related to the process of decentralisation of authorities and alteration of the territorial organisation of local self-government in Macedonia is completely in accordance with the European Charter on local self-government. Currently there is a Programme for decentralisation for the period 2004-2007 which is being implemented.

During the last 4 years, the Republic of Macedonia has taken significant steps towards decentralisation of power and strengthening the role and significance of the local authorities' through adopting the Law on local self-government. This law amended the territorial organisation of the country decreasing the number of communities from 124 to 84 and making extensive changes to the management and operation of communities. The Law on financing the units of local self- government established the system of financing. Over 30.000 employees and over 500 institutions have been transferred to the local level.

The following main functions were decentralised: managing and maintenance of the primary and secondary schools; hospices and kindergardens; local cultural institutions; fire and rescue brigades; urban planning and construction. Law on financing the municipalities accomplished fiscal decentralisation by reallocating the subsidies for the above functions to the municipalities. It also included tax sharing provisions and new responsibilities for the local authorities such as budgeting, accounting and financial management.

Much remains to be done to complete the decentralisation process. In the next stage, the following steps will be taken: strengthen the administrative capacity on national and local level; start the strategic planning process; prepare other legislative measures to complete decentralisation and fully implement the strategy for equitable representation; provide additional improvement in public finances management ; fully implement fiscal decentralisation and decompression of the salary structure of the state administration; implement the recommendations from the State Commission for Prevention of Corruption, as well further improvement of the coordination and cooperation among the institutions obligated to implement the law; establish transparent and responsible local administrations; and develop internal controls and audits to manage the decentralised funds.

4.6.5 Transparency, ethicality, efficiency and openness of the public administration

One of the key objectives of public administration reform in the Republic of Macedonia is to transform the administration into an efficient and transparent service to the citizens, economic and other legal entities. A public administration that will protect citizens' rights and partner with the civil and business sector. The basic principles will be: equality among the citizens; predictability in the work of the administration; and participation of citizens, economic entities and all stakeholders involved in the policy-making of the Government, as one of the core values of the democratic society. In accordance with the Law on Organization and Operation of the State Administrative Bodies, , state administrative bodies must ensure consultations and seek opinions from citizens' organizations and other legal entities in the process of preparing of laws and other regulation within its competences. Furthermore, the Law on the Government encourages participation of the citizens in the work of the Government.

Several institutional activities have been completed.

The Socio-Economic Council was formed subsequent to the Agreement between the Government of the Republic of Macedonia, the Syndicate Association of Macedonia and the Chamber of Commerce of Macedonia to establish a dialogue and to provide advisory and consultative services. Amendments were proposed to the Law on Social Care and provided an opportunity for civil organizations to be included in the system for social care.

Due to the institutionalisation of the cooperation of the Government with the civil society representatives, a Unit for Cooperation with Non Governmental Organizations was formed in the Sector for Policy Analysis and Coordination which operates within the General Secretariat of the Government of the Republic of Macedonia. The Government has established the concept of the Strategy for cooperation with the civil sector and by the end of 2006 it is expected to be adopted.

The Assembly of Republic of Macedonia, in January 2006, adopted the Law on free access to information of public character ("Official Gazzete of the Republic of Macedonia", number 13/2006) which provides for a public approach and openness in the work of the holders of information and enables physical and legal entities to realize their rights to free access to public information. The Committee for free access to information of public character began its work which will contribute towards strengthened transparency.

The role of the Ombudsman will be strengthened. In order to improve the transparency of the state administration, it is necessary to ensure appropriate cooperation of all state

administrative bodies with the Ombudsman and to improve adoption of its recommendations and preparation of quarterly reports by the administrative bodies to the Government regarding the Ombudsman.

Following the adoption of the Law on General Administrative Procedure there will be a process for deciding upon the rights and interests of the citizens by administrative procedure

The Law on Administrative Inspection defines the area and functioning of the administrative inspection in a more precise manner where the administrative inspection controls the work and acts of public administration bodies that decide upon the rights and responsibilities of the consumers of their services;

In conjunction with the Strategy for e-Government, an electronic system for communication of the state administration with the citizens was established with a web portal www.uslugi.gov.mk which contains the services oriented towards the citizens and business entities.

The provisions of the Law on Prevention of Corruption prohibit unlawful behavior which is essential for gaining and maintaining the trust of the public. Public sector employees must conduct themselves in an impartial and unprejudiced way.

Even though many laws have been passed to improve the behaviour of the public administration, implementation has not been finished. The capacities and resources for implementation of the Law on Administrative Inspection need improvement. More education and promotion need to be done for citizens to be aware of the web portal www.uslugi.gov.mk. The electronic exchange of information between administrative bodies should be routine. Adoption of the Strategy for cooperation with the non governmental sector. A public awareness campaign is needed to explain the judicial reforms the purpose of the Ombudsman. Bylaws are needed to fully implement the Law on the Free Access to Information of Public Character.

In order to have a fully informed and participating citizenry, the Government needs to: adopt Act of responsibility of the Government which will provide for essential changes regarding the general behavior and work of the Government; introducing and realizing sectoral action plans for fight against corruption in the judiciary, customs service, health, audit office, inspection services, police, public administration; introducing a Citizen's charter- an innovative and efficient document for improving the public services and fight against bureaucracy and corruption; develop and publish a comprehensive catalogue of all government services, along with key information of their responsibilities, organizational

structures and key contact information. The catalogue should be widely distributed to the business community, local governments, NGOs, other associations, and the media. The information should also be published on the existing service portal www.uslugi.gov.mk. A Messenger service should be established for direct access to those who are responsible for every request submitted by the citizens; a call centre should be available for the citizens that do not have internet access; and information centres/call centres should be introduced in the ministries, the state administrative bodies and other institutions.

In order to develop professional municipal administrations, future activities should be directed towards the following: adopting and implementing rulebooks and other acts of the local self-governance units in accordance with the Law on Civil Servants; performing supervision over the implementation of the Law; preparing and implementing a five year training strategy; and strengthening internal controls and audit by establishing 42 internal audit units, one for each community with over 15,000 people.

Achieving an ethical public administration will require: efficient implementation of the Code of Ethics of civil servants in accordance with the Law on Civil Servants; reviewing the existing rules and procedures and identifying possible improvements of the current system; developing a Code of Ethics for Ministers and other official representatives; developing handbooks, brochures, leaflets and other promotional material to encourage ethical standards throughout the administration; linking ethical behavior and standards and procedures with the fight against corruption; and amending the codes of ethics for all public servants to encourage reporting suspicions of corruption.

4.6.6 Information technology development

With respect to the development of an information technology system, significant progress has been made. The e-Government project designed a software application to make possible e-sessions of the Government of Republic of Macedonia since November 2006. Now, there is complete electronic preparation and guidance of governmental sessions replacing the paper-intensive old system. The e-session system will help the Government to increase its efficiency.

The e-government project has supported the development of the following portals or systems:

- www.uslugi.gov.mk - information portal of the Government for services to the citizens and business entities;
- e- session - system for preparation and leading electronic sessions of the

Government;

- gs.gov.mk- internal portal of the General Secretariat processing questions from members of the Assembly; monitoring final actions of Governmental sessions; and monitoring the progress of the Annual Programme of the Government of Republic of Macedonia);
- Apply on line - electronic submission of employment applications of civil servants;
- e-procurement - electronic public procurement system;
- e-concessions - procedure for assigning concessions, part of the uslugi.gov.mk portal
- e- tax services - electronic tax filing system;
- e-education-IT training, educational software, education portal www.schools.edu.mk, wireless internet connections; and
- e-health and e-budget applications are being developed.

4.7 Education and Science

The Ministry of Education and Science through its programme orientation and reform activities plans to establish connections with the labour market; to involve the social partners into the educational process; to establish education based on knowledge; to introduce the philosophy of “Lifelong Learning”; and to validate competences gained through formal and informal education.

The participation of the Education in GDP in 2003 was 3.8% and 2004 was 3.7%; and the participation of research and development in GDP was only 0.2% in 2003.

With the process of decentralisation, there is a redistribution of the responsibilities of the main educational processes and financing of the three levels of the educational system, central, local and school. Local and school responsibilities will increase while at the expense of concentrated responsibilities of the central level. The adaptation will be as follows:

- reorganisation of the administration and management of the education system, through creating new laws and the management for the local self-government and the financing of the local self-government ;
- improvement in the management and governing of the educational system, including strategic concepts for capacity building at central level;
- development of a more efficient funding formula.

In 2007, the National programmes for the Community in the field of Education and training

will be created. The Ministry of Education and Science is the National Coordinative Body for participation in the Community Programmes in the field of Education and Science, Socrates II and Leonardo Da Vinci.

The establishing of the National Agency, and will be financed equally by National budget and the CARDS/IPA budget. The National Agency will employ 5 persons in 2007, and will add employees each year until 2010 according to funding. External expert support for organizing and equipping the National Agency will be required.

New mechanisms for quality assurance will be introduced: external evaluation for student's achievements; requiring a preparatory year in the primary education; redefining the role of the directors of the educational process; depolitisation of the governing of the schools, through strengthening of the School councils; preparing the Higher Institutions for the Bologna Processes, through installation EKST1; developing a system for quality assurance and assessing Higher Education; and creating the legislative authorisation for private Higher Education institutions. Some steps have already been taken for controlling and assessing the educational process. Scientific research activities now have stronger criteria for financing and require qualification of the employee conducting the research.

PRIMARY EDUCATION

The Primary Education in the Republic of Macedonia is compulsory. 96% of the school-aged children are attending Primary Education. Activities in reconstructing old school buildings and constructing new school buildings are insufficient and do not satisfy the current technical and hygienic standards.

With decentralization, the responsibilities for Primary Education are transferred from the Central to Local level. Compulsory Primary Education is nine years. This includes the preparatory school year, four years of lower primary education, and four years higher subject-oriented primary education.

TEXTBOOKS: There are new mechanisms for evaluation of textbooks and there is a procedure for competition in publishing textbooks.

FINANCING: The financing of the Primary Education is from the Budget of the Republic of Macedonia allocated to the Municipalities through block grants according the Law for financing the Units of the Local Self Government. From 2007, the finance support should be based on a specific formula which will be created on the basis of the number of the students in the Municipality.

CURRICULUM: Curriculum will be required for the new preparatory year. Foreign languages will be taught at an earlier age due to the need to be multi-lingual. Currently the first foreign language is taught in the fourth grade, and the second one in the sixth grade. Civic education will be introduced to learn more about each individual and social integration.

To stimulate team work there are extra curricula activities in schools. This will help increase student dialogue and cooperation, among all of the local community contributing towards the democratic development in the country too.

TEACHERS, PROFESSIONAL WORKERS, DIRECTOR:

By Law, teachers in the Primary Education must have finished Higher Education. The teachers in the preparatory year have the opportunity to finish their higher education within four years. The Bureau for the Development of the Education have undertaken many activities, projects and with the NGOs conducted trainings of the teachers.

Changes in the procedure of appointing directors of the schools is expected to depoliticise the process. The Mayor of the Municipality will appoint the director from the proposal of the School Council. In order to improve the qualifications, the directors of schools are required to attend accredited training by the Minister of Education and Science and pass the examination for directors of schools.

EVALUATION OF SCHOOLS:

The self-evaluation of the schools is a procedure which will take place every third school year, as established by the Law, and the State Educational Inspectorate monitors and makes integral evaluation of the educational process to improve the school quality.

INCREASING THE NUMBER OF AT RISK PUPILS:

The Ministry of Education and Science gives special attention to include the pupils at risk primarily children in the rural areas, children with low social conditions, and Roma children. Free transportation is ensured, as well as accommodation in dormitories, and accommodations for families, spreading the net with counselling and other social services. NGOs have been very involved with the at risk population. The Roma Decade emphasised the need to attract more Roma children into the schools. A scholarship fund Roma children was established.

In many schools there are activities for including children with special educational needs. Following the trends for Lifelong Learning, the Ministry of Education and Science verifies

Primary Education classes for adults.

PROJECTS:

The process of Modernisation of the Education in the Republic of Macedonia and increasing the quality of schools is supported by many projects:

- modernisation of the Education;
- donation of computers by the Peoples Republic of China
- Implementation of internet network in schools by USAID;
- E-schools, and training the teachers to learn how to use the computer as a teaching tool in the classroom ;
- Extra curricula activities.

SECONDARY EDUCATION

The structural reforms in Secondary Education, especially for vocational programs, were prompted by EU integration and Government priorities to address wide-ranging needs of the economy, labour market and citizenry.

Education today is the answer to many social and economic issues.

The reforms in Secondary Education are mainly moving towards:

- Decentralisation;
- Quality assurance in the educational process and training; and
- Equal opportunity for all in the educational process.

The Ministry of Education and Science has undertaken the process of decentralisation of the Secondary Education. The Law for Secondary Education was realised through planning of the staff for the local level in the secondary schools, including social partners, governing of the schools and other activities intended to transfer responsibilities from the central to the local level.

The centralised system and the network of institutions for vocational education and training (VET) were not capable of responding to the changed conditions of the labor market, the needs of the professional staff and accelerated local development.

The reforms process involved the following:

Analysis of the economic and labour market needs and develop responsive curriculum:

- clustering the vocations and profiles achieves flexibility and opportunities for easier

employment;

- development of entrepreneurship skills;
- improving practical skills for direct involvement in the production process;
- Improving general and key competencies of young people by developing the computer, communication and entrepreneurial skills; and
- reforming gymnasium education.

More work remains in development of the programs for the third and fourth year in the four-year vocational education and reforming in the three-year education except the three vocations reformed through the GTZ.

Improving the infrastructure and equipping of the schools with:

- IT equipment; and
- specific equipment.

A high level of equipping of schools with IT equipment has been achieved. Wireless internet connections have been provided for all secondary schools. The specialized equipment which was donated to the schools involved in the VET 1, 2, 3 and 4 programs provided quality in the practical teaching and improvement of the practical skills of the students.

Real and virtual companies were opened in the schools as well as career development centers for the students. This stimulated the development of self-initiative, innovation and self-employment.

The teacher training included:

- computer skills development;
- language skills development;
- application of the new teaching methods and techniques in the teaching process;
- development of communication skills and teamwork ability; and
- acquisition of practical skills for using special equipment.

The necessity for continuous training of the teachers remains one of the priorities and assists career development of the teachers.

Training of principals

A system for training of principals and passing of principal exam has been established. This results in improvement of the principal's skills in communication, planning and management of the human and material resources, cooperation with the social partners

and the local community.

Institutional strengthening

In order to strengthen the human resources, the administrative staff of the MOE were trained through direct involvement in educational projects, trainings for administrative work and the key competencies of IT and languages.

A new institutional structure has been established to improve the quality of secondary education.

The Law on Vocational Education and Trainings was adopted to improve the vocational education sector. The Law transforms the Bureau for Development of Education into a Center for Vocational Education and Training. The Center plays a key role in designing education to fit the economic and labour market needs.

The Assessment Sector will become a State Exams Centers which will be in charge of external assessment, in order to obtain objective assessment thus bringing quality in the education.

The State Educational Inspectorate is responsible for implementation and quality control of the legislation. Strengthening of their capacities contributes towards the overall improvement of the work of the educational institutions, consistent implementation of the legislation and prevention of corruption.

These changes were derived from the necessary changes in the legislation:

amendments in the Law on Secondary Education;

- the Law on Educational Inspectorate;
- the Law on Bureau for Development of Education; and
- the Law on Vocational Education and Training

These laws will help improve the social partnership on sectoral and on local level. A Large part of these activities were assisted by the international community, as follows:

- PHARE/ CARDS programs (VET1, VET2, VET3 and VET4);
- World Bank through the Education Modernization Project;
- German Support for Reforms in the Technical Education – GTZ and education of adults - IIZDVV;
- Support by the Government of Austria through the EKO NET Project;
- USAID project of the American Agency for Development;
- SOROS support; and
- China donated computers and equipment.

FUTURE STEPS

The reform process is ongoing. Reform of the three-year vocational education program is needed and post-secondary and adult education needs development, Dissemination of the Copenhagen processes should continue with special emphasis on:

- development of a National Qualifications Framework in accordance with the European Qualifications Framework;
- implementation of the state matura;
- adoption of the Law on Adult Education in the context of lifelong learning;
- establish a system of adult education; and
- orient vocational education and training towards the principles of the European Strategy on Employment which is based on partnership, flexibility and equal opportunities.

UNIVERSITY EDUCATION

The university education is an integral and inseparable element of development of every country. It is not only the strongest agent affecting social and economic development internally in the country, but it is also a quality that legitimises itself internationally.

The privatisation process in the Republic of Macedonia greatly affected the labour market and the character of the labour force.

According to statistical data, the percentage of unemployment for university educated people of the total number of unemployed people, is 6,7%. These people wait for job more than four years.

For this purpose, the universities see the employment of their graduates as a very important objective and confirmation of the results of their work. This requires greater flexibility of the study programs, their academic validity and relevancy to the labour requirements.

In the past, the state universities met the labour market needs for university educated human resources. However, the process of globalization, the political transformation and strengthening of the private initiative has significantly disrupted this balance. The changing nature of the economy demands a labour market that is flexible and which is possible to be met only by flexible and dynamic educational institutions. Therefore, the universities must change their current attitude and develop new structures that will be compatible with the overall changes in the labour market. With the signing of Bologna Declaration, Macedonia becomes a full member of the family of European countries that pledged to follow and realize the recommendations for creation of a single European area for higher education.

The Law on Higher Education was amended to implement the provisions of the Bologna Declaration. Some of the key changes that will be implemented are:

- adopting the three cycles of degree structure, graduate, post-graduate, and doctorate;
- implementing a Diploma Supplement to make degrees easily understood and comparable;
- adopting the European Credit Transfer System (ETCS);
- promoting mobility to overcome obstacles for students and faculty to study and collaborate internationally; and
- promoting European collaboration through integrated study programs receiving credit for studying abroad

SCIENCE, TECHNOLOGICAL DEVELOPMENT AND TECHNICAL CULTURE

The scientific-research activities in the Republic of Macedonia should be the core factor in:

- providing better living standards of the Macedonian people;
- stimulating economic development of the country;
- undertaking research and protection of the identity and cultural heritage of the Macedonian people and all other minorities living in Macedonia; and
- promoting research and protection of the natural heritage of the Republic of Macedonia.

Today, more than ever, the science and its application are necessary for growth and development. The State, in cooperation with the private sector, should provide broader support for appropriate and well documented scientific and technological programmes designed to improve and sustain economic, social, cultural and environmental development. Sustainable technological development requires a solid scientific foundation and should be safe, energy efficient, and not damaging to the environment. Science and technology should be a partner in developing the strategies for greater employability, competitiveness and social justice.

The technical-technological development in the country should result in effective innovations to improve overall development. Development in this area should result in improvement of the overall quality of life because of increases in productivity, employment, care for the environment and for the work place. The development of these carriers of technologies will increase their competitiveness on the market and decrease the current technological gap in relation to developed countries.

A law will be adopted to establish scientific centres of excellence whose mission will be to connect domestic with world science by conducting international scientific-research projects as well as transfer of new technologies. The scientific centres of excellence have two models, scientific-research institutions or a group of scientific researchers. The centres are expected to attract the highest quality of scientist and conduct original work across the spectrum of scientific disciplines.

A Board of Ethics will also be established to monitor and evaluate the application of the ethical principles and values in the scientific-research activities, business relations and in the relations with the public. Additionally, the Board will set standards for the protection of an individual's integrity and human dignity in experimental research, and also the environmental. The ethical board will also prevent monopolies, will be in favor of competition and will work hard on prevention of forgeries in the scientific researches.

4.8. Additional Areas of Reform

4.8.1. Foreign Direct Investments

The amount of foreign direct investment (FDI) in the Republic of Macedonia in the past twelve years was disappointing. According to the NBRM, only \$1.635 million or \$820 per person was invested from 1991 through the first half of 2006. Compared to the other Southeast European states in transition, Macedonia ranks in the middle.

Table 16: Trends in the amount of FDI and share of GDP

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 I-VI
Amount in mil. US\$	30.7	128	32.8	179	445	81.0	97.5	163	112	313
% share of GDP	0.8	3.6	0.9	4.5	11.9	2.2	2.1	3.1	1.8	-

Source: NBRM

Hungary is the largest investor based on country of origin, followed by Greece, Holland, Switzerland, Germany, Austria, Cyprus, Slovenia and Italy. During the period of massive privatisation in Republic of Macedonia through the end of 1998, most investments were made in the manufacturing and constructing sector primarily food production, metal production, and oil and oil derivatives refining. After that period, investments were predominantly in the service sector. There was a lot of activity in the banking sector with

the entrance of Stopanska Banka, Tutunska Banka, Alfa Banka, and Zirat Banka., ADOR A.D.Skopje and SIGAL represented investment in the insurance sector. Privatisation of the telecommunication sector resulted in the new fixed line telephone company Makedonski Telekomunikacii. Most recently, in the first half of 2006, the electricity distribution company ESM was privatised resulting in investments of \$300 million.

The structure of FDIs show that most is from the privatisation process and relatively little is from the participation of "Greenfield" investments. Since the privatisation process is concluding, with only a few remaining assets to be privatised, Macedonia must develop a more active strategy for attracting FDI.

National treatment of all investors is guaranteed by the Constitution of the Republic of Macedonia. Generally, there are no restrictions on foreign investment except involving illegal drug trade and protecting historic monuments and cultural treasures. Macedonia has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1994 securing protection of FDI from political risks. There also are agreements in place with 29 countries, including most countries from Southeast Europe and EU, for protection and stimulation of foreign investments, and avoiding double taxation.

On the basis of a Foreign Investment Advisory Service (FIAS) study and additional research, the *Programme for investments stimulation in Republic of Macedonia* was adopted in 2003. The Action plan contained the plan of work for 2003-2006 assigning responsibility for implementation to numerous ministries and institutions.

The reforms listed in the Programme and Action plan are focused on the following: real estate market; construction sites; construction license process; and legal administration and legislation of labour. The measures and activities of the Programme have shown significant improvement by passing laws to authorise the reforms.

MakInvest is the agency for foreign investments in Macedonia and it started working January 2005. It is state institution which focuses its services on investors, providing them with all relevant information and services in one place.

The Government has set increasing the attractiveness of the country for foreign and domestic investments as one of its basic economic goals. It hopes to achieve this through the lowest taxes in Europe and other stimulations for investments, simplifying and increasing the predictability of the regulation, assuring transparent work of the state institutions, improving public administration and easing access to financial means. The new *Programme for stimulation of investments for the period 2007-2010*, along with some changes in legislative regulation, is expected to produce a much improved business

climate in Macedonia.

Table 17: Projected trends in the amount of FDI

Year	2006	2007	2008	2009
Amount in mil. EUR	307	116	558	210

Source: MoF

By the technical assistance of EAR the Project: *“Improving of the investment climate in RM”* is started, which should make critical re-examination of the investment surrounding of the state, in order to provide its relevance and efficiency in attracting foreign investments, as well as the advantages from them. At the same time, within the frames of the project, a policy for attracting foreign investments will be proposed, which will be more promotional than regulatory and will help in the creation of the new Programme for stimulating investments for the period 2007-2010.

Makinvest will be the only development and investment agency providing a universal point of contact and source of information for attracting FDI. To provide better service and greater access, over 20 community offices will be formed.

The following activities are planned to improving the investment climate:

- reforms of the tax system;
- streamline the proves for starting a business;
- establish “regulatory guillotine” to decrease bureaucracy and corruption by simplifying government regulations and processes;
- Further improve the infrastructure of the current Free economic zones and create new ones
- protect ownership rights and contract execution; and
- protect creditors

4.8.2. Spatial Development

4.8.2.1. Spatial Management

Strengthening of the role for spatial management as factor for economic development. The major contribution of the spatial and urban planning in improving economic development is identification of the construction areas, and simplification of the administration for construction of buildings for different purposes. The current activities are mostly focused

on the preparation of enforceable and adjustable urban plans and improvement of institutional capacity

Creation of the land policy. A land policy for the Republic of Macedonia needs to be developed. In the forthcoming period, the process will be started. It is important that regional development policy, access to information, and administration of records be considered.

Equal spatial and urban development. Effective urban planning is one of the basic prerequisites for economic development and increasing competition in the Republic of Macedonia. The current spatial and urban legislation must be changed. The main directions of the spatial and urban policy of the Republic of Macedonia are as follows:

- change policy orientation rural to urban;
- develop polycentric regional centres of national interest based on the principle of decentralised concentration;
- consolidate city conglomerations enabling more efficient public transport and function partition;
- establish spatial cohesion of the state and regions starting along Corridors VIII and X; and
- improve the quality of the environmental and cultural values.

Necessary measures – An annual programme of urban plans must be prepared and implemented. In order to achieve optimal results in spatial and urban planning in the next 2-year period, the following activities are identified:

During 2006:

- prescribe standards and norms for spatial management;
- prescribe the content and methods for graphical processing of plans;
- prescribe methods and procedures for obtaining authorisation of holders of the preparation of urban plans; and
- prescribe methods for preparation and submission of data.

During 2007:

- establish electronic database of urban plans.

During 2008:

- amend Law and by-laws; and
- manage and maintain electronic database.

These measures are to be supplemented with training of the personnel for digital presentation of urban plans, as well as for maintenance of the database.

The expected results to be achieved in the following period are as follows: improved level of spatial management, increased enforcement and implementation; improved exchange of data with the municipalities; increased transparency; increased accessibility of the plan documentation; improved efficiency in preparing and sharing information because of the database; and implemented strategy for usage of space.

4.8.2.2. Housing Policy

The Law on Housing regulates the methods and conditions for leasing apartments, the rights and obligations of the owners and beneficiaries of apartments and the maintenance of residential buildings. Special attention is paid to the residential buildings and apartments owned by the Republic of Macedonia. The Public Enterprise for Housing and Management with Business Premises of the RM is responsible for construction and maintenance of these properties.

The progress of the construction in 2005 compared to 2004 can best be seen with the objects from the “Project for construction of apartments rented to persons with low incomes”, implemented in co-operation with the Council of Europe Development bank, which were completed in 2005, and were foreseen with previous programmes – amounting up to 35.7%. The progress is slower as regards the completion of objects in construction in 2005 from previous programmes with 25.2%, the construction of objects to be completed in 2006 is poorly completed, whilst the completion of objects in preparation is in its worst situation.

The Law on Housing determines all procedures regarding the privatisation of the social apartment fund, pursuant to the Law on Sale of Apartments in State Ownership, which were initiated before this Law has entered into force, and were hence completed in accordance with the provisions of the Law on Housing Relations, which means that by 31.12.2006 the latest, the persons that have the ownership right are given the status of a leaser, based on the Contract for Leasing concluded with a person authorised by the Government of the RM.

The transformation refers to the holders of the ownership right to apartments, enterprises or institutions that no longer exist, are privatised, or bankrupted.

The current directions and measures in the housing policy – Current main objectives of the housing policy are as follows:

- Further privatisation of the social housing fund for the holders of the ownership right till 31.12.2006, in accordance with the Law on Sale of Apartments in State Ownership and the sale of the old housing fund under market conditions in which people are living in with a non-regulated status, or illegally, in accordance with the Decision for sale of apartments owned by the RM.
- Improvement, i.e. adoption of the new legal regulations in the field of construction and spatial planning, which will enable a more efficient and facilitated access to the construction-technical documentation for realisation of the Annual programmes for construction of state-owned apartments.
- Increased construction of state-owned apartments with lower prices per m², and more suitable conditions for sale of apartments, with the Programmes for construction of apartments owned by the RM.

4.8.3. Information Society

The Republic of Macedonia has set increasing the power of the human potential as one of its strategic objectives for accelerated economic development, with an intention to direct and use the capital of knowledge to fulfil its purpose. The next development objective is to provide equal access to services and information geographically and ethnically.

Another significant Macedonian priority is the promotion of the process of governing through provision of a more efficient, transparent and participatory management of the central and local government and further progress of the decentralisation process.

These objectives and priorities are in compliance with the EU policies. The new vision of the “society of future”, defined in the Lisbon Strategy of the European Union, refers to a knowledge-based-society, i.e. a society in which all citizens will have easy and cost-effective access to information and knowledge. The new initiative of the European Commission “e2010: European Information Society 2010” is targeted towards accelerating economic development of the states and the creating new jobs. According to the previously mentioned initiative, the member-states are to assertively develop the Information Communication Technologies Sector (ICT) in the next 10 years as a unique technological basis for introduction of the Information Society in all society segments. It will greatly economic development, unemployment and poverty reduction, digital economy development, regulatory instruments, research and industrial partnership.

The introduction of the Information Society is planned with a two-side approach to implementation. The supply-side refers to the development of fast and cost-effective info-

communications infrastructure and technologies. The demand-side refers to usage of services.

It is expected that the liberalisation and establishment of a full competitive telecommunications market will enable the rapid development of the info-communications infrastructure which will provide economical and quality communication and distribution of new advanced content, applications and services. The convergence and implementation of alternative communications platforms is also enabled with the full implementation of the new legislative regulatory frame based on creation of competition.

In terms of usage of services, the development of broadband networks through policies which stimulate the demand for different types of Information Society services has an important role. These policies are planned as combination of financial stimulations and improvement of government services through e-Government, e-Education, and e-Health activities, education of citizens, development of innovative public services, provision of protection and trust systems, connection of the public administration, schools, hospitals, and small and medium enterprises.

The basic document for this area is the National Strategy for Information Society Development (NSIS), adopted on 21 September 2005 with consent of the Parliament of the Republic of Macedonia.

The NSIS is divided into two parts: Strategy and Action Plan. The Strategy defines the basic development directions, identified into 8 pillars:

- Infrastructure;
- E-Business;
- E-Government;
- E-Education;
- E-Health;
- E-Citizens;
- Legislation; and
- Priorities for sustainable Information Society development.

The Strategy will enable efficient implementation and ICT usage with all entities in the Republic of Macedonia, through realisation of the priority projects defined in the Action Plan.

A new Law on Information Society will be adopted. It will address the following issues:

- Provide basic principles and commitments of all public institutions in developing the

Information Society;

- Establish the institutional structure for development of the Information Society in the Republic of Macedonia;
- Provide for funding source;
- Raise awareness of the Information Society; and
- Adopt by-laws defining technical and other standards for developing the Information Society.

Foreseen activities and measures –The following laws will be adopted:

- Law on Information Society;
- Cyber Crime Law;
- Electronic Trade Law;
- By-laws for electronic signature; and
- Laws (existing and new) containing provisions in the Information society field

The multi-institutional approach will be taken to motivate and coordinate the development of the Information Society. The following institutions will play key roles:

a) Inter-ministerial Council – for defining policies and priorities, as well as coordination of the NSIS and specific project implementation;

b) National Council for Information Society of the Republic of Macedonia – for performing advisory function. It will consist of 25 members elected by the Assembly, as well as representatives of the private and public sector, universities and NGOs.

The Inter-ministerial and National councils will work together, as partnership between the public, private and civil sectors.

c) Agency for Information Society of the Republic of Macedonia, as central implementation institution – for carrying out the policies and activities for development of the Information Society in the Republic of Macedonia.

The implementation of some activities for Information Society development will be the responsibility of the IT-sector of the General Secretariat of the Government and of the IT-sectors in the ministries, state administration bodies and of the other state and public institutions. In those terms, the General Secretariat of the Government, each ministry and state institution should have an IT-sector or at least a Chief Information Officer, examining the advantages and shortcomings regarding hiring of more employees or contracting by external persons.

At the local level, each municipality in the Republic of Macedonia will have to prepare a programme for Information Society development, as well as establish an IT-sector which will be managed by the Council of the municipality and/or the Mayor. In doing so, those sectors will have to co-operate between themselves and the Agency for Information Society of the Republic of Macedonia.

Training is foreseen for the newly-employed persons from the Agency for Information Society, as well as all other training needs.

The basic measures of the National Strategy for Information Society will be developed in the following pillars:

Infrastructure – The basic activity to be carried out regarding the infrastructure is the provision of a suitable environment for development of a modern, easily accessible and acceptable ICT infrastructure, available for usage by all entities under equal and non-discriminatory conditions and suitable prices. One of the priorities for infrastructure development is the establishment of a backbone iNetwork, which will in Phase I connect all public and government institutions.

The modern infrastructure and the increased Internet usage and the other electronic communications services will be provided through: acceptable prices for usage of Internet and other electronic-communications services; continued and sustainable ICT-infrastructure support; and introduction of protocol for electronic communications between the business entities, citizens, public administration and the non-governmental sector.

E-business – The National Strategy for e-business is to improve the economic development through provision of better economic efficiency, competition and profitability through significantly reorganised and improved business-processes with appropriate models for e-business implementation in the enterprises and electronic connection between the business entities, the citizens, the public administration and the non-governmental sector.

The activities to be fulfilled in future are as follows: establish mechanism for electronic connection, electronic payment and e-business implementation between the enterprises and the other participants in the business processes; establish centers throughout Macedonia which will assist the enterprises during the e-business implementation; establish system for informing the enterprises in Macedonia regarding the possibilities that e-business is offering; implement E-business in several enterprises in Macedonia through reorganisation and digitalisation of the internal business processes.

E-Government – The efficient and transparent Government operations which will provide

more quality electronic services for the citizens and the business-community through: participation of the citizens in the Information Society building; infrastructure at a satisfactory level; legal and institutional frame for Information Society development; logistics infrastructure for modern ICT-solutions and network interconnection of government institutions; electronic and on-line transactions for e-government services that stimulate the economic and social prosperity; and increased number of ICT-experts and increased level of ICT-literacy in the public administration.

E-education – The objectives in the e-education domain are divided into three groups: educational infrastructure; ICT-personnel; and ICT-literacy and content. The realisation of the defined objectives for each group will be carried out through focusing on specific areas and activities.

Educational infrastructure: improving connection of the entities from the education, science and culture; increasing and standardising hardware and software equipment in the relevant entities from the education, science and culture; providing fast and cost-effective internet-access for all legal and natural entities participating in the educational process; developing a management information system for the education; creating and supporting existing research and innovation centres for technology transfer; introducing a centre for certification of e-technologies.

ICT-personnel: revision of the ICT presence in the primary and high school education; improvement of the ICT-education content in the primary and high school education; curricula; development of distance-learning systems, e-learning, lifelong learning and flexible forms of learning using ICT; establishment of specialised faculties and ICT curricula for high schools; and reduction of the number of newly-educated ICT-personnel leaving the country.

ICT – literacy and content development: education of the citizens to use the e-services; provision of continued digital education (ICT – literacy) for everyone through adjustment of certain professional needs; introduction of domestic and European certificates for ICT knowledge; publishing the ICT literature in standard and multimedia format; creation and usage of information in digital form for virtual working environments.

E-health – fast access to health services for the patient; fast access to the medical history of the patient from any health institution; updating the health-financial data to increase solvency and cost control, in order to improve the financial performance of the Health Insurance Fund; electronic health insurance; increasing of the quality of services through electronic monitoring of the medical records and treatment; improving of the quality of the

health statistics and efficiency regarding the health policies enforcement; provision of quality information about the education, research and development of the health professionals; approximation of the quality and standards of the health system and health services with the EU ones.

E-citizens – In order for the citizens and their associations to participate in the Information Society it is necessary to carry out activities for implementation of the following objectives: supporting the local communities in the preparation of local sustainable ICT policies; creation of coherent policies so that all sectors could offer e-services which will be unified, standardised, accessible, secure, quality, user-friendly having in mind the needs of the citizens regardless of their location and social status; provision of accessible e-services which will be software platform independent and will use open and standardised formats for documentation and exchange of information; creation of a suitable environment and good management practice so that the citizens could participate in the overall social processes, as well as in the process of adoption of decisions at local and national level through the usage of ICT-tools; overcoming of the digital gap through solutions, continued training for raising of the public awareness, as well as ICT and e-citizen education knowledge; supporting the local content development as one of the instruments for increasing of the number of Internet users.

E-legislation – E-legislation, *de lege ferenda*, can be grouped as: 1/ legislation that is to provide an institutional frame; 2/ legislation referring to the material right in specific areas and 3/ legislation regarding procedures. It should provide: liberalisation of the market for electronic and communications services; prevention of the misuse of the monopoly position and competition limitation; establishment and implementation of standards and systems for digital records, their management and archiving; establishment, development and usage of state and local databases and interconnection and exchange of information from the databases by the concerned persons, the Government, the administrative and local self-government bodies; establishment of an Agency for certification, as the basis for PKI usage; hiring the appropriate personnel in the Government, administrative and local self-government bodies and its continued education; better and more efficient decisions of the administrative and court procedures, simplifying of the procedures and cost reduction; establishment of research centres and technology transfer centres and their co-operation with reputable international centres; reforms in the educational system; development of systems for distance-learning, lifelong learning and flexible form of learning for and using ICT; establishment and development of digital libraries in the education, science and

culture; development of a unique coding system; introduction of information society in the primary health protection, special hospitals; establishment of an electronic health card and web-services for making appointments; establishment of a system for electronic ID card with electronic certificate for the citizens; standardisation of the services for exchange of information and documents with European systems; complying with the principles of accessibility, multi-languages, security, privacy and subsidies of the e-services in all social sectors; protection of the intellectual property rights, databases, information security and data privacy; cyber crime protection; establishment of electronic business operations.

The basic objectives of the Strategy define the objectives of establishment of the basis and priority areas that are to enable the sustainability of building and further development of the Information Society in the Republic of Macedonia: short term – establishment of the important presumptions and preconditions necessary for commencement of the Information Society development; long term - creation of the overall environment that will enable and motivate the knowledge-based economy development, i.e. economy whose competitive capacity and dynamics will be based on creativity, inventions and innovations. It is planned in 2007 to revise the Strategy in order to harmonise it with the objectives of the draft-Action Plan of the European Commission “o 2010”.

4.8.4. Environment

In the forthcoming period, the Republic of Macedonia implement the recommendations laid out in the Analytical Report of the European Commission and continue harmonisation of the national environmental legislation with that of the EU. In addition, the entire national system of environment management needs to be strengthened to more efficiently implement the legislation. On the other hand, greater investments are needed in the area of environment protection, and in that regard, especially critical are the issues of waste management and waste water treatment, as well as the introduction of an integrated water resources management system. At the same time, activities to be tackled by the Ministry of Environment and Physical Planning (MOEPP) and other stakeholders in the environment management system in the period to come are introduction and implementation of procedures of integrated pollution prevention and control and environmental impact assessment and strategic environmental impact assessment.

The Government of the Republic of Macedonia is increasingly integrating environmental issues into other sector policies, and environmental policies and requirements set in the national legislation are often given higher significance. These two trends will accelerate in

future.

Activities realised in the course of 2005:

Horizontal legislation

The Law on Environment is a framework law transposing the part of *acquis communautaire* known as horizontal legislation. The Law on Environment provides the basic principles and procedures of environment management and control of pollution to which the other sector laws refer. The Law on Environment and the related sublegislation acts are providing the basis for conducting an Environmental Impact Assessment procedures (EIA).

Air - In the area of air quality, the Decree on Limit Values established levels and types of pollutants in ambient air and alert thresholds, deadlines for reaching limit values, and margins of tolerance.

The National Cadastre of polluters and pollutants in the air of the Republic of Macedonia was finalized in 2005 and the results from the database on air emissions were published. Preliminary approximation for establishing zones of agglomerations for air quality was finalized and the zones and agglomerations will be defined in compliance with the Framework Directive on Air (31996L0062).

Waste management - By the end of 2005 activities of illegal landfills cleaning were undertaken in nine locations in the Republic of Macedonia: three in the Ohrid-Prespa region, four in the Skopje region, one in the National Park Pelister and one in the Tetovo region. Also, a tender was published for cleaning illegal landfills in the remaining locations. In 2005, the department of waste management adopted the Rulebook on the manner and programme for taking an exam for waste managers, the form of the certificate, as well as the amount and the manner of payment of the fee for taking the waste manager exam.

Nature - In the area of nature protection a Rulebook was adopted on the content of the protected areas management plans and the content of the annual programmes for nature protection, Law on Nature Protection.

In the area of water, changes to the Law on Water were proposed. Also, the Law on Amending and Supplementing the Law on Water was adopted.

Projects - CARDS 2004 – “Environment Management Strengthening”. The project started in June 2005 and during the same year the tender documentation was prepared and the tender procedure was carried out in cooperation with the European Agency for

Reconstruction.

CARDS 2003 - "Improvement of the Transborder Water Resources" In 2005, tender documentation was prepared and tender procedure was carried out in cooperation with the European Agency for Reconstruction.

CARDS projects are financed by EU, managed by EAR, with MOEPP as main beneficiary. Preparation of the National Strategy for Sustainable Development - In cooperation with the Swedish International Agency for Development, SIDA, in the course of 2005, tender documentation and tender implementation were carried out in the same year.

Activities realized in the first half of 2006

Horizontal legislation - With a view to strengthen environmental monitoring, the Strategy for Environmental Monitoring was adopted by the Government of the Republic of Macedonia in May 2006. The acceptance and overall implementation of the Strategy will enable MOEPP to create relevant, understandable, accurate data accessible to the public and information on the environmental status in the Republic of Macedonia. Data collection enables the country to adapt, implement and put into force the legislation in a satisfactory manner.

In January 2006, MOEPP adopted a Programme for investments in the area of environment for 2006. These funds in amount of 55 mil MKD will be used for: Biodiversity conservation and promotion; Protection, conservation and improvement of water quality; Protection, conservation and improvement of air; Air Management, Raising Public Environmental Awareness; Promotion of cleaner production and replacement of technologies; Promotion of educational, research and development studies, programmes, projects and related activities towards environment and nature protection and promotion; Collector system of treatment plants in protected areas; Afforestation and eco-corners; Waste disposal and landfills; and Education and training of employees.

In the period January-June 2006, MOEPP adopted the six secondary laws related to horizontal legislation:

Rulebook on payment of fees for expert inclusion on and exclusion from the list related to the assessment of the project impact on the environment, partly nullified by the Constitutional Court in June 2006;

Rulebook on the report on the suitability of the EIA Study of the project, as well as the procedure of authorizing the list of experts in EIA who will prepare the report.;

Rulebook on defining all aspects of Project EIA, as well as the manner of consulting the

public;

Rulebook on the information to be included in the announcement of intent to implement the project and the procedure for determining the need for Project EIA;

Rulebook on the content of the requirements to be fulfilled by the Project EIA Study; and

Rulebook on the costs for implementation of the Project EIA procedure paid by the investor, partly nullified by the Constitutional Court in June 2006.

Guidelines on implementation of the procedure for determining the need, scope and review of EIA in the Republic of Macedonia.

Seven technical guidelines on the implementation of EIA procedure were prepared for the following: wastewater treatment plants, landfills, dams, slaughter houses, quarries and stone and sand extraction, surface water/earth gas abstraction and exploitation.

In February 2006, the project "Support of the Preparation of the National Sustainable Development Strategy of the Republic of Macedonia" was approved. The project represents continuation of the country's efforts to reach goals defined before and after the World Summit on Sustainable Development held in Johannesburg in 2002. The Strategy will also represent fulfilment of Republic of Macedonia's obligations towards the international community and EU, but its primary goal is to provide an effective framework for sustainable development.

Air Quality - CORINAIR methodology was introduced to inventory the air pollutants measured in tons per year. These data are included in the annual report to the Convention on Long-range Trans border Air Pollution and to the European Agency of Environment. Also, a draft document has been prepared proposing the zones and agglomerations for air quality based on the preliminary assessment of air quality.

For the implementation of the Law on Air Quality, a Rulebook on the criteria, methods and procedures for ambient air quality assessment and an Order banning import of used refrigerators, freezers or other cooling or freezing devices and import of ozone depleting substances were adopted.

Climate changes - The institutional structure defining those responsible for performing the procedure of CDM (Clean Development Mechanism) project approval was prepared. In addition, the work on the Strategy for implementation of the Kyoto Protocol continued, and is in the final stage.

The Protocol on Energy Efficiency to the Charter on Energy and Related Environmental

Areas (PEEREA) was revised relating to energy and environment, with an emphasis on the climate change policy. Also the report on the environmental *acquis* was prepared which is contained in the Agreement on Free Energy Market.

A Draft Inventory of GHG Emissions was developed for 2000 as a baseline year. In the framework of this inventory, the previous data were re-calculated and new emissions until 2002 were calculated.

With regard to the strengthening of MOEPP in the area of the implementation of the Kyoto Protocol the Joint Office was established, in accordance with the Memorandum of Understanding between Macedonia and Italy. The main functions of this Office are in developing national capacities for project implementation in compliance with the Clean Development Mechanism, which is defined in the Protocol of Kyoto.

Waste management - The Law on Waste Management harmonized with the EU *acquis* was adopted. In addition, two important strategies for the waste sector were prepared: National Plan for Solid Waste Management for the period 2006-2012 and the Feasibility Study for central-eastern and northern-eastern Macedonia. The Plan facilitates the gradual improvements in the existing waste management system. These anticipated changes will be aimed at upgrading and promoting administrative capacities, technical infrastructure, public awareness and legal framework.

As for the secondary legislation, the following acts have been adopted:

- Rulebook on transport of communal and other types of non-hazardous waste;
- Rulebook on the integrated waste disposal network;
- Rulebook on waste handling, waste identification and transport and reporting;
- Rulebook on regulating the waste manager; and
- Rulebook on handling asbestos waste and products containing asbestos.

Water - Changes to the existing Law on Water were prepared. The Law on Amending and Supplementing the Law on Water was adopted relating to payment of water use charges.

Nature - The National Park Administration which was an organization of associated labor was transformed into a Public Institutions – National Parks to be responsible for the affairs of Galicica, Mavrovo and Pelister national park management and protection.

The Ministry of Environment and Physical Planning is required to revalorize protected areas already specified and to proclaim new ones.

To this end, the Government of the Republic of Macedonia has adopted the Information on the need of proclamation of “Markovi Kuli” Site, again, as monument of nature.

In 2006, the Law on proclamation of “Smolarski Waterfall” was adopted as well.

Based on the Law on Nature Protection, the following secondary legislation was prepared and adopted:

Rulebook on the content of protected areas management plans and the content of the annual programmes for nature protection; and an Order for ban on collection of the plant species *gentiana lutea* and *gentiana punctata*.

Industrial Pollution Prevention and Control (IPPC) - The MOEP has begun preparations for issuing IPPC A permits to five pilot on a voluntary basis, metallurgy companies Makstil, Feni, Silmak; OKTA refinery; and cement company USJE.. Pilot permits will be as close to full IPPC permits as available information allows. Reports will be submitted on all non-fulfilled requirements from the IPPC permit, along with the activities to be undertaken in future to overcome inconsistencies. The process of permit issuance will be also used to identify defects in available information and determine the optimal way to improve the permitting process.

Progress has also been made in the area of recommendations for BAT(Best Available Techniques) . Four BAT recommendations are finalized for ferrous metals processing, non-ferrous metals, iron and steel. Two more recommendations for intensive agriculture and cement are under preparation.

An inventory of B installations has been prepared in cooperation with the local self-government units in order to use local knowledge. The preparation of the first issue of B Inventory was completed in May 2006 and sent to all interested entities, including all local self-government units.

An intensive IPPC training programme for the employees of MOEPP and the representatives of local self-government units was realized including the following workshops: Introduction to IPPC, October 2006, Application for IPPC Permit, November 2006, A and B IPPC Permits Issuance, February 2006, IPPC for Energy and Poultry Industry, May 2006.

The procedure of issuing integrated environmental permits is regulated in the following secondary legislation:

- Decree on installations to be issued integrated environmental permit;
- Rulebook on the adjustment permit with adjustment plan
- Rulebook on obtaining an A integrated environmental permit
- Rulebook on obtaining a B integrated environmental permit; and
- Rulebook on requirements of the Scientific-technical Commission for best available

techniques.

Chemicals - A draft of the pre-study for management of risks by chemicals has been prepared and it refers to the process of approximation of the part of EU regulations related to chemicals and on institutional capacities of the Republic of Macedonia. This pre-study will be a basis for development of a long-term programme for cooperation in sound management of chemicals, and for preparation of a new Law on Chemicals in compliance with the REACH System.

Genetically modified organisms (GMO) - The analysis of gaps in the status of approximation of current national legislation on GMO with the relevant EU regulations is under way, toward preparation of the Law on GMO. Activities are occurring in cooperation with non-governmental sector towards raising awareness of GMO issues.

Noise - New Law on Noise is currently being prepared and will be harmonized with the new Law on Violations. It is expected to be submitted to the Government by the end of the year.

The State Environmental Inspectorate (SEI) has developed the Work Report for 2005, which was adopted as information by the Government of Republic of Macedonia in May .2006. It was placed on the MOEPP's Internet site www.moep.gov.mk. SEI was admitted in the Network of Environmental Inspectors of the EU member countries as a full member in April 2006, due to the status of the Republic of Macedonia as a candidate-country for EU membership.

The Government of the Republic of Macedonia adopted the second National Environmental Action Plan of RM (NEAP 2) in march 2006. This plan defined environmental problems and determined the policy for the next 6 years, including identifying instruments and mechanisms for implementation, financing defining the role of the international community, and monitoring and updating of the NEAP 2.

Local self-government units (LSU) are responsible for developing Local Environmental Action Plans (LEAPs). The procedure to develop LEAPS for the municipalities of Gazi Baba, Demir Kapija, Novo Selo and Demir Hisar was initiated. Five more are planned for the municipalities of Tetovo, Strumica, Krusevo, Delcevo and Staro Nagoricane. The MOEPP is responsible for funding the development of the plans.

Regional/international cooperation - A bilateral agreement between Macedonia and Montenegro was signed in March 2006. It was a framework bilateral agreement for

cooperation in the area of environment.

PROJECTS

An agreement was signed with Switzerland in April 2006 for implementation of the project Monitoring of the Rivers in the Republic of Macedonia, second phase, involving 11 monitoring stations. Within the monitoring system, encompassing 18 monitoring stations for water quality and quantity of the rivers in the Republic of Macedonia, additional equipment will be installed, to collect and monitor the precipitation data with the aim to establish a system for early warning against potential floods.

An agreement was reached in April 2006, for Austria to provide financial support to the Project Development and Consolidation of the wastewater sector in the Republic of Macedonia, II. The project envisages training of wastewater treatment employees of the public communal enterprises, representatives of MOEPP and local authorities of the municipalities Makedonski Brod and Sveti Nikole.

In May 2006, an agreement with the Office of the United Nation Development Programme (UNDP) in the Republic of Macedonia was signed to support the project Integrated management of the ecosystem in the Prespa Lake Watershed in Albania, Macedonia and Greece. The goal of the project is conservation and sustainable use of flora and fauna species of global importance and transboundary water resources in the watershed. The project will encourage the integrated management of the ecosystem in the common Macedonia, Greece and Albania watershed.

Switzerland agreed to provide financial assistance for Rehabilitation of the pump stations Ohrid-Istok in May 2006. Implementation has started and should take one year to complete.

Also in May 2006, Austria agreed to finance the implementation of the Project Green Pack. This project will provide Environmental education on sustainable development in the primary schools

Under the CARDS 2005 Programme, in February 2006 the Project "Environmental Management Strengthening in the Republic of Macedonia" began and will prepare the National Strategy for Approximation in the area of Environment.

Plan 2007-2009

Adoption of the following strategic documents is planned in this period:

- . National Strategy for Sustainable Development with an Action Plan;

- Second National Report on Climate Changes with an Action Plan of measures and activities for prevention and abatement of adverse effects of climate changes;
- Strategy for Implementation of the Kyoto Protocol;
- National Strategy for Sound Management of Chemicals;
- National Strategy for Waste Management;
- Water Master Plan of the Republic of Macedonia; and
- National Strategy for Nature Protection.
- National Environmental Investment Strategy

Horizontal legislation - At least nine secondary laws will be prepared to regulate the procedure for strategic environmental assessment, liability for environmental damage, access to information, etc.

Air - Amendments and supplements to the Law on Ambient Air Quality and *Ratification of the Protocols to the Convention on Long-Range Transboundary Air Pollution* have been planned. Other plans include adoption of four secondary laws on ambient air quality protection, planning, monitoring, reporting and establishing limits on air emission, climate change.

Waste - Ten secondary laws are needed to address proper package labeling, handling, and returns; handling and waste disposal of batteries and accumulators, used motor vehicles, electric and electronic devices, and titanium dioxide; and regulating waste incineration.

Waters - Secondary legislation will be proposed to regulate the operation of plants involving hazardous matters and substances; specific conditions for indirect discharge of waste water into ground waters; the emissions limits for treated wastewater discharge; and the urban wastewater collection, transportation and treatment system.

Nature - Adoption of several secondary legal acts is planned in the coming period, the most important among which is considered acts related to networks and monitoring of protected areas, protected *wild species etc.*

Industrial pollution - Conducting of IPPC procedures and development and adoption of Rulebooks for specifying the criteria for eco-labeling..

Genetically modified organisms - It is planned to adopt the Law on GMO in the environment and relevant secondary legislation, to regulate the following issues: criteria for restricted GMO use; GMO import and export; risk assessment related to restricted use and deliberate release of GMO into the environment; risk assessment related to trade; product

labeling and packaging; monitoring, financing and administration.

Chemical - It is planned to prepare and adopt the Law on Chemicals and subsequently adoption of priority secondary legal acts based on the Law on Chemicals according to new REACH regulations is planned for this period.

Noise - Secondary laws are planned for developing strategic noise maps; developing action plans on environmental noise; disseminating information and public participation and consultation; protecting against environmental noise caused by road, railroad, air and marine traffic; noise emission by plants, equipment, installations and devices used outdoors; noise emission residential appliances; and sound protection of buildings to prevent against noise emission into the environment from the neighbourhood.

4.8.5. Reform of the judicial system

The Strategy on the Reform of the Judicial System and the Action Plan were adopted and the Ministry of Justice is implementing both in the 2005-2007 period

Current situation

In December 2005, the Constitutional amendments were adopted authorising major changes in the organization and functioning of the judicial institutions. The amendments redefined the position of the Judicial Council, repealed the power of the Assembly of the Republic of Macedonia to elect and dismiss judges, and rescinded the exclusive court jurisdiction over misdemeanors, and a new constitutional provision authorised another administrative body to resolve minor offences. After the adoption of the amendments, a number of new judiciary laws were adopted.

The Law on Academy for Training of Judges and Public Prosecutors was in January 2006. This Law, besides organizational aspects and the functioning of the Academy, defines the modalities of the continuous education of the judges and prosecutors as well as their initial training. A facility for the Academy was obtained and equipped, a Steering Board was constituted and a Statute of the Academy was adopted. Hiring of Director and an Executive Director of the Academy is underway, and afterwards there will be preparations for election of members of Planning Panel, and other organizational activities necessary to make the Academy operative.

A new Law on Changes and Additions of the Law on Judicial Budget was adopted.

The Law on Courts was adopted in May 2006. As a result, a new organization of the courts was established, a new Administrative Court and a new Court of Appeals were

established in Gostivar. The competences of the Basic Courts was expanded competence, new specialized court departments were established with authority to resolve certain kinds of disputes. Also established were specialized court departments at the Basic Court Skopje 1, and the Basic Courts in Strumica, Bitola, Tetovo, and Stip.

The Law on Judicial Council of the Republic of Macedonia was adopted in May 2006. This Law established the method of electing and dismissing judges. Judges will be selected an independent and non-political body consisting of judges elected by judges in direct elections. Implementation began in September 2006. The State Judicial Council was also established by this Law.

The Law on Mediation was adopted in June 2006. It regulates the rules for mediation as an alternative dispute resolution system. It also provided better access to justice, reducing pending court files, and quick and efficient solution of the cases. The Law of Mediation complies with the recommendation of the Commission (31998X0257) from March 30, 1998, and it concerns the bodies that are responsible for out of court settlement of consumer disputes, UNICITERAL Model Law and the Resolution 35/52 adopted by the General Assembly in December 4, 1980 and 35/53 Rules for settlement of the UN Commission for international commercial law. A Program for selection and training of mediators and Ethical Code for mediators were adopted, and the first training for mediators was performed. A Chamber of Mediators was constituted.

The following procedural laws were adopted. The Law on Changes and Addition of the Criminal Code was adopted at the beginning of 2006, and it strengthened the provisions from the Chapter concerning violations during elections and vote, and it also decriminalized offences against honour and reputation.

The Law on Enforcement on Sanctions was adopted in December 2005 and it reformed the penitential system through the reorganization of the Directorate for Enforcement of Sanctions and through the network of prisons in the Republic of Macedonia, which advanced the whole system for execution of sanctions in the Republic of Macedonia.

The Law on Misdemeanors was adopted in May 2006 and it regulates the authority to adjudicate certain offences specified in the law by a state organ, organization, or some other organ which has public authority, and it can pronounce legal sanctions. Having in mind that administrative organs apply specific administrative proceedings, the Law allows for certain offences to be regulated by other laws and other misdemeanour proceedings. A new system of fines was introduced which is the main sanction for lesser offences, rescinding the prison penalty. A new category for offences of legal entities was established

since new forms of economic offences have emerged.

The Law on Administrative Disputes was adopted in May 2006. An Administrative Court was established to decide administrative disputes between public institutions and will unburden the Supreme Court of this responsibility.

The Litigation Law was implemented in December 2005. It provided adequate legal mechanisms for quicker and more efficient functioning of the courts for civil procedures. A Council for monitoring the implementation of the Law was established, and the first results and data about the implementation of the Law are going to be gathered in September, and subsequently every six months.

The Law on enforcement was adopted in 2005, and implementation started in May 2006. It eliminated the causes of slow and inefficient execution of court decisions in civil procedures, as well as the decisions of the state executive organs pertaining to the payment penalty. The law establishes a bailiff system to enforce the court orders. Bylaws were adopted to create an Examination Commission for bailiffs. The first examination test was in February 2006. The first bailiffs were appointed by a decision of the Minister of Justice, and they have started working.

Considering the needs for assessment of human resource capacity in court administration, the Ministry of Justice, in cooperation with the Judicial Budget Council, prepared an Information for the needs of new employments in the courts of the Republic of Macedonia. The Government of the Republic of Macedonia has adopted this Information and provided a budget. These changes resulted in the employment of 144 additional persons.

Informational Technology

In the course of 2005 – 2006 an optical connection was established between all the judicial institutions which included more than 50 locations. In May 2006 the equipping and adaptation of the Judicial Informational Technology Center was finished, and its Head office is at the Ministry of Justice.

Beginning in 2007 the software with legal data base will become operative, and software applications will be implemented in the Public Prosecution Office, penitentiary institutions and the State Judicial Council.

Future activities

In the course of implementing the reform activities in the judiciary system, the Ministry of Justice will particularly emphasize the following aims and measures:

Implementation of laws in the judiciary

- A Law on Public Prosecution and a Law on Council of Public Prosecutors will be adopted to strengthen the role of the Public Prosecutor. It will transfer the competence of the investigative judge on the Prosecutors, and specify the status of the Department for Corruption and Organizes Crime.
- Offences listed in the separate laws will be harmonized entirely with the Law on Misdemeanor.
- The Council for Reform of the Judicial System will continuously monitor the reform process of the judicial system.
- The Ministry of Justice is preparing the Court Rulebook in accordance with the Law on Courts, which will advance the statistics system in courts and will adjust the software applications in courts.
- According to the competences listed in the Law on Courts, a Handbook for taking over cases from one court to another will be adopted.
- The procedure for constituting the Judicial Council has already started, and it will proceed in accordance with the legal time limits.
- The Ministry of Justice will continuously monitor the implementation of the Law on Litigation.
- The Ministry of Justice Department will be equip and train notaries and bailiffs.
- During 2007 all bylaws anticipated in the Law on Courts will be adopted (approximately 30).
- The Academy for training of judges and public prosecutors will become operative by the end of October and will start preparations of trainings.
- The Ministry of Justice will monitor the implementation of the provisions of the Law on Enforcement.
- The Ministry of Justice will monitor continuously the implementation of the Law on Mediation and the Law on Notary Activities.

Reform of the laws in the field of criminal matters

In the course of 2006 – 2007 the reform of criminal proceedings is going to continue and changes to the Law on Criminal Procedures will be prepared. It will contribute to strengthen the position of the Public Prosecutor in terms of transferring the competence of the investigative judge on the prosecutors. There will be other changes that will make the

procedure more efficient.

In accordance with the data obtained from the analysis of the provisions of the Criminal Code, there will be appropriate changes and additions to this Law.

Informational technology

The Strategy for informational technology in judicial system is in the process of preparation and the World Bank loan aimed to continue the process of modernizing of informational technology in the judicial system is currently implemented.

4.8.6. Health Sector

Current situation

Ministry of Health and the Government are in charge of health policy formulation and implementation, the Health Insurance Fund is responsible for the collection and management of the funds and the health care institutions for service delivery.

Health care protection is provided on three levels: health care stations and health care centers on the primary health care level, the specialist-consultative and inpatient departments at secondary level, and the university clinics and institutes at tertiary level. In the last years there is considerable growth of the private sector, especially on the primary care level.

The Ministry of Finance shares the rotating chairmanship of the HIF management Board with the MoH.

Local Self-government has taken some responsibilities especially in the preventive health care sector.

The professional chambers developed and implemented a new licensing system for the health care workers, and the medical associations developed new clinical guidelines.

The Ministry of Defense supervises the health care provision for army personnel in the military hospitals, and the Ministry of Labor and Social Affairs, apart from supervising the health care rights of workers, also cover the insurance contributions of the needy, the unemployed and the pensioners.

Major segments of the health care system are defined by the Law on Health Care. Additionally, specific legislation regulates different areas such as: communicable diseases, tobacco, health evidence, pharmaceutical products, medical devices, chemicals, the

protection against ionising radiation, chemicals, drug and psychotropic substances abuse, food safety, protection against ionising radiation, pharmaceutical products, food safety, pregnancy termination and organ transplantations, etc. For the supervision of these topic areas the MoH has established State Sanitary and Health Inspectorate responsible for control of the implementation of the legislation, the Drugs Bureau. That supervises registration and licensing procedures for drugs, remedial medicines and medical devices, participates in the preparation of the essential and positive drug lists, and control implementation of the relevant legislation, and the Food Directorate which is responsible for food safety surveillance and for the control of the implementation of the legislation in the field of food safety.

Priorities

Health system in Republic of Macedonia is faced with challenges related with improvement of the health status of the population, providing the basic package of health services, public health, planning, management and development of human resources, quality assurance and health financing, as well as for securing the sustainable development.

Therefore, strategic priority of the MoH is development of the system of health care and providing compatibility with the EU system, which among other will provide free movement of health care professionals, services and patients.

According to the analyses of the health status of population in Republic of Macedonia and the health system functioning, Ministry of Health prepare health strategy and determine priorities that are to be realized until 2015:

- improvement of the health status of the population, with the special attention of the vulnerable groups
- improvement of the organization of the health care/ establishment of specific national system of health management
- modernization of the system for public health protection according to EU standards, with the accent to the network of institutes for health protection and the services for occupational medicine
- improvement in the human resources planning in the health sector
- establishing the system for quality assurance in the health sector
- improvement of the health care financing and establishing the system for

sustainable financing

- improvement of pharmaceutical services
- improvement of the health information system
- management of the health care reform
- EU integration in the field of health

PRIORITY 1

Improvement of the health status of the population, with the special attention of the vulnerable groups

Better health for newborn babies, infants and pre-school children will be achieved by way of strengthening the primary health care including patronage services. Specific attention should be paid to the children at Roma population.

In order to provide quality of Health education which can contribute to adoption of healthy lifestyles, intersectoral cooperation between health and educational institutions, local authorities, media etc. will be developed.

Improvement of mental health care will be based on the Mental Health Strategy –approved by the Government in 2006, which determine that acute cases will be treated in the psychiatric departments of the general hospitals, while the ambulatory care for patients referred by the chosen doctor will be given by psychologists and psychiatrists in specialist outpatient services and by the community mental health centers.

Control of infectious diseases will be continued with the constant monitoring and straightening of the activities for monitoring and control of the infectious diseases, and of development of the early warning system as well.

Emphasis will be put on the primary prevention of the common non-communicable diseases, and on adoption of healthy life styles trough activities on prevention, early detection and timely and proper treatment.

Injuries, disability and death arising from accidents and violence will be reduced by way of strengthening the intersectoral cooperation in order to achieve behaviour change and make the environment safer.

Emphasis will be put on improvement of health, on appropriate organization and strengthening of the emergency care, and on improvement of the traumatology service.

PRIORITY 2

Improvement of the organisation of health care/establishment of specific national system of health management

Providing the equitable access to all essential health services and targeted preventive measures first of all for the vulnerable groups will be achieved by complete coverage of the population by a package of essential health services under the health insurance, and by strengthening the cooperation

of the doctors providing primary health care with the family and school and establishing cooperation and the functional links between the primary health care and the higher levels of health care.

Services in the secondary and tertiary health care will be reorganized in order to provide rational use of the diagnostic equipment and staff, and to avoid duplication of procedures.

Priority will be assigned to the further development of day hospitals and to solving health problems at outpatient level.

New forms of institutional care will be developed: nursing homes for chronically bed-ridden or terminally ill patients and the emphasis of these homes will be not on cure but on care.

The process of privatization of the primary health care will continue.

Management of the existing public hospitals will be enforced (health management will be implemented).

PRIORITY 3

Improvement of the specialised health care – public health

The specialised preventive health care is performed by the network of the Republican and regional Institutes of Health Protection. They are responsible on implementing certain programs on health improvement.

The role of the regional institutes for health protection will be improved through improvement of the system of collection and analyses of quality data, and through the process of planning, monitoring and evaluation of the activities for health protection in the area of public health.

With regard to the improvement of the health of the young people Strategy for promotion of adolescents and young people's health will be adopted.

In 2006 Strategy on health, healthy environment and work place and work safety was adopted. Strategy foresees enhancement of the system for occupational health and improvement of the quality of health care, especially through preventive activities.

PRIORITY 4

Improvement of the planning and quality of human resources

The Medical, Pharmaceutical and Dental Chambers are carrying out the process of licensing and re-licensing. The curricula and syllabic for under-graduation and post-graduation studies and specializations of all health staff profiles will be harmonized with the EU legislation.

PRIORITY 5

Improvement of the quality of health care

Within the context of improvement of the quality of health care, Ministry of health is planning to adopt Law on protection of patient's right.

Continuing education will be implemented in the interests of quality assurance, and the technical and administrative capacity of State sanitary and health inspectorate will be improved.

PRIORITY 6

Improvement of health care financing

In order to improve health care financing, following measures will be taken:

- enforcement and reorganization of the HIF
- improvement of paying of the health insurance contributions
- improvement of HIF control over the budgets of health services
- change of the way of payment to health institutions and gradually transfer of the financial responsibilities to the health care deliverers.
- defining of the basic benefits package of health services covered by health insurance by mid 2007.
- making conducts with health care providers on the basis of prepared medical map and established criteria for comparing the quality of health care providers
- determination of the referent prices for medicaments
- strengthening of the programs financed by the budget

PRIORITY 7

improvement of the pharmaceutical services

A national drug policy, which most important objective is to provide access to a package of essential medicines for the whole population, was adopted in 2001.

Better pharmaceuticals services will be provided by:

- preparing the new positive list in accordance to clinical protocols and instructions and

determination of the referent prices of the medicines

-improvement of the control of dispensing the medicaments

-enforcement of the functions of the Bureau for drugs

-harmonization of the current legislation concerning medicaments with the EU legislation

-preparing the Guideline on Good pharmaceutical practice with determined standards

PRIORITY 8

Improvement of the health information system

Ministry of Health adopts Strategy for the Development of an Integrated Health Information System (IHIS) in 2006. The essential tool of the new IHIS will be integrated Information and Communication Technology (ICT) system, which, together with the electronic systems in the health care organizations, will enable communication, networking and integration of the health care organizations.

This system will allow standardisation of data, data transaction processes and data security.

Short-term objectives of the Strategy on IHIS (2006-2007) is completion of the information system in the Health Insurance Fund; the implementation of Hospital Information Systems; and development of unified registries (unified coding systems), and in the period till 2015 it is expected ICT to be implemented in primary health care, and Diagnosis Related Groups and of electronic health records to be introduced.

PRIORITY 9

Management of the health care reform

In order to ensure a high level of health for the population and provision of high quality health care in a cost-effective way, the Ministry of Health will strengthen its capacities for strategic planning and policy making, implementation and legislation, monitoring and evaluation.

PRIORITY 10

Harmonisation of the legislation within the responsibility of ministry of health with the EU legislation

The process of harmonization of national legislation in the field of health has already started. MoH has determined his priorities, and the time frame for conducting the activities as well.

Fast technological development and enormous attention paid to products safety and people's health lead to quick changes in the European legislation. Those changes should reflect also in the national legislation. Special attention is given to the harmonization of the

Acquis in the Chapters Free movement of goods and Consumer protection and Public Health.

According to Action plan for European partnership and national Programme for Adoption of EU Acquis, in the period to 2008 more laws and by laws should be brought into force:

- Law on medicaments and medical devices, with the relevant bylaws
- Law on safety of cosmetic products
- Law on amending the Law on safety of food products and materials that come into contact with food, and relevant bylaws
- Law on chemicals and relevant bylaws
- Law on narcotic drugs and psychotropic substances
- By laws on precursors
- Bylaws on the protection of population from the infectious diseases
- National action plan on prevention and early detection of breast cancer
- National strategy for prevention of problems related to alcohol abuse
- National strategy for control of narcotic drugs
- National strategy for TB
- National strategy for HIV/AIDS

5. Economic policy matrix

5. Matrix of economic reforms		
4.1. Enterprises sector		
4.1.1. Privatisation		
Policy objectives	Measures to be taken	Deadline
Completing the privatization process	Closing the Privatization Agency	Completed – October 2005
	Transfer of unsold shares and parts of the competent institutions	2006
	Completing the privatization process in the companies with social capital by sale on the Stock Exchange	2006
	Privatization in the social sector and the public administration	2006-2007
4.1.2. Strategy and policies in industry		
Policy objectives	Measures to be taken	Deadline
Improving the competitiveness of the Macedonian industry and increasing industrial production	Strategy for development of the textile industry	2007
	National strategy for restructuring of the steel industry and its implementation;	2008
	Harmonization of the national legislation with the Acquis	2006-2007
	Study for development and indicators for the competitiveness of the Macedonian industry	2006
	Strategy for industrial policy and its implementation.	2006

4.1.6. Business environment and SMEs		
Policy objectives	Measures to be taken	Deadline
Establishing favourable climate for entrepreneurship development	Preparation of new four-year Program for entrepreneurship support	2006-2009
Development of infrastructure for export orientation, innovativeness and cooperation with the department for SMEs	Support of the existing infrastructure (APPRM, EICC, Observatory)	2006-2009
	Human resources Fund	2006-2009
	Building capacities for new contents of the regional centres	2006-2009
	Incubators	2006-2009
	Development and networking of new centres for SMEs support	2006-2009
	Support in establishment of entrepreneurship zones	2006-2009
Development of instruments for (non) financial support of SMEs and entrepreneurship	Support for the centres for technological development	2006-2009
Support and development of clusters	Operational voucher system	2006-2009
	Promotion of the micro-credit lines efficiency	2006-2009
	Support for establishment of investment funds;	2006-2009
	Strengthening of the Guarantee fund and issuing guarantees;	2006-2009
	Specific training programs for specific target groups;	2006-2009
	Support of the regional craftsmen chambers and their networking;	2006-2009
	Support for establishment of new clusters;	2006-2009

	Support for internationalisation of the existing and the newly established clusters;	2006-2009
	Establishing programs for competitiveness development;	2006-2009
	Support in organising fairs and exhibitions;	2006-2009
	Development of dialog between the private and the public sector for the SME policy (SMEs Forum);	2006-2009
	Incubators for young entrepreneurs;	2006-2009
Increasing the quality of the education and the entrepreneurship culture	Studying entrepreneurship as part of the regular curriculum in schools;	2006-2009
	Organising trainings for the unemployed;	2006-2009
	Promotion of the principle „life-long learning”	2006-2009
4.1.7. Tourism		
Policy objectives	Measures to be taken	Deadline
Better positioning of the Macedonian tourism on the international tourism market	Promotion activities on the international tourism market;	Continuous;
	National strategy for tourism development;	2007
	Stimulation and development of tourism offer;	2007-2009
Improving the standards and the quality of accommodation capacities	Extending the tourist season;	Continuous
	Improving and modernization of the existing hotels, tourism settlements and other accommodation capacities;	Continuous;
	Categorization of the accommodation capacities pursuant to the existing regulation (Catering Law);	Continuous;
	New regulation for categorization of accommodation capacities (book of rules for categorization of the facilities that perform catering activities);	Continuous;

	Development of tourism on the whole territory of Macedonia;	Continuous;
	Support of tourism offer based on traditional natural, cultural and other values;	Continuous;
Development of different types of tourism	New Law for protection of the Ohrid Region as a natural and cultural heritage of UNESCO;	2006
4.2 Banking system		
Policy objectives	Measures to be taken	Deadline
Strengthening of the competition in the banking sector;	Enabling entrance of foreign banks in the sector;	Continuous
Strengthening bank supervision;	Utilisation of standard instruments for strengthening the capacity of the NBRM supervision service;	2006-2009
Internal reorganization and restructuring of banks;	Promotion of corporate governance in banks and strengthening the internal control systems;	2006-2009
	Strengthening the fit and proper criteria for shareholders and members of management bodies;	2006-2009
	Enhancing transparency in operations;	2006-2008
	Stimulating bank mergers;	Continuous
	Harmonisation with the Consolidated Banking Directive (2000/12/EC);	2008
Harmonisation of the Macedonian legislation with the acquis	Ensuring freedom to provide banking services in the Republic of Macedonia via branches of banks from EU member states and non-members;	2006
	Regulating the electronic money institutions;	2007
	Harmonisation and implementation of the Capital Adequacy Directive (93/6/EEC) with regard to market risk;	2007

	Preparation of legislation on protection of financial services users, in accordance with the Directive 87/102 for harmonization of laws and administrative services of member states referring to consumer credits;	2007
	Defining the scope of financial conglomerates and their supervision in accordance with the Directive 2002/87/EC;	2008
	Preparation of legislation and providing an opportunity for cross-border banking services;	2009
4.2.2. Capital Market		
Policy objectives	Measures to be taken	Deadline
Increasing the investor confidence for investments in securities on the Macedonian capital market;	Adopting a Code of Corporate Governance for Listed Companies;	2006
Enhancing interest of domestic and foreign entities to invest in securities;	Undertaking promotion activities will continue through public media in the country, as well as the organizing of campaigns, to the end of introducing the public with the possibility for secondary trading in short-term securities on the OTC market;	Continuous
	Further improvement of the regulation and its continuous harmonization with the EU Directives and IOSCO principles;	Continuous
Intensification of secondary trading in short-term securities and in long-term securities on the OTC market	Adoption of Law on Investment Funds;	2007
	Modifications and amendments to the Law on Taking Over Joint Stock Companies;	2007
	Completion of all systemic measures for further functioning of the transactions in securities;	2008

4.2.3. Pension System Reform		
Policy objectives	Measures to be taken	Deadline
Continuation of the initiated reforms by completing legal regulations	Adoption of the Law on Voluntary Capital Funded Pension Insurance;	2008
	Adoption of the Law on Payment of Pensions.	2009
4.2.4. Insurance		
Policy objectives	Measures to be taken	Deadline
Strengthening insurance supervision;	Establishment of an independent Insurance Supervision Agency;	2007
	Drafting a law on amendments and modifications to the Law on Insurance Supervision that would strengthen supervisory measures and authorizations;	2006
	Strengthening the capacity of the Insurance Supervision Agency through continuous education and training of the supervisors, increasing the transparency and establishing standardized supervisory approach and supervision procedures;	2007-2008
	Transposition of the following EU Directives: 78/433/EEC, 84/641/EEC, 87/343/EEC, 87/344/EEC, 91/674/EEC, 98/78/EEC, 2001/17/EEC, 2002/13/EEC, 2002/83/EEC, 2002/87/EEC, 2002/92/EEC, 2005/68/EEC;	2008
Harmonization with the EU legislation and IAIS principles and standards;	Strengthening the internal audit standards in the insurance undertakings;	2007
	Strengthening corporate governance;	2007
Internal restructuring and reorganization of the insurance sector;	Strengthening the fit and proper criteria for shareholders and members of management bodies in the insurance undertakings;	2007
	Enhancing transparency in the insurance undertakings;	2007

Strengthening insurance sector competition	Stimulating the entry of foreign capital on the insurance market;	2007
	Abolishing and limiting any monopolistic and oligarchic behaviour on the market that are aimed at influencing the prices of insurance products;	2007
	Strengthening measures against unfair competition	2007
4.3 Labour Market		
Policy objectives	Measures to be taken	Deadline
The national target stated in the National Employment Strategy for the overall employment rate to be reached by 2010 is 48%.	Support to first employment for young people under 27 years of age	2007-2010
	Providing scholarships for training abroad for 250 young people each year, i.e. 1000 people for a 4-year period;	2007-2010
	Employment Service Agency will prepare a Plan for integration of unemployed aged 55-64 in 2007	2007
	Preparation and implementation of a Program for life-long learning to improve the skills of older workers and older unemployed	2007-2008
	Change in the current legislation in order to separate the health insurance from the unemployment insurance	2007
	Changes to the legislation so as to ensure preventive approach since this approach is not sufficiently reflected in the relevant legislation, in particular the individual action plans for employment	2007
	Support for self-employment (family business) for 5000 people. Target group will be the people living in under-developed regions and are long-term unemployed	2007-2010
	In the next 3 years, to facilitate ratio of 1:900(ESA staff: registered unemployed), once the health insurance issue for these persons have been resolved	2009

	Training of the local employment centres for preparing individual action plans for the unemployed people.	2007
	Possibility for the unemployed person registered at the Employment Service Agency (ESA) for more than one year to be employed for an indefinite time and for the employer to be exempted from paying personal income tax for a 3 year period	2007-2010
	Drafting ESA IT strategy so as to identify the needs of changing to new hardware and software solutions	2007
	Procurement of equipment for local employment centres.	2007
	Introduction of regular activity of the local employment centres on drafting Report on skill needs analysis after previously implemented survey	2007
Harmonisation of the national with the EU legislation in the field of labour market	Twinning project for harmonization of the national labour legislation with the EU legislation (in particular the Law on Labour Relations).	2007
	In order to legalize the businesses in the grey economy, three months will be provided for the people in the grey economy to legalize their grey economy activity intensified inspections and increased number of registered workers after the controls by 5% in 2007 and 2008	2007
Harmonisation of the national legislation with the Eu legislation in the field of safety at work	• Adoption of rulebooks in the area of safety at work:	2007-2009
	- Rulebook on protection of the health and the safety of workers from risks related to exposure to chemical agents, aligned with the Directive 32000L0054	2007-2009
	- Rulebook on protection of the health and the safety of workers from risks related to exposure to biological agents, aligned with the Directive 32000L0054	2007-2009

	Rulebook on protection of the health and the safety of workers from risks related to exposure to physical agents (electro-magnetic field), aligned with the Directive 32004L0040.	2007-2009
	- Rulebook on protection of workers from risks related to exposure to asbestos at work, aligned with the Directives 3198L0477 and 32003L0092	2007-2009
	- Rulebook on protection at work potentially at risk from explosive atmospheres, aligned with the Directive 31999L0092	2007-2009
	- Rulebook on the protection at work from the risks related to exposure to carcinogens and mutagens at the work place, aligned with the Directive 32004L0037	2007-2009
	Rulebook on the minimum requirements for safety and health protection of workers in surface and underground mineral-extracting industries, aligned with the Directive 31992L0104.	2007-2009
	Rulebook on the minimum requirements for improving the safety and health protection of workers in the mineral extracting industries through drilling aligned with the Directive 31992L0091	2007-2009
Reform of the social protection system and legislation	Laeken indicators implementation by the State Statistical Office	2007
	Adoption of a National Program for deinstitutionalisation and its implementation	2007-2009
	Adoption of a new Law on Social Protection	2007-2009
	Improvement of the employability of disabled (physical and intellectual disabled);	2007-2009
	Employment of children without parents and single parents	2007-2009
	Implementation of the Operational Plan for Employment of the Roma population	2007-2008

	Preparation of protocols on the operations of the MLSP, MIA, MJ, MH and NGOs to determine the procedures for the operations regarding protection of victims of family violence;	2007-2008
4.4. Agriculture		
Improvement of the administrative capacity for management of the state-owned land		
Policy objectives	Measures to be taken	Deadline
Towards building an efficient and transparent system for disposition state-owned agriculture land	Assessment of the system of disposition of state owned land and the procedures for land allocation and indicators of its utilization	2007
	Establishment of detailed records and IT database of the state property plots/parcels (supported by cadastre notes)	2007
	Upgrading the procedures and strengthening the criteria for disposition of state-owned land	2007
Development of Agriculture Land Market		
Policy objectives	Measures to be taken	Deadline
Improve the farm efficiency and productivity	Agriculture Land Study incl. Analysis of the scope and reasons for land desertion and preparation of policy measures for reduction of the uncultivated agricultural land	2007
Improvement of size of individual farms	Passing new Law on agricultural land and amendments in the other legal acts on creating functional agricultural land market	2007-2008
Improvement of agriculture land use	Setting up a fully digitalised vineyard cadastre	2008
Improvement of access to rural credits providing that registered agriculture land is a collateral	Establishment of an agricultural land register by digitalization of the cadastre data from the State Bureau of Geodetic Works	2009

Rural Development Strategy		
Policy objectives	Measures to be taken	Deadline
Rehabilitation of villages -Reverting the process of rural-urban migration -Promotion of balanced regional economic development -To ensure sustainable development of the forests and wildlife	Diversification of economic activities in the rural areas including promoting of rural tourism	Continuous
	Programme for investments in public utilities (water supply and sewage systems)	Continuous
	Forestation and protection of forests	Continuous
	Protection of the wild life and hunting policy	Continuous
Improvement of the agriculture research programme	Programme for support of Agriculture infrastructure (improvement of irrigation and drainage systems)	Continuous
Strengthening the competitiveness of the agriculture holdings , Modernize the production technology, Improve the quality of production, Improve the farm income, Comply with environmental standards, veterinary and phytosanitary requirements	Establishment of common production facilities and trademarks	2007
	Amendments of the Law for instigation of the Agriculture development	2007
	Introducing code of Good Agricultural Practice	2007
	Allocation of the agricultural financial support funds in: traditional competitive products, non-traditional products, organic farming, quality seed material and support to producer associations	Continuous
	Support of on-farm investments in equipment to comply with EU aquis	Continuous

Restructuring of the food-processing industry, Improve the production systems in line with food safety requirements, Support joint marketing activities, Establish efficient vertical integration of agriculture and food-processing, Introduction of modern technologies	Creating Agro Food Cooperation Council to develop private-public dialogue	2007
	Support programme for introducing systems of certification and registration (HACCP, organic production certification etc.)	Continuous
	Promotion and support of vertical cooperation	Continuous
	Support to promotional events and national participation on international agriculture fairs	Continuous
	Support of investments in equipment to comply with EU aquis	Continuous
Strengthening the Agriculture Markets		
Policy objectives	Measures to be taken	Deadline
Improve the market chain	Transformation of the Public Enterprise "Agro Berza"	2007-2009
Support investments in market facilities	Development of National Programme on promotion of Macedonian agro – food production regarding building up recognizable and protected national brands	2007

Promote quality systems and brands	Enacting Law on Market Organisations for Agriculture Products and appropriate by-laws on harmonization of the legislation with the EU acquis (to introduce minimum quality regulations, high quality products, integrated production, traditional production and geographic labeling, quality and marketing standards of agriculture products)	2008
	Supporting the process of setting up producer associations	Continuous
	Promote the association of farmers in cooperatives	Continuous
	Support for strengthening the whole-sale markets in cooperation with the local self-government and potential beneficiaries (farmers, their associations and traders)	Continuous
	Supporting investments of producer associations in concentrating the supply (storage facilities)	Continuous
Strengthening the Agriculture Institutions		
Policy objectives	Measures to be taken	Deadline
To create efficient institutions to design, implement and enforce CAP like policies - to set up tools and mechanisms for implementation, monitoring and evaluation of the agriculture and rural development policies	Development of new institutional and organizational "blue print" of MAFWE	2006
	Building MAFWE capacities to design, implement and enforce policies	2007-2009
	Restructuring of NEA	2007-2009
	Establishment of IPARD Agency	2007-2008
	Strengthening the agriculture inspection, veterinary and phytosanitary services	2007-2009
4. 5 Transport and Communication		
Information Society		
Policy objectives	Measures to be taken	Deadline
The following laws are foreseen	- Law on Information Society	2006

to be adopted within the legislation domain in accordance with the National Strategy for Information Society, adopted on 21.09.2005.		
	- Law on Cyber Crime	2006
	- Law on Electronic Trade	2006
	- Bylaws for electronic signatures	2006
	- Harmonisation of all laws (existing and new) that contain provisions from the field of Information Society	2006
Building of an institutional frame for stimulation and coordination of the process for Information society development.	- Inter-ministerial Council, for defining of policy and its priorities	2006
	- National Council for Information Society in the RM, for performing the advisory function	2006
	- Agency for Information Society of the RM, as central implementation institution for enforcement of the policy and activities	2006
The implementation of parts of the activities for development of the Information Society in specific domains will also be in the integration of the IT sector of the general Secretariat of the Government and the IT sectors in the ministries, the bodies of the state administration and of the other state and public institutions.	- Introduction of the IT-sector (or at least a Chief Information Officer) in the General Secretariat of the Government, the ministries and the state institutions	2007
	- Preparation of a programme for Information Society development at a municipal level, as well as establishment of an IT-sector at a local level	2007
	- Carrying out training for newly-employed persons from the Agency for Information Society, as well as training for the project coordinators from the ministries and the other institutions	2007

Measures foreseen with the National Strategy for Information Society Development according to pillars: infrastructure, e-business, e-Government, e-education, e-health, e-citizens, e-legislation.	- Establishment of the pillars for Information Society development in accordance with the National Strategy	2007
ROAD TRANSPORT		
Objectives	Measures to be taken	Deadline
To continue harmonization with the acquis in the field of road transport and administrative capacity building for implementation of the Legislation in the road transport	Preparation of Law on Carriage of Dangerous Goods in the Road Transport	2006
	Preparation of new Law on Road Transport Safety	2006
	-Strengthening the capacity for implementation of legislation in the road transport. Training for implementation of the legislation(Law on Road Transport Safety, Law on Carriage of Dangerous Goods in the Road Transport)	2006
Construction of sections of the Pan-European Corridors VIII and X	Construction of Skopje Bypass Phasel (K-8)	2007
	Construction of Skopje Bypass Phase II (K-8)	2005-2008
	Construction of Highway Kumanovo-Tabanovce	From 2007
	Construction of Highway Demir Kapija-Udovo-Smokvica	2007-2010
	Completion of projects and construction of highway, border with R.Albania-Skopje-Border with R.Bulgaria	From 2007-2015
Construction of national and regional road network in Republic of Macedonia	Radovis-Strumica	2009
Enforcement of bridges and rehabilitation of the part of E-75	Enforcement of Bridges	2005-2008

(K-10)	Rehabilitation of 60km, Highway Skopje-Veles	2005-2008
RAILWAY TRANSPORT		
Objectives	Measures to be undertaken	Deadline
In order to perform transformation of PE "Macedonian Railways" C.O. Skopje it is necessary to prepare laws that will incorporate the "first and second package of directives" of the European Union	Preparation of draft Law for amending the Law on Railway Transport	2006
	Preparation of draft Law on Railway Transport Safety	2006
	Preparation of bylaws succeeding Law on Railway Transport Safety	2007
	Preparation of bylaws succeeding Law on Railway Transport	2008
	Preparation on draft Law for Railway Transportation	2007
	Preparation of bylaws succeeding Law on Railway Transportataion	2008
Institutional framework- Establishing the two new entities Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje and Joint Stock Company for Transport "Macedonian Railways Transport" JSC Skopje.	Plan for dividing the capital, rights, obligations and employees of PE "Macedonian Railways" as well as Decision for establishing Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje and Joint Stock Company for Transport "Macedonian Railways Transport" JSC Skopje	2007
	Within 30 days after the adoption of the Decisions, the Government of Republic of Macedonia should adopt the Statutes for the Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje and Joint Stock Company for Transport "Macedonian Railways Transport" JSC Skopje	2007
	Stuffing and accommodation of the Public Enterprise for Railway Infrastructure "Macedonian Railways" Skopje and Joint Stock Company for Transport "Macedonian Railways Transport" JSC Skopje	2007

Institutional capacity building- Credit from the World Bank (Component 1 and 2)	Preparation of studies for the transformation as well as undertaking measures to decrease social consequences of the released employees	2007
Institutional capacity building of the Ministry for Transport and Communications	Trainings for the civil servants from the Ministry of Transport and Communications	2007 and continuously
	Establishing Department for railways and equipping with employees by modification of the Act for systematization of the Ministry of Transport and Communications	2006 and 2007
Investments in infrastructure- Financing construction of a new railway as well as reconstruction, modernization, repair and maintenance of the existing railway	Preparation of dynamic national program for railway infrastructure for period of five years-National program.	2006 and continuously each year
	Preparation of Annual Plan for construction, reconstruction, modernization, repair and maintenance of railway infrastructure	2007 and continuously each year
Investments in Infrastructure- World Bank loan	Improvement of rolling stock as well as equipment for modernization of infrastructure	2007-2009
Construction of infrastructure along Corridor X	Corridor 10 d: Rehabilitation of railway line Veles-Kremenica	2007-2010
AIR TRANSPORT		
Objectives	Measures to be undertaken	Deadline
Separation of the regulatory from operational functions of CAA in accordance with the Aviation Act of RM of 2006, obligation that is regulated in Multilateral	Adoption of by laws:	End of 2006
	Decision for establishing AD Makkontrol with Statute for establishment	2007
	Decision for the amount of remuneration for the use of services in the air transport	2007

Agreement for Establishment of European Common Aviation Area for harmonization with EU measures given in Annex I of the Agreement in order to strengthen administrative capacities and better define the competencies of different organizations that operate in the field civil aviation	Decision for the part of remuneration from use of services that will be used for funding of the Agency	2007
	Decision for the part of remuneration from the use of airport infrastructure that will be used for funding of the Agency	2007
	Preparation of balance for division of funds, employees, property, rights and obligation of CAA	2007
Joining Multilateral Agreement for Establishment of European Common Aviation Area in order to ensure common aviation market, liberalization of traffic right freedoms from the 1 st until 9 th as well as harmonization with EU regulation related to the air transport	Ratification of the Multilateral Agreement for Establishment of European Common Aviation Area	2007
	Fulfilment of obligations from Protocol V from the Multilateral Agreement for Establishment of European Common Aviation Area	2007
	Nomination of a slot-allocation in the Ministry of Transport and Communications	2007
Full membership of Republic of Macedonia in the Joint Aviation Authorities (JAA) in order to fulfil the following obligations: for JAA; in ECAC;	Incorporating JAR FCL 3 and JAR 145 in the national legislation Implementation of the above mentioned JAR by the civil aviation authorities and the industry	2007 2007

TELECOMMUNICATIONS AND POSTAL SERVICES		
Objectives	Measures to be undertaken	Deadline
The primary goal in the field of electronic communications in accordance with EU legislation is to diminish the obstacles for efficient functioning of market of telecommunications services and networks, promotion of competition and protection of interests of the users in the sector including universal access of services.	Harmonization of the existing Concession contracts with the provisions of the law for electronic communications	2006
	Ensuring Universal Service in order to enable access to the public communications networks and services under acceptable costs	Completed in June 2006
Strengthening the capacities of the Agency in order to ensure complete liberalization	Establishing new organizational structure of the Agency, strengthening the capacities in order to ensure implementation of the new policies	2006 – 2008
The broadband strategy will strongly support balanced economic process that will lead to establishment of Information Society in RM as well as realization of backbone electronic network in RM (iNetwork)	- Preparation of Broadband Strategy (the financial part will be prepared with the preparation of the Strategy)	2007
Postal services development	-Preparation of a Law on Postal Services -Preparation of a Strategy for Postal Services Development -New employment in the Sector for Communications-Department for Postal Traffic	2006 –2007
Institutional strengthening	-Establishment of an independent regulatory body for postal services	2008

4.6. Administrative Reforms		
Policy objectives	Measures to be taken	Deadline
Institutional development of the administrative structures and strengthening the administrative capacities		
To ensure full implementation of the Civil servants law, non political party employment and career promotion of the civil servants and other persons in the public administration and introducing a career system based on merit.	- Implementation of the employment procedures and promotion according to the Civil servants law	2006
	- Implementation of the Action plan for human resources in the civil service in Republic of Macedonia (conditions, managing, development and challenges)	2007
	- Developing appropriate activities for accomplishing suitable and equitable representation of the members of the communities in the civil service bodies in which this is not completed	continuously
	- Establishing human resources organizational units in all civil service bodies and setting up a network of cooperation and coordination of the human resources organizational units	2007
	- Looking through the organization and systematization acts of the working positions, in accordance with the functional analyses and strategic plans	2007
	- Securing internet access and e-mail for all civil servants	2007
	- Establishing mechanisms for delegating authorities of the managerial civil servants	2007
	- Providing appropriate software for leading personal evidence , and also its implementation in the civil service bodies	2007
	- Preparation of a policy document for attracting and holding young and highly educated personnel in the civil service	2007
	- Adopting a Regulation of description of positions and Regulation of changing and amending the Regulation of the principles of internal organization of the civil service bodies 2007	2007
- Establishing a Unit for support of the training of civil servants in Skopje	2007	

	Analyses of the process of evaluation of the civil servants according to the reports submitted to the Civil Servants Agency	Continuously
	Implementation of the National System for coordination of training and professional development of civil servants in the Republic of Macedonia, along with analysis of the necessary funds for its implementation	2006
Economic area		
Strengthening legal security for economic entities. Accelerating legal procedures and filtrate ownership rights.	Implementation of judiciary reform- ensuring complete implementation of the strategy and action plan of judiciary reform as well as ensuring judicial independency and efficiency	Continuously
	Complete systematization and computerization of information system of the institutions involved in implementation of the one stop shop system	2006
	Establishing of uniform trade register in electronic form	2006
	Preparation of report of the activities with recommendations for future steps regarding separation of the non core functions of the state by the Ministry of justice in cooperation with the Ministry of economy and Ministry of finance	2007
	Continuing the separation of the non core functions (divesting) in certain areas such as hospices and student campuses	2007
	Introducing the procedure for regulative impact assessment (RIA)	2007
	Regulating the general principles directed towards protection of public interest and in the field of free market the process of deregulation and reform of regulatory institutions will be carried out through simplification of legislation, consistent implementation and harmonisation with the EU legislation	2008
Public finances		
Adopting and implementation of	Adopting Law on public internal financial control	2006

consistent legislation for the whole field of internal control which encompasses all the relevant aspects of management accountability, independent internal audit, adjusting on central level, prevention of fraud	Amendments and supplements of the Law on internal audit in the public sector	2006
Completing the forming of functional independent units for internal audit in the institutions and to form such units on municipal level. To strengthen the role of coordination in the Ministry of finance. To ensure suitable personnel, training and equipment	Forming units for internal audit in the rest of the budget beneficiaries on central level	2006
To form Unit for harmonization of financial management and control in Ministry of finance	Adopting systematization for amending and supplementing the systematization in the MF where the Sector for central internal audit will restructure into Sector for public internal financial control	completed
To develop efficient systems for management, monitoring, control and audit necessary to implement the programmes in accordance with the EU pre-accession instruments under conditions of decentralized implementation	Equipping and contracting within frames of the Unit for central financing in the Ministry of finance	Continuously

	Forming and preparation of the basic rulebooks and procedures of Payment agency for rural development in the Ministry for agriculture, forestry and water economy	2007
	Equipping the Unit for management of EU funds	Continuously
	Procurement of an integrated software solution to support the treasury system is projected, which will enable direct connection of the budget users, the funds and the local self-government units to the treasury	2007-2008
	Completing the forming of functional independent units for internal audit in the central level institutions as well on municipal level; strengthen the coordinative role of the Ministry of finance and to ensure suitable personnel, training and equipment	Continuously
Local self- government reform and decentralization		
To strengthen administrative capacity on national and local level and to start preparations of strategic plans including financial strategies	Continuous trainings	Continuously
To encompass the necessary legal frame for implementation of the process of decentralization and further implementation of the strategy for equal representation of minorities in the public administration and public enterprises	Delivering semi-annual reports fro implementation of the decentralization process	Continuously

<p>Encompassing the decentralization process and further implementation of the strategy for equal representation of minorities in the public administration and public enterprises</p>		<p>Continuously</p>
<p>Implementation of the recommendations from the State commission for prevention of corruption as well as further improvement of coordination and cooperation between institutions entitled to implement the law</p>	<p>Municipal administration and local service- continuous training for new and transferred authorities- designing specialized trainings on local level</p>	<p>Continuously</p>
<p>Ensuring further improvement of public finances management. Particularly, implementing fiscal decentralization and continuing decompression of payment structure of the state administration.</p>	<p>Efficient implementation of the Law on financing the local self government units</p>	<p>2007</p>
	<p>Strengthening the capacities of the local self government in managing public finances</p>	<p>2007</p>

Transparency, ethicality, efficiency and openness of the public administration		
	Introducing a Citizen's charter- an innovative and efficient document for improving the public services and fight against bureaucracy and corruption	2007
Improving administration's transparency	Improving the services of the portal – introducing a Messenger service for direct access to those who are responsible for every request submitted by the citizens; establishing a call centre for the citizens that do not have internet access; introducing information centres/call centres in the ministries, the state administrative bodies and other institutions.	2006
	Improving the cooperation and electronic exchange of information between administrative bodies	2006
	Developing a system of managing work tasks, decisions and information	2006
	Strategy for cooperation with the NGO sector	2006
	Developing a catalogue of state administrative bodies and their services towards the citizens by the Ministry of justice in cooperation with the General Secretariat of the Government and the Secretariat for European affairs and connection of the information from the catalogue with existing portal www.uslugi.gov.mk	2007
	Strengthening the capacities and resources for implementation of the Law on administrative inspection	2006
	Amendments to the Law on Associations of citizens and foundations	2006
	Adopting bylaws of the Law on free access to information of public character	2006
	Designing and implementing a campaign for public awareness for protection of their rights in front of the courts according to the implemented judicial reforms	2006

	Increasing public awareness for the Ombudsman as potential mechanism which acts according to their complaints regarding public administration corruption	2007
Ensuring efficient implementation of the Code of ethics for civil servants	Reexamining the existing rules and procedures and identification of possible improvements of the vacant system which is defined by the Civil servants law and refers to ethical behaviour	Continuously
	Preparing Code of ethics for ministers and other public managerial servants assigned by the Government of RM and by the Ministry of justice	2007
	Training for public servants for denouncing suspects of cases of corruption	2007
	Introducing provisions in the codes of conduct for all public servants for denouncing suspects of corruption	2007
Ensuring appropriate cooperation of all state bodies with the Ombudsman and improving the monitoring of its recommendations.	Improving the cooperation of the state bodies with the Ombudsman	Continuously
	Reports by the administrative bodies to the Government regarding the Ombudsman recommendations on quarterly level.	2006
Establishing transparent and accountable local administrations and developing internal controls and audits in managing decentralized funds.	Developing and implementation of rulebooks and other acts of the local self government units according to the Civil Servants law	2006
	Implementing supervision over the law implementation	2006
	Developing a five year training strategy	2006
	Implementation of trainings according to the Training strategy	2006 – 2010

	Strengthening the internal control and audit system	2006
	Forming internal audit units in the local self government units with over 15.000 (42 units)	2006
SPATIAL DEVELOPMENT		
Objectives	Measures to be taken	Period
SPATIAL MANAGEMENT		
Improvement of the level of spatial management, provision of legality in terms of enforcing of the procedure for adoption of urban plans, more efficient exchange of data with the municipalities and availability of the documentation in function of spatial planning as part of the strategic development of the state.	Annual programme for preparation of urban plans	2007
	Expert opinions for the draft plans	2006-2008
	Issuance of consent for the drafts	2007
HOUSING POLICY		
	Completion of the process for privatisation of the Housing fund	2007
	Annual programme for construction and maintenance of apartments owned by the RM	Continued
	Transformation of the Public Enterprise for Housing, Management and Business Premises of the RM	from 2007
	Project for construction of a quality and cost-effective housing space	from 2007

	Activities arising from the action plans from the Housing Strategy -Project for joint housing management -Project for preparation of a legal frame for regulation of non-profitable housing organisations -Project for defining of amenable groups and provision of housing for them	2007-2008
	Implementation of an Action plan for housing “Decade of the Roma” 2005-2015	2007-2008
	Repair and reconstruction of housing facilities damaged during the conflict in 2001	2007-2008
	Adoption of the Law on Housing	2007
	Adoption of bylaws and rulebooks for housing arising from the Law on Housing	2008
4.7. Education		
Policy objectives	Measures to be taken	Deadline
Participate in community programme “Integrated Life-learning Programme”	Establish National Agency	2007-2008
	Equip and train the National Agency in implementation of the work methodologies of the European Commission in their work	2007-2008
	Pay entry ticket and participate in activities under the Integrated Life-learning Programme	Continues
Primary Education – Continuous training	Professional development of teaching staff etc.	2007-2009
	Acquisition of required higher education for introductory-year teachers to be able to carry out grade 1-4 teaching	2008
	Training of teaching staff in use of computers and information technology	2007
	Develop curricula for religion and ethics, information science and English language.	2007-2009

Implementation of new teaching methodologies	Establish education standards compatible with EU education systems	2007-2009
Text-books publishing	Evaluation of text-books applying new mechanisms	2007-2009
	Market economy in text-books publishing – competition	2007-2009
Reform activities	Concept for compulsory 9-year primary education and curricula	2007
	Curricula for the first grade of the compulsory 9-year primary education	2007
	Curricula for second and third grade of the compulsory 9-year primary education	2008-2009
Secondary Education – Continuous training	Teacher training	2007-2009
	Management teams training	2007-2009
Curricula Development	Develop curricula for year 3 and 4 in reformed 4-year secondary vocational education;	2007-2009
	Reform of 3-year secondary vocational education.	2007-2008
Education Quality	External assessment of student performance (National Matura);	2008
	Develop standards and national qualification framework in accordance with the European qualification framework;	2007 –2009
	Provide equipment for schools;	2007-2009
	Adopt Law on Life-long learning;	2008
	Develop Adult Education Centres;	2007-2009
	External assessment of student performance (National assessments).	2007-2009
Institutional strengthening	Establish National Board on vocational education and training;	2008
	Commencing of operation of the Vocational Education and Training Centre;	2008
	Strengthening of State Education Inspectorate;	2007-2008
	Strengthening of State Examination Centre.	2008

Increase secondary education coverage	Stimulating measures for improving access to secondary education with emphasis on groups at risk	2007
Higher Education	Introduce requirements for free-of-charge issuance of annex to the Diploma for every graduated student	2007-2009
	Law on Higher Education	2007
	Further Development of application of ICT in higher education	2007-2008
	Introduce three cycles in higher education (graduate studies, second level: post-graduate studies (master degree or specialization) and doctorate	2007-2010
	Further development and harmonization with standards and guidelines for quality assurance in European areas of higher education	2007-2008
	Ranking of higher-education institutions by independent international consulting firms	2007
	Law on establishing state university in Stip	2008
Science, technological development, and technical culture, Implementation of laws and regulations	Adopt Law on scientific-research activities	2007
	Adopt Law on technological development	2007
	The Board on science and technological development is professional advisory body of the Government of the Republic of Macedonia	2007
	The Board proposes to the Government of R. Macedonia starting points and guidelines for the national programmes for scientific-research activities and for technological development of R. Macedonia	2008
	The Board decides on the priority of the projects proposed by other ministries.	2007
	The Board on science-research activities and technological development operates as advisory professional body to the Minister	2007-2008
	Establish excellence centres	2007-2008
	Board on ethics in science research	2007-2008

	Improvement of technical – technological infrastructure – technology centres, innovation centres, technical culture houses, technology transfer centres.	2007-2010
	Intensify technological development by priority support to development-research innovation projects	2008
	Increase investment in science-research infrastructure as a requirement for applying up to date research methodologies.	2008-2009
	Finance science-research activities with budget resources in function of the private sector needs	2007-2009
	Provide motivation and support of science by tax policy	2008-2009
	Promote cooperation with foreign science and research institutions for swift transfer of knowledge	2007-2008
	Establish strict and fair criteria for selection of staff in science and research institutions.	2007-2009
	Support cooperation between science and research institutions and the business sector	2008-2009
4.8. Additional reform fields		
4.8.1. Foreign direct investments		
Policy objective	Measures to be taken	Deadline
Improving the investment climate and increasing the foreign direct investments	Preparation of a new program for stimulation of foreign direct investments 2007-2010;	2006;
	Implementing the project: “Improving the investment climate in RM”;	2006-2008
	Implementation of the project: “Stimulating investments in RM”	2006-2008
	Implementation of the project for the reform of the business environment and institutional strengthening BERIS	2006-2008;

4.8.5. Environment		
Policy goal	Measures to be taken	Deadline
Integration of environmental issues into other relevant sector policies towards establishment of sustainable development; Introduction of a system for integrated pollution prevention and control (IPPC);	Development and adoption of the National Strategy for Sustainable Development with Action Plan of the Republic of Macedonia;	2007-2008
	Strengthening of the IPPC unit under the MOEPP and the corresponding units in the local self-governments, including increased staff and their training;	2007-2009
	Preparation of manuals and procedures to facilitate the processes of preparation of and application for integrated environmental permits;	2007
Improvement of the national system and procedures for environmental impact assessment;	Handling of applications for integrated environmental permits and process supervision;	2007-2009
	Preparation and adoption of administrative procedures/regulations on EIA implementation;	2007
	Strengthening of capacities in relation to EIA on both central and local levels – training;	2007-2008
Institutional strengthening of the MOEPP;	Establishment of Administration of Environment;	2007-2009
	Strengthening of the MOEPP in relation to the establishment of decentralized implementation system/ policies creation and implementation;	2007-2009
Implementation of the National Plan for POPs elimination and reduction;	Strengthening of the capacity of the Inspectorate of Environment;	2007-2009
Public awareness increase;	Elimination of PCB in the Republic of Macedonia;	2007-2008
Air quality improvement through reducing the emissions of the basic pollutants from the relevant sectors;	Upgrading of the incinerator for medical waste in the Public Enterprise “Drisla”;	2007-2008

	Education in environment – green package;	2007-2008
	Preparation of plan and programme for ambient air quality protection;	2007-2009
Strengthening the process of air quality monitoring and assessment;	Development of Cadastre of Air Polluters and Pollutants;	2009
Establishment of integrated monitoring and data management;	Elaboration of assessment for the Republic of Macedonia joining the Protocols to the CLRTAP;	2007-2009
	Implementation of the Strategy for monitoring system and data management;	2007-2009
	Establishment of national and local air monitoring networks;	2007-2009
	Upgrading the air monitoring system – five new automatic monitoring stations;	2008
Implementation of Kyoto Protocol;	Upgrading of the system for automatic data collection by procurement of software for automatic data validation from the air monitoring system;	2007-2008
Fulfilment of the obligations under the UNFCCC;	Implementation of projects under the Clean Development Mechanism;	2007-2009
Ozone layer protection;	Development of the Second National Communication on Climate Change;	2007-2009
Establishment of an integrated waste management system;	Implementation of the Waste Management Plan;	2007-2009
	Development of local plans and programmes for municipal and other types of non-hazardous waste management;	2007-2009
Harmonization of the national legislation with the EU one;	Upgrading of the Cadastre of polluters of waste water and solid waste;	2007-2008
Improvement of waste management infrastructure;	Development of secondary legislation;	2007-2009

	Development of Feasibility Study and other technical documentation for regional landfills;	2008-2009
Establishment of waste monitoring network;	Termination and revitalization of illegal dumping sites, and development of transitory landfills;	2007-2009
Rehabilitation and revitalization of industrial hot-spots;	Preparation and ongoing upgrading of plans for waste monitoring on both central and local levels;	2007-2009
Waste water treatment;	Development of programmes and projects for industrial hot-spots and funding provision;	2007-2009
Establishment of a system for integrated water resources management;	Construction of waste water treatment systems and sewerage networks;	2007-2009
	Establishment of Administration for Waters;	2008
Establishment of ground waters monitoring;	Preparation of national strategy for waters, as well as plans for integrated river basin districts management;	2007-2009
Establishment of an integrated system for nature protection and biodiversity preservation, in accordance with the EU standards and international agreements;	Development of Nature Protection Strategy;	2007-2009
	Development of Red List and Red Book;	2007-2008
	Revalorization of natural heritage and its categorization;	2007-2008
	Development of National Monitoring Programme for biodiversity components and indicators of biodiversity;	2007-2009
	Preparation of documentation and analysis for NATURA 2000 establishment;	2008-2009
	Afforestation and development of sites and eco-corners;	2008
Integrated management of National Parks;	Development of plans for National Parks Management;	2008-2009
Development of integrated pollution prevention and control system;	Development of secondary legislation and manuals for the systems and software for A permits register;	2007-2009

Strengthening the administrative capacities with regard to the implementation of the procedures for integrated environmental permits (IPPC);	Strengthening the IPPC unit under the MEPP including enhancement of the capacity of environmental inspectors and local self-government;	2007-2008
Establishment of national legislation for integrated chemicals management;	Development of analysis and plan in the area of institutional and technical component;	2007-2008
	Adoption of Law on Chemicals and secondary legislation drafting;	2007-2009
	Definition and establishment of competent authority for chemicals management;	2007-2009
Safe management of genetically modified organisms (GMO);	Strengthening of institutional and human capacities for GMO management;	2007-2009
	Establishment of CCB clearing house for biosafety;	2008-2009
	Implementation of the measures under the national biosafety framework;	2007-2009
Adoption of legislation in this field;	Development of Law on GMO and secondary legislation;	2009
Establishment of a noise management system;	Adoption of Law on Waste and secondary legislation drafting;	2007-2009
Prevention and reduction of noise causing harmful effects on human health;	Development and implementation of programme for noise levels measurement and monitoring and improvement of the monitoring, as well as reporting system;	2007-2009
Implementation of the Spatial Plan of the Republic of Macedonia;	Development of spatial plans;	2007-2008
Promotion of the GIS	Implementation of current activities.	2007-2009

4. 8. 6 Reform of the judiciary		
Policy objective	Measures to be taken	Deadline
Implementation of the laws in the judiciary	Adoption of the Law on Public Prosecution	2006
	Adoption of the Law on Council of Public Prosecutors	2006
	Preparations for executing trainings anticipated with the Law The Academy for training of judges and public prosecutors when the Academy becomes operational	2007-2009
	Harmonization of the offences listed in the separate laws with the Law on Misdemeanor	2008
	Monitoring of the Reform of the Judiciary by the Council for Reform of the Judicial System.	2008
	Adoption of all the remaining by – laws anticipated in the Law on Courts (approximately 30). Advancing of the statistics system in courts and adjusting of the software applications in courts in accordance with the Law on Courts and the Court Rulebook	2008
	Adoption of a Handbook for taking over cases from one court to another in accordance to the competences listed in the Law on Courts.	2008
	Establishing of the Judicial Council	2008
	Monitoring of the implementation of the provisions of the Law on Litigation	2008
	Equipping and training of the staff in the Ministry of Justice Department for supervision of the work of the notaries and bailiffs	2008
	Monitoring of the implementation of the provisions of the Law on Enforcement	2008
	Monitoring of the implementation of the Law on Mediation and the Law on Notary Activities	2007
Reform of the laws in the field of criminal matters	Preparation of amendments to the Law on Criminal Procedure in accordance with the data obtained from the analysis of the provisions of the Criminal Code	2006-2007

Information technology	Preparation of the Strategy for informational technology in judicial system in the Republic of Macedonia	2006
	Modernization of the information technology in the judiciary within the framework of The World Bank loan	2006-2010
4. 8. 6 Health care reform		
Policy objective	Health improvement of the population with special attention to the vulnerable groups	Deadline
Better health for newborn babies, infants and pre-school children, especially at Roma population	Strengthening the primary health care including obstetric and patronage services.	Continuous
Providing quality Health education which can contribute to adoption of healthy lifestyles,	Development of intersectorial cooperation between health and educational institutions, local authorities, media etc.	Continuous
Improvement of mental health care	Separation of the current mental health centers form the existing health institutions and Development of new community mental health centers	Continuous
Prevention of the common non-communicable diseases, and on adoption of healthy life styles	Adoption of National strategy on early detection of breast cancer	2008
	Reproductive health programme	2007
	Development of the National Program for Cancer Control that will include prevention, early detection, appropriate treatment and palliative care.	Continuous
Reducing the number of Injuries, disability and death arising from accidents and violence	intersectorial cooperation in order to achieve behaviour change and make the environment safer	continuous

Strengthening of the emergency care, and on improvement of the traumatology service.	Introduction of one number 112	2008
IMPROVEMENT OF THE ORGANISATION OF HEALTH CARE/ ESTABLISHMENT OF SPECIFIC NATIONAL SYSTEM OF HEALTH MANAGEMENT		
Policy objective	Measures to be taken	Deadline
Providing the equitable access to all essential health services and targeted preventive measures first of all for the vulnerable groups	complete coverage of the population by a package of essential health services under the health insurance,	continuous
	strengthening the cooperation of the doctors providing primary health care with the family and school	continuous
	establishing cooperation and the functional links between the primary health care and the higher levels of health care	continuous
	Reorganization of the Services in the secondary and tertiary health care will be reorganized in order to provide rational use of the diagnostic equipment and staff, and to avoid duplication of procedures.	Continuous
	Further development of day hospitals and to solving health problems at outpatient level.	Continuous
	Development of the new forms of institutional care: nursing homes for chronically bed-ridden or terminally ill patients and the emphasis of these homes will be not on cure but on care.	Continuous
	Continuation of the process of privatisation of the primary health care	continuous
	Enforcement of the Management of the existing public hospitals (health management will be implemented).	2006-2007
IMPROVEMENT OF THE SPECIALIZED HEALTH CARE – PUBLIC HEALTH		
Policy objective	Measures to be taken	Deadline
improvement of the specialized health care – public health	Improvement of the system for data collection and data analysis, and of the process of planning, monitoring and evaluation of the activities in the health care protection in the field of public health.	Continuous

	Adoption of the Strategy for promotion of adolescents and young people's health	2007
	Implementation of the activities determined in the Strategy on health, healthy environment and work place and work safety/ enhancement of the system for occupational health and improvement of the quality of health care, especially through preventive activities .	2008
IMPROVEMENT OF THE QUALITY OF HEALTH CARE		
Policy objective	Measures to be taken	Deadline
Improvement of the quality of health care	Reducing of the excessive use or abuse of the medical treatment.	Continuous
	Adoption of the Law on protection of patient's right.	2007
	Continuing education will be implemented in the interests of quality assurance	2007
	Improvement of the technical and administrative capacity of State sanitary and health inspectorate	continuous
IMPROVEMENT OF HEALTH CARE FINANCING		
Policy objective	Measures to be taken	Deadline
Improvement of health care financing	-enforcement and reorganization of the HIF	continuous
	-improvement of paying of the health insurance contributions	continuous
	-improvement of HIF control over the budgets of health services	continuous
	-change of the way of payment to health institutions and gradually transfer of the financial responsibilities to the health care deliverers.	2008
	Definition of the basic package of health services covered by health insurance	2007
	- making conducts with health care providers on the basis of prepared medical map and established criteria for comparing the quality of health care providers	continuous
	- Determination of the referent prices for medicaments	2007

	-strengthening of the programs financed by the budget	2007/contin.
IMPROVEMENT OF THE PHARMACEUTICAL SERVICES		
Policy objective	Measures to be taken	Deadline
Improvement of the pharmaceutical services	-preparing the new positive list in accordance to clinical protocols and instructions and determination of the referent prices of the medicines	2007
	-improvement of the control of dispensing the medicaments	continuous
	-enforcement of the functions of the Bureau for drugs	2007-2009
	-harmonization of the current legislation concerning medicaments with the EU legislation	continuous
	-preparing the Guideline on Good pharmaceutical practice with determined standards	2008-2009
IMPROVEMENT OF THE Health information system		
Policy objective	Measures to be taken	Deadline
Implementation of the Strategy for the Development of an Integrated Health Information System (IHIS)	completion of the information system in the Health Insurance Fund	2007
	ICT to be implemented in primary health care,	2008
MANAGEMENT OF THE HEALTH CARE REFORM		
Policy objective	Measures to be taken	Deadline
Creation of the capacities for managing the health care reforms in the MoH	strengthen MoH s capacities for strategic planning and policy making, implementation and legislation, monitoring and evaluation.	Continuous
HARMONIZATION OF THE LEGISLATION WITHIN THE RESPONSIBILITY OF MINISTRY OF HEALTH WITH THE EU LEGISLATION		
Policy objective	Measures to be taken	Deadline
Harmonization of the legislation	Law on medicaments, with the relevant bylaws	2007

within the responsibility of Ministry of Health with the EU Legislation	Law on medical devices	2007
	Law on safety of cosmetic products	2007
	Law on amending the Law on safety of food products and materials that come into contact with food, and relevant bylaws	2008
	Law on chemicals	2007
	Law on blood and blood products safety	2007
	Law on detergents	2008
	Law on narcotic drugs and psychotropic substances	2007
	By laws on precursors	2007
	Bylaws on the protection of population from the infectious diseases	2007
	National action plan on prevention and early detection of breast cancer	2007
	National strategy for prevention of problems related to alcohol abuse	2006
	National strategy on non-infectious diseases	2007
	National strategy for control of narcotic drugs	2006
	National strategy for TB	2007
	National strategy for HIV/AIDS	2007

6. Matrix of policy commitments – Fiscal implications

OVERALL ASSESSMENT OF FISCAL IMPACTS OF MAJOR IMPLEMENTING MEASURES				In millions of denars
	2006	2007	2008	2009
Net direct effects on the budget	-1,503	-4,792	-5,753	-5,036
Direct effects on expenditures	2,449	8,150	9,847	8,403
Direct effects on revenues	921	2,927	3,757	3,031
4.0 Total Ministry of Economy	2006	2007	2008	2009
Net direct effects on the budget	-33	-268	-117	-152
Direct effects on expenditures	33	268	117	152
Direct effects on revenues	0	0	0	0
4.1.2 Industry	2006	2007	2008	2009
1. Creation of industrial policy				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-22.0	-25.0	-30.0
B1. Direct effects on expenditures	0.0	22.0	25.0	30.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
2. Infrastructure improvement of the Free economic zones				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-105.0	-100.0	-100.0
B1. Direct effects on expenditures	0.0	105.0	100.0	100.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
4.1.5.1 Energy	2006	2007	2008	2009
Total energy:	-	X	-	-
Net direct effects on the budget	0.0	-77.0	-19.5	-20.0
Direct effects on expenditures	0.0	77.0	19.5	20.0
Direct effects on revenues	0.0	0.0	0.0	0.0
1. Strengthening of the capacity of the Energy Agency of the Republic of Macedonia				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-4.3	-6.0	-8.2
B1. Direct effects on expenditures	0.0	4.3	6.0	8.2
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
2. Strategy for Complex Energy Development in the Republic of Macedonia				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-2.3	0.0
B1. Direct effects on expenditures	0.0	0.0	2.3	0.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
3. Financial support for preparation of specific energy projects				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-10.3	-10.6	-11.2
B1. Direct effects on expenditures	0.0	10.3	10.6	11.2
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
4. Privatisation of the production part of the energy and electricity system				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-62.4	-0.6	-0.6
B1. Direct effects on expenditures	0.0	62.4	0.6	0.6
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
4.1.6. SME support				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-23.1	-20.0	-50.0	-75.0
B1. Direct effects on expenditures	23.1	20.0	50.0	75.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
4.1.7 Tourism promotion				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-7.8	-15.4	-17.3	-19.7
B1. Direct effects on expenditures	7.8	15.4	17.3	19.7
B2. Direct effects on revenues	0.0	0.0	0.0	0.0

2. Measures related to development of the tourism offer				
A. Implementation profile	X	X	X	X
B. Net direct effects on the budget	-2	-29.0	-5.0	-7.0
B1.Direct effects on expenditures	2	29.0	5.0	7.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
4.2. Financial sector	2006	2007	2008	2009
1.Creation of insurance supervision agency				
Implementation profile	-	X	-	-
Net direct effects on the budget	0.0	-30.0	-30.0	0.0
Direct effects on expenditures	0.0	30.0	30.0	0.0
Direct effects on revenues	0.0	0.0	0.0	0.0
4.3 Labour market	2006	2007	2008	2009
Total Labour market				
Net direct effects on the budget	-0.6	-154.4	-96.9	-90.8
Direct effects on expenditures	0.6	169.4	96.9	90.8
Direct effects on revenues	0.0	15.0	0.0	0.0
1. Support to first employment for young people under 27 years of age				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	0.0	0.0	0.0
B1.Direct effects on expenditures	0.0	9.0	0.0	0.0
B2.Direct effects on revenues	0.0	9.0	0.0	0.0
2.Improvement of the employability of disabled (physical and intellectually disabled);				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-70.0	0.0	0.0
B1.Direct effects on expenditures	0.0	70.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
3.Employment of children without parents and single parents				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-20.0	0.0	0.0
B1.Direct effects on expenditures	0.0	24.0	0.0	0.0
B2.Direct effects on revenues	0.0	4.0	0.0	0.0
4.Providing scholarships for training abroad for 250 young people each year, i.e. 1000 people for a 4-year period;				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-8.0	-8.0	-8.0
B1.Direct effects on expenditures	0.0	8.0	8.0	8.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
5.Support for self-employment (family business) for 5000 people				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-48.0	-50.0	-50.0
B1.Direct effects on expenditures	0.0	50.0	50.0	50.0
B2.Direct effects on revenues	0.0	2.0	0.0	0.0
6.Training of the local employment centres for preparing individual action plans for the unemployed people.				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-0.5	-1.0	-1.0
B1.Direct effects on expenditures	0.0	0.5	1.0	1.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
7.Drafting ESA IT strategy so as to identify the needs of changing to new hardware and software solutions				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	0.0	-12.0	-12.0
B1.Direct effects on expenditures	0.0	0.0	12.0	12.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0

8.Activities for harmonisation and implementation of the acquis in the field of the labour market				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-0.2	-0.2	-1.0
B1.Direct effects on expenditures	0.0	0.2	0.2	1.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
9.Activities for harmonisation and implementation of the acquis in the field of the social protection / exclusion				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-5.2	-5.2	-5.2
B1.Direct effects on expenditures	0.0	5.2	5.2	5.2
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
10.Activities for harmonisation and implementation of the acquis in the field of the labour inspectorate				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	-0.6	-0.6	-0.6	-0.6
B1.Direct effects on expenditures	0.6	0.6	0.6	0.6
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
11.Implementation of the Operational Plan for Employment of the Roma population				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-2.0	-2.0	0.0
B1.Direct effects on expenditures	0.0	2.0	2.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
12. Adoption of a National Program for deinstitutionalisation and its implementation				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-18.0	-13.0
B1.Direct effects on expenditures	0.0	0.0	18.0	13.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
4.4 Agriculture				
Total agriculture	2006	2007	2008	2009
B. Net direct effects on the budget	-1	-1,960	-2,712	-3,097
B1.Direct effects on expenditures	1	2,224	2,749	3,097
B2.Direct effects on revenues	0	264	37	0
1. Improvement of the administrative capacity for management of the state-owned land				
A. Implementation profile	-	-	-	-
B. Net direct effects on the budget	0.0	-5.0	0.0	0.0
B1.Direct effects on expenditures	0.0	5.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
2. Development of Agriculture Land Market				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-8.3	-11.9	-11.9
B1.Direct effects on expenditures	0.0	17.3	21.2	11.9
B2.Direct effects on revenues	0.0	9.0	9.3	0.0
3. Rehabilitation of villages				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-180.0	-274.7	-329.0
B1.Direct effects on expenditures	0.0	231.0	284.0	329.0
B2.Direct effects on revenues	0.0	51.0	9.3	0.0
4. Improvement of irrigation and drainage systems				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-57.0	-99.7	-119.0
B1.Direct effects on expenditures	0.0	108.0	109.0	119.0
B2.Direct effects on revenues	0.0	51.0	9.3	0.0

5. Strengthening the competitiveness of the agriculture holdings				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-1,406.0	-2,037.7	-2,268.0
B1.Direct effects on expenditures	0.0	1,457.0	2,047.0	2,268.0
B2.Direct effects on revenues	0.0	51.0	9.3	0.0
6. Restructuring of the food-processing industry				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-50.0	-75.0	-100.0
B1.Direct effects on expenditures	0.0	50.0	75.0	100.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
7. Strengthening the Agriculture Markets				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-60.0	-100.0	-120.0
B1.Direct effects on expenditures	0.0	60.0	100.0	120.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
8. Development of new institutional and organizational “blue print” of MAFWE				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-0.5	0.0	0.0	0.0
B1.Direct effects on expenditures	0.5	0.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
9. Building MAFWE capacities to design, implement and enforce policies				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-27.0	-42.0	-47.0
B1.Direct effects on expenditures	0.0	27.0	42.0	47.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
10. Establishment of IPARD Agency				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-83.2	-35.4	-50.8
B1.Direct effects on expenditures	0.0	134.2	35.4	50.8
B2.Direct effects on revenues	0.0	51.0	0.0	0.0
11. Strengthening the agriculture inspection, veterinary and phytosanitary services				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-83.2	-35.4	-50.8
B1.Direct effects on expenditures	0.0	134.2	35.4	50.8
B2.Direct effects on revenues	0.0	51.0	0.0	0.0
4.5 Transport and communications				
4.5 Total transport and communications	2006	2007	2008	2009
Net direct effects on the budget	-1,278	-1,512	-1,539	-609
Direct effects on expenditures	1,883	3,932	5,282	3,677
Direct effects on revenues	605	2,088	3,413	2,738
1. Law on IT Society, Law on E-Crime, Law on E-Trade, bylaws on e-signature, harmonisation of all laws containing provisions in the field of IT society				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	-8	-11	0	0
B1.Direct effects on expenditures	8	11	0	0
B2.Direct effects on revenues	0	0	0	0
2. Establishment of inter ministerial council, National Council for IT Society, introduction of IT Department in the Government, the Ministry and other government institutions, setting the pillars for development of IT society				
A. Implementation profile	X	-	X	-
B. Net direct effects on the budget	-741.0	-741.0	-741.0	0.0
B1.Direct effects on expenditures	741.0	741.0	741.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0

3.Establishment of Agency for IT Society				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	-10	-19	0	0
B1.Direct effects on expenditures	10	19	0	0
B2.Direct effects on revenues	0	0	0	0
4.Carrying out training for the newly employed persons in the Agency for IT Society				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	-2.7	-2.7	0.0	0.0
B1.Direct effects on expenditures	2.7	2.7	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
5.Harmonisation of the existing concession agreements with the provisions in the Law on Electronic Communications				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	-8.0	-10.9	0.0	0.0
B1.Direct effects on expenditures	8.0	10.9	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
6.Strengthening the capacities of the Agency for Electronic Communications				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	-7	-10	0	0
B1.Direct effects on expenditures	7	10	0	0
B2.Direct effects on revenues	0	0	0	0
7.Development of postal services				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-0.7	-0.7	-0.7	-0.7
B1.Direct effects on expenditures	0.7	0.7	0.7	0.7
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
8.Strengthening the implementation capacity related to the Law on Road Traffic				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-1.2	-1.6	-0.8	-0.3
B1.Direct effects on expenditures	1.2	1.6	0.8	0.3
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
9.Construction of Skopje Bypass stage I (K-8)				
A. Implementation profile	X	-	X	-
B. Net direct effects on the budget	-229	-309	-91	0
B1.Direct effects on expenditures	474	743	380	0
B2.Direct effects on revenues	245	434	289	0
10.Construction of Skopje Bypass stage II (K-8)				
A. Implementation profile	X	-	-	X
B. Net direct effects on the budget	-238	-373	-381	-63
B1.Direct effects on expenditures	362	1,039	740	63
B2.Direct effects on revenues	124	666	359	0
11.Construction of Kumanovo-Tabanovce highway				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0	0	0	0
B1.Direct effects on expenditures	0	233	233	233
B2.Direct effects on revenues	0	233	233	233
12.Construction of Demir Kapija-Udovo-Smokvica highway				
A. Implementation profile	-	-	X	X
B. Net direct effects on the budget	0	0	-160	-371
B1.Direct effects on expenditures	0	0	1,322	2,244
B2.Direct effects on revenues	0	0	1,162	1,873

13.Completion of Radovis-Strumica road				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0	-127	-175	-184
B1.Direct effects on expenditures	0	127	175	184
B2.Direct effects on revenues	0	0	0	0
14.Bridge fortification				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	-33	-72	-155	-155
B1.Direct effects on expenditures	269	661	641	641
B2.Direct effects on revenues	236	589	486	486
15.Rehabilitation of 60 km, Skopje-Veles highway				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0	0	0	0
B1.Direct effects on expenditures	0	0	720	0
B2.Direct effects on revenues	0	0	720	0
16.Staffing and premises for the Ministry of transport and communications in the field of Railway				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	1.3	0.0	0.0
B1.Direct effects on expenditures	0.0	1.3	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
17.Training to be carried out for the Ministry of transport and communications				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	1.0	0.0	0.0
B1.Direct effects on expenditures	0.0	1.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
18.Preparation of Annual Plan for Construction, Reconstruction, Modernisation, Overhaul and Maintenance of Railway Infrastructure				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0	164	165	165
B1.Direct effects on expenditures	0	164	165	165
B2.Direct effects on revenues	0	0	0	0
19.Corridor 10 - e: Rehabilitation of Veles-Kremenica railroad track				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0	0	0	0
B1.Direct effects on expenditures	0	166	164	146
B2.Direct effects on revenues	0	166	164	146
4.6 Administrative reforms				
Total Administrative reform	2006	2007	2008	2009
Net direct effects on the budget	-91	-28	-18	-16
Direct effects on expenditures	140	134	19	17
Direct effects on revenues	24	11	0	0
1. Strategy on Cooperation with NGO Sector				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	-3	-3	0	0
B1.Direct effects on expenditures	24	12	0	0
B2.Direct effects on revenues	21	9	0	0
2. Development of a system for management of working tasks, decisions and information				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-7	0	0	0
B1.Direct effects on expenditures	7	0	0	0
B2.Direct effects on revenues	0	0	0	0

3. Establishment of a mechanism for delegating competencies to managers civil servants				
A. Implementation profile	X	-	X	-
B. Net direct effects on the budget	-1	-2	-1	0
B1.Direct effects on expenditures	1	2	1	0
B2.Direct effects on revenues	0	0	0	0
4. Preparation of a catalogue for government administration bodies and their services to the citizens and connection of the information with the existing portal uslugi.gov.mk				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	0	0	0	0
B1.Direct effects on expenditures	3	1	0	0
B2.Direct effects on revenues	3	1	0	0
5. Code of Ethics for Ministers				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0	0	0	0
B1.Direct effects on expenditures	0	1	0.3	0
B2.Direct effects on revenues	0	1	0.3	0
6. Undertaking certain activities so as to realize proportional and equitable representation of ethnic communities in government administration bodies where it has not been realized yet				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-45.7	0.0	0.0	0.0
B1.Direct effects on expenditures	45.7	0.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
7. Implementation of employment and promotion procedures pursuant to Civil Servants Law				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-6.0	-6.0	-6.0	-6.0
B1.Direct effects on expenditures	6.0	6.0	6.0	6.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
8. Implementation of Action Plan on Human Resources in government administration in the Republic of Macedonia (situation, management, development and challenges)				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-18	-55	-5	-5
B1.Direct effects on expenditures	18	55	5	5
B2.Direct effects on revenues	0	0	0	0
9. Implementation of National System for Coordination of Training and Vocational Training of Civil Servants in RM and preparation of Programme on Training and Vocational Training of Civil Servants, with an analysis of the necessary funds for its implementation				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-17.0	-2.2	-1.1	-1.1
B1.Direct effects on expenditures	17.0	2.2	1.1	1.1
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
10. Setting organisational units for human resources in all government administration bodies and coordination of organisational units for human resources				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-0.5	-0.5	0.0	0.0
B1.Direct effects on expenditures	0.5	0.5	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
11. Provision of access to Internet and e-mail for all civil servants				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-0.4	-0.4	-0.4	-0.4
B1.Direct effects on expenditures	0.4	0.4	0.4	0.4
B2.Direct effects on revenues	0.0	0.0	0.0	0.0

12 Provision of adequate software to keep personal records, as well as its implementation in government administration bodies				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	12.5	47.5	0.5	0.5
B1.Direct effects on expenditures	12.5	47.5	0.5	0.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
13. Preparation of Policy Document on Attracting and Retaining Young and Highly Educated Personnel in Government Administration				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-0.1	0.0	0.0	0.0
B1.Direct effects on expenditures	0.1	0.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
14. Adoption of Decree on Description of Professions and decree on Modifications and Amendments to the Decree on Principles of Internal Organisation of Government Administration Bodies in 2007				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-0.2	0.0	0.0	0.0
B1.Direct effects on expenditures	0.2	0.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
15. Setting Unit for Support to Civil Servants Training in Skopje				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-4.5	-6.5	-4.5	-4.5
B1.Direct effects on expenditures	4.5	6.5	4.5	4.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
16. Continuous training for strengthening the administrative capacity at local level for commencement of preparation of strategic plans				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	0.01	-0.6	-0.6	-0.6
B1.Direct effects on expenditures	0.1	0.6	0.6	0.6
B2.Direct effects on revenues	0.2	0.0	0.0	0.0
17. Submission of semi-annual reports on implementation of decentralisation process				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-0.2	-0.7	-0.7	-0.7
B1.Direct effects on expenditures	0.2	0.7	0.7	0.7
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
18. Implementation of training according to the Training Strategy				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	0.0	-3.0	-8.0	-9.0
B1.Direct effects on expenditures	0.0	3.0	8.0	9.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
4.7 Education and science				
Total Education and science	2006	2007	2008	2009
Net direct budget implications	0	-542	-915	-771
Direct implications on expenditures	0	542	915	771
Direct implications on revenues	0	0	0	0
1. Primary Education - Concepts for compulsory nine-year primary education				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	0.0	-0.2	0.0	0.0
B1.Direct effects on expenditures	0.0	0.2	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
2. Primary Education - Curricula for the first grade in compulsory nine-year primary education				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-1.0	0.0	0.0
B1.Direct effects on expenditures	0.0	1.0	0.0	0.0

B2.Direct effects on revenues	0.0	0.0	0.0	0.0
3. Curricula for grade 2 and grade 3				
A. Implementation profile	-	-	X	X
B. Net direct effects on the budget	0.0	0.0	-1.1	-1.1
B1.Direct effects on expenditures	0.0	0.0	1.1	1.1
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
4.Development of curricula for the new subjects in compulsory education (religion, ethics, information science and English language)				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-0.5	-0.5	-0.5
B1.Direct effects on expenditures	0.0	0.5	0.5	0.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
5.Education Quality (National Assessments)				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-0.3	-0.3	-0.3
B1.Direct effects on expenditures	0.0	0.3	0.3	0.3
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
6.Teacher Training				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-9.1	-6.0	-2.0
B1.Direct effects on expenditures	0.0	9.1	6.0	2.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
7.Management Teams Training in new conceptual and system solutions in the 3-year vocational education, post-secondary education and 2-year professional training.				
A. Implementation profile	-	X	X	-
B. Net direct effects on the budget	0.0	-0.3	-0.3	0.0
B1.Direct effects on expenditures	0.0	0.3	0.3	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
8.Develop curricula for year 3 and 4 in reformed 4-year secondary vocational education				
A. Implementation profile	-	X	X	-
B. Net direct effects on the budget	0.0	-5.2	-6.0	0.0
B1.Direct effects on expenditures	0.0	5.2	6.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
9.Reform of 3-year secondary vocational education, sports gymnasium and for students with special needs				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-2.2	-2.3	-2.7
B1.Direct effects on expenditures	0.0	2.2	2.3	2.7
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
10.National Matura				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-8.0	-10.0	-17.5
B1.Direct effects on expenditures	0.0	8.0	10.0	17.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
11.Translation and publishing of programme documents in the languages of communities				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-1.5	-1.8	-1.1
B1.Direct effects on expenditures	0.0	1.5	1.8	1.1
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
12.Develop national professional qualification framework				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-0.3	-0.6	-0.8
B1.Direct effects on expenditures	0.0	0.3	0.6	0.8
B2.Direct effects on revenues	0.0	0.0	0.0	0.0

13. Creation of new scientific Institute				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-9.5	-14.5	-14.5
B1. Direct effects on expenditures	0.0	9.5	14.5	14.5
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
14. Improve the level of student standard - new student dormitory				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-0.6	-100.0	-186.0
B1. Direct effects on expenditures	0.0	0.6	100.0	186.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
15. Promotion of European cooperation in quality assurance				
A. Implementation profile	-	-	X	X
B. Net direct effects on the budget	0.0	0.0	-62.0	-62.0
B1. Direct effects on expenditures	0.0	0.0	62.0	62.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
16. Diploma supplement – According to Bologna proces				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-2.0	-2.0	-2.0
B1. Direct effects on expenditures	0.0	2.0	2.0	2.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
17. Law on establishing state university in Stip				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	0.0	-31.6	-41.0
B1. Direct effects on expenditures	0.0	0.0	31.6	41.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
18. New Law on Higher Education				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	0.0	-138.0	-200.0
B1. Direct effects on expenditures	0.0	0.0	138.0	200.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
19. Introduction of ICT				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-7.2	-7.2
B1. Direct effects on expenditures	0.0	0.0	7.2	7.2
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
20. Ranking of higher-education institutions by independent international consulting firms				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-1.1	0.0	-1.1
B1. Direct effects on expenditures	0.0	1.1	0.0	1.1
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
21. Participation in the community programme “Integrated Life-learning Programme”				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	0.0	-31.0	-31.0
B1. Direct effects on expenditures	0.0	0.0	31.0	31.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
21. Further computerization of primary and secondary education				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-500.0	-500.0	-200.0
B1. Direct effects on expenditures	0.0	500.0	500.0	200.0
B2. Direct effects on revenues	0.0	0.0	0.0	0.0
4.8.5 Environment				
Total Environment	2006	2007	2008	2009
Net direct effects on the Budget	0	-49	-77	-50

Direct effects on expenditures	0	52	82	56
Direct effects on revenues	0	0	0	0
1. Preparation and adoption of National Strategy for Sustainable Development with AP of the Republic of Macedonia, 2007-2008				
A. Implementation profile	-	X	X	-
B. Net direct effects on the budget	0	-1	-2	0
B1.Direct effects on expenditures	0	1	2	0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
2. Preparation and adoption of State of Environment Report				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0	0	-5	0
B1.Direct effects on expenditures	0	0	5	0
B2.Direct effects on revenues	0	0	0	0
3. To strengthen the IPPC Unit under the MEPP, respective units in local self-governments, including increased number of staff and training				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-1.7	-1.7	-2.0
B1.Direct effects on expenditures	0.0	1.7	1.7	2.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
4. Addressing the applications for integrated environmental permits and process supervision				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-0.5	-0.5	-0.5
B1.Direct effects on expenditures	0.0	0.5	0.5	0.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
5. Capacity building on central and local levels concerning EIA - training				
A. Implementation profile	-	-	X	X
B. Net direct effects on the budget	0.0	0.0	-0.5	0.0
B1.Direct effects on expenditures	0.0	0.0	0.5	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
6. Implementation of EIA procedure				
A. Implementation profile	-	-	X	X
B. Net direct effects on the budget	0.0	0.0	-0.5	-0.5
B1.Direct effects on expenditures	0.0	0.0	0.5	0.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
7. Drafting and adoption of administrative procedure/secondary legislation				
A. Implementation profile	-	-	X	X
B. Net direct effects on the budget	0	0	1.0	1.0
B1.Direct effects on expenditures	0	0	1.0	1.0
B2.Direct effects on revenues	0	0	0	0
8. Establishment of Administration of Environment				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0	0.8	0.8	0.8
B1.Direct effects on expenditures	0	0.8	0.8	0.8
B2.Direct effects on revenues	0	0	0	0
9. Capacity building of the Inspectorate of Environment				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0	0.8	0.8	0.8
B1.Direct effects on expenditures	0	0.8	0.8	0.8
B2.Direct effects on revenues	0	0	0	0
10. Completion of radioactive waste landfill				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-2.0	0.0	0.0
B1.Direct effects on expenditures	0.0	2.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0

11 . Preparation of plan and programme for ambient air quality				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-4.7	0.0
B1.Direct effects on expenditures	0.0	0.0	4.7	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
12 . Preparation of Cadastre of air polluters and pollutants				
A. Implementation profile	-	-	-	X
B. Net direct effects on the budget	0.0	0.0	0.0	-0.5
B1.Direct effects on expenditures	0.0	0.0	0.0	0.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
13 . Development of assessment for the RM's joining the Protocols to the CLRTAP				
A. Implementation profile	-	X	X	-
B. Net direct effects on the budget	0.0	-0.1	-0.1	0.0
B1.Direct effects on expenditures	0.0	0.1	0.1	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
14. Upgrading of air monitoring system - 5 new automatic air monitoring stations				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-2.0	0.0
B1.Direct effects on expenditures	0.0	0.0	2.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
15. Upgrading of the system for automatic data collection by procurement of software for automatic data validation of data from the air monitoring system				
A. Implementation profile	-	X	X	-
B. Net direct effects on the budget	0.0	-0.8	-1.2	0.0
B1.Direct effects on expenditures	0.0	0.8	1.2	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
16. Updating of the Cadastre of polluters of wastewater and solid waste				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-0.5	0.0
B1.Direct effects on expenditures	0.0	0.0	0.5	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
17. Development of Strategy for waste management				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-3.0	0.0
B1.Direct effects on expenditures	0.0	0.0	3.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
18. Development of Feasibility study and related technical documentation for regional landfills				
A. Implementation profile	-	-	X	X
B. Net direct effects on the budget	0.0	0.0	-7.5	-7.5
B1.Direct effects on expenditures	0.0	0.0	7.5	7.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
19. Termination and revitalization of illegal dump sites				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-5.0	-5.0	-5.0
B1.Direct effects on expenditures	0.0	5.0	5.0	5.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
20. Construction of temporary landfills				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-5.0	-5.0	-5.0
B1.Direct effects on expenditures	0.0	5.0	5.0	5.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0

21. Training of administration on central and local levels in waste management				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-0.2	-0.2	-0.2
B1.Direct effects on expenditures	0.0	0.2	0.2	0.2
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
22. Preparation of programmes and projects for industrial hot-spots and provision of funding for their implementation				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-20.0	-20.0	-20.0
B1.Direct effects on expenditures	0.0	20.0	20.0	20.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
23. Preparation of National strategy for waters				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-5.0	0.0
B1.Direct effects on expenditures	0.0	0.0	5.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
24. Preparation of Plans for integrated river basin areas management				
A. Implementation profile	-	-	-	X
B. Net direct effects on the budget	0.0	0.0	0.0	-2.0
B1.Direct effects on expenditures	0.0	0.0	0.0	2.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
25. Development of ground water monitoring programme				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-2.0	0.0
B1.Direct effects on expenditures	0.0	0.0	2.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
26. Development of Strategy for nature protection				
A. Implementation profile	-	X	X	-
B. Net direct effects on the budget	0.0	-2.0	-1.5	0.0
B1.Direct effects on expenditures	0.0	2.0	1.5	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
27. Revaporization of natural heritage and its categorization				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-1.0	-2.5	-2.5
B1.Direct effects on expenditures	0.0	1.0	2.5	2.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
28. Development of national programme for biodiversity components monitoring and biodiversity indicators				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-0.3	0.0
B1.Direct effects on expenditures	0.0	0.0	0.3	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
29. Preparation of documentation and analysis for NATURA 2000 establishment				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-0.5	-0.5
B1.Direct effects on expenditures	0.0	0.0	0.5	0.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
30. Afforestation and development of locations and eco-sites				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-5.0	-5.0	-5.0
B1.Direct effects on expenditures	0.0	5.0	5.0	5.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0

31. Development of national reference documents (BAT commission)				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-0.2	-0.2	-0.2
B1.Direct effects on expenditures	0.0	0.2	0.2	0.2
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
32.Preparation of additional secondary legislation to achieve compliance with EMAS				
A. Implementation profile	-	X	X	-
B. Net direct effects on the budget	0.0	-0.5	-1.0	0.0
B1.Direct effects on expenditures	0.0	0.5	1.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
33. Preparation of secondary legislation - SEVESO Directive				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-1.0	0.0
B1.Direct effects on expenditures	0.0	0.0	1.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
34. Adoption of Law on Chemicals				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-0.1	0.0	0.0
B1.Direct effects on expenditures	0.0	0.1	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
35.Secondary legislation drafting under the Law on Chemicals				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-0.5	0.0
B1.Direct effects on expenditures	0.0	0.0	0.5	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
36.Institutional and human resource capacity building for GMO management				
A. Implementation profile	-	-	X	-
B. Net direct effects on the budget	0.0	0.0	-0.2	0.0
B1.Direct effects on expenditures	0.0	0.0	0.2	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
37.Establishment of BCH- bio-safety clearing house				
A. Implementation profile	-	-	-	X
B. Net direct effects on the budget	0.0	0.0	0.0	-1.0
B1.Direct effects on expenditures	0.0	0.0	0.0	1.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
38. Drafting of Law on GMO and relevant secondary legislation				
A. Implementation profile	-	X	-	X
B. Net direct effects on the budget	0.0	-1.0	-0.5	-0.5
B1.Direct effects on expenditures	0.0	1.0	0.5	0.5
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
39. Adoption of the Law on Noise and drafting of relevant secondary legislation				
A. Implementation profile	-	X	X	-
B. Net direct effects on the budget	0.0	-0.5	-0.1	0.0
B1.Direct effects on expenditures	0.0	0.5	0.1	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
40. Procurement of measuring instruments for noise and vibrations (software for noise mapping)				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-4.0	0.0	0.0
B1.Direct effects on expenditures	0.0	4.0	0.0	0.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0

4.8.6. Judicial reforms				
Total judicial reform	2006	2007	2008	2009
Net direct effects on the budget	-1	-66	-69	-65
Direct effects on expenditures	63	237	255	238
Direct effects on revenues	62	171	187	173
1. Adoption of Law on Public Prosecution Offices				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-12.0	-12.0	-12.0
B1.Direct effects on expenditures	0.0	12.0	12.0	12.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
2. Adoption of Public Prosecutors Council				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0	-15	-15	-15
B1.Direct effects on expenditures	0	15	15	15
B2.Direct effects on revenues	0	0	0	0
Judicial reform				
A. Implementation profile	X	X	-	-
B. Net direct effects on the budget	-1	-39	-42	-38
B1.Direct effects on expenditures	63	210	228	211
B2.Direct effects on revenues	62	171	186.7	173

4.8.7 Health				
Total Health	2006	2007	2008	2009
Net direct effects on the budget	-99	-183	-180	-185
Direct effects on expenditures	330	561	300	305
Direct effects on revenues	231	378	120	120
1. Equipment for the health institutions				
A. Implementation profile	-	-	-	-
B. Net direct effects on the budget	0.0	-16.0	0.0	0.0
B1.Direct effects on expenditures	0.0	174.0	0.0	0.0
B2.Direct effects on revenues	0.0	158.0	0.0	0.0
2. Improvement of the organization of the health protection				
A. Implementation profile	-	-	-	-
B. Net direct effects on the budget	-50.0	-115.0	-114.0	-115.0
B1.Direct effects on expenditures	50.0	115.0	114.0	115.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
3. Improvement of specialised health care - public health				
A. Implementation profile	-	-	-	-
B. Net direct effects on the budget	-10.0	-12.0	-14.0	-16.0
B1.Direct effects on expenditures	10.0	12.0	14.0	16.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
4. Improvement of health care quality				
A. Implementation profile	-	-	-	-
B. Net direct effects on the budget	-5.0	-6.0	-12.1	-13.3
B1.Direct effects on expenditures	5.0	6.0	12.1	13.3
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
5. Improvement of pharmaceutical services				
A. Implementation profile	-	-	-	-
B. Net direct effects on the budget	-4.5	-4.9	-5.5	-6.0

B1.Direct effects on expenditures	4.5	4.9	5.5	6.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
6. Improvement of health information system				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	-9.5	-10.0	-11.0
B1.Direct effects on expenditures	0.0	9.5	10.0	11.0
B2.Direct effects on revenues	0.0	0.0	0.0	0.0
7. Health care reform management				
A. Implementation profile	X	-	-	-
B. Net direct effects on the budget	-29.0	-20.0	-24.0	-24.0
B1.Direct effects on expenditures	154.0	140.0	144.0	144.0
B2.Direct effects on revenues	125.0	120.0	120.0	120.0
8. AIDS protection programme				
A. Implementation profile	-	X	-	-
B. Net direct effects on the budget	0.0	0.0	0.0	0.0
B1.Direct effects on expenditures	106.0	100.0	0.0	0.0
B2.Direct effects on revenues	106.0	100.0	0.0	0.0

7. Statistical appendix

ANNEX 1

Table 18: Growth and associated factors

Percentages unless otherwise indicated	ESA Code	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
1. GDP <i>growth at constant</i> market prices (14+15+16)	B1g	4.0	4.0	6.0	6.0	6.5
2. GDP <i>level at current</i> market prices	B1g	277247	297852	325509	353666	386070
3. GDP deflator		0.5	3.3	3.0	2.5	2.5
4. CPI change (annual average)		0.5	3.3	3.0	2.5	2.5
5. Employment growth *		4.3	4.0	4.0	4.0	4.0
6. Labour productivity growth **		2.0	2.0	2.0	2.5	2.0
7. Investment ratio (% of GDP)		21.9	21.7	22.7	23.5	24.3
Sources of growth: percentage changes at constant prices						
8. Private consumption expenditure	P3	2.0	5.3	5.7	4.0	5.5
9. Government <i>consumption</i> expenditure	P3	2.0	3.0	3.0	2.0	3.0
10. Gross fixed capital formation	P51	1.5	7.0	11.0	15.0	15.0
11. Changes in inventories and net acquisition of valuables as a % of GDP	P52+ P53	0.0	0.0	0.0	0.0	0.0
12. Exports of goods and services	P6	22.2	22.8	10.0	9.5	9.0
13. Imports of goods and services	P7	11.6	17.5	8.0	7.0	7.0
Contribution to GDP growth						
14. Final domestic demand		2.3	6.0	7.0	5.9	7.2
15. Change in inventories and net acquisition of valuables	P52+ P53	0.0	0.0	0.0	0.0	0.0
16. External balance of goods and services	B11	1.7	-2.0	-1.0	0.1	-0.7
Growth of Gross Value Added						
17. Agriculture		3,1	2,9	5,5	5,4	6,1
18. Industry (excluding construction)		6,8	3,6	6,1	6,1	6,6
19. Construction		-5,0	2,9	7,1	6,6	6,9
20. Services		4,0	3,8	6,4	6,3	6,5

* Occupied population, domestic concept, persons, national accounts definition

** Growth of GDP at market prices per person employed at constant prices

Table 19: Labour markets developments

Percentages unless otherwise indicated	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
1. Population (thousands)	2036855	2087776	2139971	2182770	2226426
2. Population (growth rate in %)	0.2	0.2	0.2	0.2	0.2
3. Working-age population (thousands)*	1416745	1437996	1463880	1490230	1517054
4. Participation rate *	60.7	60.7	60.8	60.8	61.0
5. Employment level (thousands) *	536334	557787	580098	603302	627434
6. Employment (growth rate in %)	4.3	4.0	4.0	4.0	4.0
7. Public sector employment (thousands)	-	-	n.a.	n.a.	n.a.
8. Public sector employm. (growth rate in %)	-	-	n.a.	n.a.	n.a.
9. Unemployment rate (ILO definition)	37.3	36.3	35.3	34.3	33.2
10. Average real wage (growth rate in %)	2.0	3.7	0.3	1.0	1.0

* 15 to 64 years

Source: (3,5,6,9) Labour Force Survey, State Statistical Office

Source : (10) Administrative data, State Statistical Office

Table 20: External sector developments

Euro mill. unless otherwise indicated	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
1. Current account balance (% of GDP)	-1.3	-1.2	-3.3	-2.5	-2.0
2. Export of goods	1642.18	1893	2082	2280	2485
3. Import of goods	2495.6	2934	3169	3391	3628
4. Trade balance	-853.4	-1041	-1086	-1110	-1143
5. Export of services	380.6	476	510	553	603
6. Import of services	407.9	479	514	556	587
7. Service balance	-27.23	-3	-4	-3	16
8. Net interest payments from abroad ¹⁵	-20.68	-25	-23	-25	-17
9. Other net factor income from abroad ¹⁶	-44.38	-2	-90	-98	-96
10. Current transfers ¹⁷	863	985	1005	1068	1097
11. Of which from EU ¹⁸	11.6	5.8	4.1	2.9	0
12. Current account balance	-61.8	-61	-175	-143	-126
13. Foreign direct investment, net	77.12	307	116	558	210
14. Foreign reserves ¹⁹	1123	1403	1720	2143	2164
15. Foreign debt ²⁰	2418.2	2263.1	2344.1	2287.3	2184.3
16. Of which: public ²¹	1931.1	1736.9	1778.2	1699.7	1611.3
17. O/w: foreign currency denominated ²²	1931.1	1736.9	1778.2	1699.7	1611.3
18. O/w: repayments due ²³	115.5	285.5	139	139.9	140.8

¹⁵ Interest received minus interest paid.

¹⁶ Figure refers to the BOP item 'Income, net'.

¹⁷ Total current transfers, net, i.e. private, net plus official, net.

¹⁸ Figure for 2005 refers to grants from EU with respect to the following projects: PHARE grant for Negotino-Demir Kapija; Local Infrastructure development (phase 1); Local Infrastructure development (phase 2). Figures from 2006-2008 counts for grants regarding Local Infrastructure development project (phase 1); Local Infrastructure development project (phase 2).

¹⁹ Defined as: Gross foreign reserves excluding monetary gold and effects of exchange rate differentials of reserve assets.

²⁰ Foreign debt defined as total (ST and LT) public and private external debt plus domestic public sector FC denominated debt.

²¹ Defined as: ST and LT external public debt plus domestic public sector FC denominated debt.

²² Defined as: ST and LT external public debt plus domestic public sector FC denominated debt.

²³ Repayments due includes amortization plus interest regarding total (ST plus LT) external public sector debt as well as amortization plus interest considering domestic FC denominated public sector debt.

19. Exchange rate vis-à-vis EUR (end-year)	61.1779	n.a.	n.a.	n.a.	n.a.
20. Exchange rate vis-à-vis EUR (annual average)	61.296	61.304	61.304	61.304	61.304
21. Net foreign saving ²⁴ (lines 21-25: percentages of GDP)	9.1	7.4	6.2	4.5	4.1
22. National savings ²⁵ (available figures in lines 22-24 refer to 2004)	10.1	n.a.	n.a.	n.a.	n.a.
23. Domestic private investment ²⁶	13.5	n.a.	n.a.	n.a.	n.a.
24. Domestic public investment ²⁷	4.3	n.a.	n.a.	n.a.	n.a.

²⁴ Net foreign saving is defined as net capital inflow. This term refers to total net capital inflows less total net capital outflow. Considering the scope of the definition, the above 'Net foreign saving' item refers to the general BOP category 'Capital and financial account, net'.

²⁵ National savings (% of GDP)=National investment (% of GDP)+Current account balance (% of GDP).

²⁶ Domestic private investment (% of GDP) defined as Private sector gross fixed capital formation at current prices (% of GDP), in fact refers to National private investment (% of GDP).

²⁷ Domestic public investment (% of GDP) defined as Public sector gross fixed capital formation at current prices (% of GDP) actually refers to National public investment (% of GDP).

Table 21: General government budgetary developments

Percentages of GDP	ESA code	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
Net lending (B9) by sub-sectors						
1. General government	S13	n.a	-2426	-3394	-4401	-3152
2. Central government	S1311	1314	-1008	-2805	-3278	-3425
3. State government	S1312	1568	-251	-2291	-2030	-2118
4. Local government	S1313	n.a	13	0	0	0
5. Social security funds	S1314	-606	-1431	-589	-1123	273
General government (S13)						
6. Total receipts	ESA	n.a	117752	115975	123800	131485
7. Total expenditures	ESA	n.a	120178	119369	128201	134637
8. Budget balance	B9	n.a	2426	3394	4401	3152
9. Interest	D41	n.a	3364	2965	3241	3298
10. Primary balance		n.a	-2426	-3394	-4401	-3152
Components of revenues						
11. Taxes	D2+D5	n.a	64271	67273	70468	75764
12. Social contributions	D61	n.a	30579	31103	32671	34786
13. Other		n.a	22902	17599	20661	20935
14. Total receipts	ESA	n.a	117752	115975	123800	131485
Components of expenditures						
15. Collective consumption	P32	n.a	44447	45754	48092	49516
16. Social benefits in kind	P31	n.a	n.a	n.a	n.a	n.a
17. Social transfers other than in kind	D62	n.a	49569	51102	53265	55386
18. Interest	D41	n.a	3364	2965	3241	3298
19. Subsidies	D3	n.a	6191	4044	3400	4400
20. Gross fixed capital formation	P51	n.a	16607	15504	20203	22037
21. Other		n.a	n.a	n.a	n.a	n.a
22. Total expenditures	ESA	n.a	120178	119369	128201	134637

Table 22: General government debt developments

Percentages of GDP	ESA code	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
1. Gross debt level		40.88	35.55	34.03	31.74	28.71
2. <i>Of which:</i> repayments due		2.79	6.24	2.41	2.62	3.62
3. Change in gross debt		4.28	-5.33	-1.52	-2.29	-3.02
Contributions to change in gross debt						
4. Primary balance	B9	1.2	0.31	-0,13	-0,33	0.04
5. Interest	D41	0.94	1.13	0.91	0.92	0.85
6. Nominal GDP growth	B1g	4.6	7.4	9.0	8.5	9.0
7. Other factors influencing the debt ratio		n.a	n.a	n.a	n.a	n.a
8. <i>Of which:</i> Exchange rate change		n.a	n.a	n.a	n.a	n.a
9. <i>O/w:</i> Privatisation receipts		n.a	n.a	n.a	n.a	n.a
10 . <i>p.m</i> .implicit interest rate on debt (%)		n.a	n.a	n.a	n.a	n.a

Table 23: Assumptions on the external economic environment underlying the 2006 PEP framework

VARIABLE (annual growth rates in %, if not otherwise stated)	ASSUMPTIONS FOR								COMMENTS	
	2005	2006	2007	2008	2009	change*	change*	change*		change*
Interest rates (in % p.a., annual averages)										
- Country: short-term	8,8		5,5		5,0		4,5		4,0	Ministry of finance
- Country: long-term	12,5		10,5		9,5		7,9		7,0	Ministry of finance
- Euro area: short-term (3-months money markets)	2.2		2.9		3.4		3,2		3,2	EU forecast
- Euro area: long-term (10-year govt bonds, lowest one prevailing in euro area)	3.3		3.9		4.3		4,2		4,2	EU forecast
- USA: short-term (3-months money markets)	3.6		5.0		4.2		4,0		4,0	EU forecast
- USA: long-term (10-year governmt. bonds)	4.3		4.9		4.5		4,2		4,2	EU forecast
Exchange rates (annual average “-“: depreciation)										
Exchange rate vis-à-vis €	61,25		61,3		61,3		61,3		61,3	Ministry of finance
USD / €	1.24		1.25		1.27		1,28		1,29	EU Autumn Forecast:
Nominal effective exchange rate	61,25		61,3		61,3		61,3		61,3	Ministry of finance
Real effective exchange rate **	-1.0		0.2		N/a		N/a		N/a	NBRM
GDP (in real terms)										
- World, excluding EU	5.64		5.7		5,2		5,2		5,2	EU Autumn Forecast:
- USA	3.2		3.4		2.3		2,8		2,8	EU Autumn Forecast:
- Japan	2.6		2.7		2.3		2,1		2,1	EU Autumn Forecast:
- EU 25	1.7		2.8		2.4		2,4		2,4	EU Autumn Forecast:
World trade (in real terms)										
Country export markets	9.0		9.8		8.1		8,0		8,0	National estimates
World imports	7.1		9.5		7,6		7,3		7,3	EU Autumn Forecast:
International prices										
World import prices (goods, in USD)	6.0		4.1		2.0		2,0		2,0	EU Autumn Forecast: till 2007
Oil Prices (Brent – USD per barrel)	54.1		68.9		71.0		71,0		71,0	EU Autumn Forecast: till 2007:
Non-oil commodity prices (USD)	8.3		16.8		0.7		1,0		1,0	EU Autumn Forecast: till 2007:

*For 2009 assumed no changes by MF. International prices after 2007 - WEO

Table 24: Cyclical developments

Percentages of GDP	ESA Code	Year 2005	Year 2006	Year 2007	Year 2008	Year 2009
1. GDP growth at constant prices	B1g	4.0	4.0	6.0	6.0	6.5
2. Actual balance	B9	0.3	-0.8	-1.0	-1.5	-1.5
3. Net interest payments	D41	0.94	1.13	0.91	0.92	0.85
4. Potential GDP growth		3.9	4.8	5.0	5.3	5.6
5. Output gap		0.1	-0.8	1.0	0.7	0.4
6. Cyclical budgetary component		-0.1	-1.3	-1.9	-2.8	-3.4
7. Cyclically-adjusted balance (2-6)		0.4	0.5	0.9	1.3	1.9
8. Cyclically-adjusted primary balance (7-3)		0.1	-0.61	-0.01	0.4	1.15

Table 25: Long term sustainability of public finances

Percentages of GDP	2000	2005	2010	2020	2030	2040	2050
1. Total expenditure	36.6	36.2	34.0	33.0	33.0	33.0	33.0
2. Old age pensions	4.6	5.3	4.1	3.5	4.1	3.6	3.1
3. Health care (including care for the elderly)	5.3	5.5	4.6	4.4	4.2	4.0	4.0
4. Interest payments	1.62	1.12	1.07	n.a	n.a	n.a	n.a
5. Total revenues	34.1	36.6	33	32.0	32.0	32.0	32.0
6. of which: from pensions contributions	7.0	6.6	6,4	5,6	4,9	4,7	4,7
7. National pension fund assets (if any)	n.a						
Assumptions							
8. Labour productivity growth	4.2	2.0	2.0	2.3	2	2	1.8
9. Real GDP growth	4.5	4.0	4,0	3,5	3	2,5	2,5
10. Participation rate males (aged 15-64)	71.7	72	74	75	77	77	78
11. Participation rates females (aged 15-64)	47.7	49.2	55	59	64	68	72
12. Total participation rates (15-64)	59.7	60.8	64.6	67.5	68.5	71	74
13. Unemployment rate (ILO definition)	32.5	37.3	32	22	18	15	12

**ASSUMPTIONS ON THE EXTERNAL ECONOMIC
ENVIRONMENT UNDERLYING THE SPRING 2006 FORECASTS**

VARIABLE (annual averages)	2005	2006	2007
Interest rates (in % p.a.)			
euro area: short-term (3-months money markets)	2.2	2.9	3.4
euro area: long-term (10-year government bonds, Germany)	3.3	3.9	4.3
USA: short-term (3-months money markets)	3.6	5.0	4.2
USA: long-term (10-year government bonds)	4.3	4.9	4.5
Exchange rates ("-" : depreciation)			
USD / € (level)	1.24	1.22	1.22
Nominal effective exchange rate of the euro area (% change)	-1.1	0.0	0.5
Nominal effective exchange rate of the EU (% change)	-1.0	-0.6	0.4
Euro exchange rate: (levels)			
Czech koruna	29.8	28.5	28.3
Danish krone	7.45	7.46	7.46
Estonian kroon	15.7	15.7	15.7
Cyprus pound	0.58	0.58	0.59
Latvian lats	0.70	0.70	0.70
Lithuanian litas	3.45	3.45	3.45
Hungarian forint	248	263	267
Maltese lira	0.43	0.43	0.43
Polish zloty	4.02	3.91	3.93
Slovenian tolar	240	240	240
Slovak koruna	38.6	38.2	38.5
Swedish krona	9.28	9.35	9.34
UK pound sterling	0.68	0.69	0.70
GDP (in real terms, % change)			
World, excluding EU (PPP terms)	5.4	5.2	4.9
USA	3.5	3.2	2.7
Japan	2.7	2.8	2.4
EU-25	1.6	2.3	2.2
World trade (% change, goods)			
EU export markets, extra-EU (volumes)	9.0	9.8	8.1
World import volumes, excl. EU	8.1	9.6	8.2
World import prices (in USD)	6.0	4.1	2.0
Commodity prices			
Oil prices (Brent, USD/barrel)	54.1	68.9	71.0
Non-oil commodity prices (in USD, % change)	8.3	16.8	0.7