

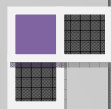
2010



REPUBLIC OF MACEDONIA

PRE-ACCESSION ECONOMIC PROGRAMME

Skopje, February 2010



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Abbreviations

ACAA	Agreement of Conformity Assessment and Acceptance of Industrial Products
ACCMIS	Automated Court Case Management Information System
AFIM	Agency for Foreign Investments of the Republic of Macedonia
APPRM	Agency for Promotion of Entrepreneurship of the Republic of Macedonia
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CARM	Customs Administration of the Republic of Macedonia
CDPS	Customs Declaration Processing System
CEE	Central and Eastern Europe
CEFTA	Central European Free Trade Agreement
CRE	Center for Real Estate Cadastre Skopje
CRM	Central Registry of the Republic of Macedonia
Directive	
EAR	European Agency for Reconstruction
EARM	Employment Agency of the Republic of Macedonia
EASA	European Aviation Safety Agency
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECAA	European Common Aviation Area
ECB	European Central Bank
EFTA	European Free Trade Association
EIB	European Investment Bank
EIIC	European Information and Innovation Center
ERP system	Enterprise Resource Planning system
ESR	Enterprise Social Responsibility
ETF	European Training Foundation
EU	European Union
EURES	European Employment Service
EXIM	Single Window System for issuance of licenses for import/export and transit of goods and tariff quota
FAB	Functional Airspace Blocks
FAO	Food and Agriculture Organisation
FDI	Foreign Direct Investments
FSAP	Financial Sector Assessment Program
FTE	Full-time equivalent
GCIS	Geodetic Cadastre Information System
GDP	Gross Domestic Product
GNSS	Global Navigation Satellite System

GPS	Global Positioning System
GTA	German Technical Assistance
HIF	Health Insurance Fund of the Republic of Macedonia
HMI	Hydro-Meteorological Institute
HPP	Hydroelectric Power Plant
HRDF	Human Resources Development Fund
IAIS	International Association of Insurance Supervisors
ICAO	International Civil Aviation Organisation
ICT	Information and Communication Technology
IFRS	International Financial Reporting Standards
INSPIRE	Infrastructure for Spatial Information in Europe
IOSCO	International Organisation of Securities Commissions
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-accession Assistance for Agriculture and Rural Development
IPF	Infrastructure Project Facility
ISIGU	Information System for Integrated Border Management
ISO	International Organisation for Standardisation
IT	Information Technology
JAA	Joint Aviation Authorities
JICA	Japan International Cooperation Agency
JSC	Joint Stock Company
LDBIS	Legal Database Information System
MacEdit	Software for Editing of Digital Cadastre Maps
MAKSIS	Macedonian Customs Information System
MAPAS	Agency for Supervision of Fully Funded Pension Insurance
MASA	Macedonian Academy for Sciences and Arts
MEPSO	Macedonian Electro-Transmission System Operator
MIGA	Multilateral Investment Guarantee Agency
MLSP	Ministry of Labour and Social Policy
MAFWE	Ministry of Agriculture, forestry and water management
MAFWE	Ministry of Agriculture, Forestry and Water Economy
MR	Macedonian Railways
MSEI	Macedonian Stock Exchange Index
HACCP	Hazard Analysis Critical Control Points
NBRM	National Bank of the Republic of Macedonia;
NISD	National Infrastructure of Spatial Data
NPAA	National Programme for the Adoption of the Acquis

OSSS	One-stop shop system
p.p.	Percentage point
PDIFRM	Pension and Disability Insurance Fund of the Republic of Macedonia
PE	Public Enterprise
PEP	Pre-Accession Economic Programme
PIT	Personal Income Tax
PRO	Public Revenue Office
RACWEB	Risk Assessment for Customs in Western Balkans
REC	Real Estate Cadastre
RECA	Real Estate Cadastre Agency
REER	Real Effective Exchange Rate
RIA	Regulatory Impact Assessment
RM	Republic of Macedonia
SDR	Special Drawing Rights
SEETO	South East Europe Transport Observatory
SERR	Single Electronic Register of Regulations
SMEs	Small and medium-sized enterprises
SSA	Stabilisation and Association Agreement
SSO	State Statistical Office
TEMPUS	Trans-European Mobility Scheme for University Studies
TIDZ	Technological Industrial Development Zones
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UPOV	International Union for the Protection of New Varieties of Plants
USAID	United States Agency for International Development
VET	Vocational Education and Training
VIS	Veterinary Information System
WEB GIS	Web Geographic Information System
WMO	World Meteorological Organisation
WTO	World Trade Organisation

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

Republic of Macedonia as part of the pre-accession fiscal surveillance procedure prepared the fourth 2010-2012 Pre-Accession Economic Programme. It is a document adopted by the Government of the Republic of Macedonia, being prepared under coordination of the Ministry of Finance, in cooperation with the relevant line ministries and institutions and the National Bank of the Republic of Macedonia.

Programme is in line with many strategic documents, such as National Development Plan, National Programme for the Adoption of the Acquis, Fiscal Strategy, Public Debt Management Strategy and other. It focuses on the economic policy characteristics, presenting the projections for the coming three-year period and explaining the key structural reforms that should be undertaken on the way towards EU accession of the Republic of Macedonia.

Main objectives of the Government of the Republic of Macedonia are the following: increase of both attractiveness of the country for foreign and domestic investors and the level of investments, improvement of the education quality, creation of advanced information society, development of new and improvement of the existing physical infrastructure, improvement of the quality of public institutions for implementing the reforms and prudent government public debt management on medium term. Thereby, maintenance of macroeconomic stability and creation of predictable macroeconomic climate, dynamic implementation of structural reforms and full meeting of Copenhagen criteria in the accession process of the Republic of Macedonia to the EU continue to be the Government's key priorities.

Within the Accession Partnership, Republic of Macedonia continued to meet the economic benchmarks. As it was noted in the 2009 Progress Report of Macedonia, progress was seen in the field of reduction of barriers to market entry and exit, improvement of business climate and market economy functionality (being key priority of the Accession Partnership), registration of property rights, reduction of impediments to job creation, maintenance of macroeconomic system stability despite the disturbances from the global economic crisis, as well as in the field of fiscal decentralisation. Assessed weaknesses in the Report remain to be targets for policy makers to the end of full meeting of benchmarks for accession of Macedonia to the European Union.

Unlike the previous Pre-Accession Economic Programmes, and particularly the last year's PEP, being prepared when the country experienced strong economic growth (6% in the first three quarters of 2008), this year's PEP takes into account one totally different economic constellation. Unfavourable external environment, harsh financial crisis transforming into the sharpest world recession in the post-war period and the accompanying unfavourable macroeconomic implications caused negative effects over the national economy, to which, the Government responded by adopting three packages of anti-crisis measures and two Supplementary Budgets, thus succeeding to both maintain the macroeconomic stability and alleviate the downward tendencies of the gross domestic product. In the coming period, the Macedonian Government will be focused on faster pullout of the country from the recession, whereby, the final recovery is expected in 2012, when GDP growth is expected to achieve the pre-crisis levels.

More specifically, the fiscal policy will be aimed at supporting the Macedonian economy, by increasing the expenditures for capital projects in the infrastructure, taking into account the foreign trade position and keeping the Denar exchange rate stable. Thereby, the negative budget balance will be realistic and non-distorsive for the economy, within the Maastricht criterion.

As for the monetary policy, its primary goal is maintaining price stability. Thereby, to the end of achieving these goals, the strategy of targeting the nominal Denar exchange rate to the euro will continue to apply.

Latterly, the structural reforms the Government of the Republic of Macedonia implemented during the previous three years, significantly reflect into higher level of efficiency and improvement of the Macedonian economy, also contributing to the amortisation of the primary crisis blow. In fact, the introduction of flat tax and reduced tax rates contributed to simultaneous reduction of tax burden of the companies and the citizens and increase of tax revenues. This also includes the implemented social contribution reforms, introduction of the concept for bargaining, calculation and payment of gross salaries to employees – a successful reform for facilitating the doing business process, streamlining

administrative procedures and reducing costs of employers, improving the labour market environment and increasing workers' social safety.

It is considered that the realisation of the activities specified in the Pre-Accession Economic Programme, on the short run, will boost the economic growth in times of crisis situation, while on the long run, it will improve the competitiveness of the Macedonian economy.

2. ECONOMIC OUTLOOK

2.1. Recent economic developments

In 2008, the Macedonian economy continued showing significant economic achievements, despite the slowdown of the global economic activity, including the countries in the region.

Gross Domestic Product growth was 6% in the first three quarters of 2008, being continuation of the high growth in 2007. However, in the last quarter of 2008, the effects of the global economic crisis were spilled in the Republic of Macedonia as well, whereby, the deteriorated external environment caused for the economic growth to be only 2% in this quarter, thus adversely affecting the annual growth rate.

Table 2.1: Gross Domestic Product

	<i>Real growth rate (%)</i>		<i>Contribution to growth (p.p.)</i>	
	2007	2008	2007	2008
Agriculture	-3.0	7.0	-0.1	0.6
Industry	8.6	4.7	2.0	1.1
Construction	3.9	13.5	0.2	0.9
Services	6.3	4.1	3.2	2.1
GDP	5.9	4.8	5.9	4.8

Source: Ministry of Finance and State Statistical Office

The production side breakdown of Gross Domestic Product, shows that positive growth rates in 2008 were registered in all sectors, among which, significant growth was seen in the sectors of construction (13.5%), trade (8.3%), agriculture (7.0%) and hotels and restaurants (6.5%). In 2008, the industrial production increased by 4.7%. However, it should be emphasised that the industry in two subsequent quarters registered double-digit growth rates (12.4% and 13% in the second and third quarter, respectively). However, as a result of the spillover of the global economic crisis into the Macedonian economy, it declined by 7.7% in the last quarter. The highest contribution to industrial growth was made by the sector for production of furniture with 2 percentage points (p.p.), the sector for production of metal products with 1.7 p.p., as well as the sector for production of chemical products (1 p.p.). As to the main industrial groups, there was significant growth of the production of durable consumer goods by 64.2% and the production of intermediary goods, except energy by 7.7%.

The expenditure side breakdown of the Gross Domestic Product, shows that the highest contribution to the GDP growth in 2008 was made by the final consumption with 7 p.p., as well as the gross capital formation with 4.4 p.p.. Within the final consumption, households' consumption registered real growth of 6.9%, contributing with 5.3 p.p. to the total growth, while public spending registered real growth of 9.7%, contributing with 1.7 p.p. in the total GDP growth. Net export had negative contribution to growth in 2008, whereby it widened, amounting to -6.5 p.p.

As for the *public finances*, disciplined and prudent fiscal policy was conducted in 2008. Good performance of tax revenues in the course of 2008 spoke in favour of the successful implementation of tax reform aimed at introducing flat tax, reducing tax burden and simplifying tax procedures. Thereby, general government budget deficit reached 1% of GDP, which was 0.5 p.p. lower than the projected amount. At the same time, indebtedness of the Republic of Macedonia in 2008 significantly declined, whereby the general government debt was 21.3% at the end of the year, being a decline by 3.4 p.p. compared to 2007.

As for the *external sector*, the increase of the volume of commodities trade scope continued in 2008, whereby in the observed period, export of goods, in terms of euros, increased by 9.9%, with a simultaneous increase of the import by around 22.2% in the analysed period. As a result of the oil price increase and the reduction of the price of metals, terms of trade worsened. Consequently, the 2007 trade deficit of 20.3% widened, reaching 26.7% in 2008.

As a result of the reduction of both the private transfers (-5.8%) and the export activity, in 2008, the realised current account deficit participated with 13.1% in GDP.

The stock of foreign exchange reserves continued to increase until September, when it reached its peak and then started to decrease, reaching EUR 1,494.9 million in December, which is an increase by 7.6% on annual level, and 3.5 months of import coverage.

Inflation in 2008, measured through the consumer price index, amounted to 8.3% on average on annual level. Increase of general price level, mainly led by the rising prices of food, oil and raw materials on the world market were main risk to macroeconomic stability in that period. 2008 can be divided in two periods. The first period was characterised with rapid price increase, when the average inflation reached 9.7%. Although most of the inflationary pressures in 2008 reflected the influence of import prices, still, they could to a certain extent be ascribed to the increasing domestic demand in that period. In the second half of 2008, inflation pressures decreased, thus, the inflation rate reduced to 4.1% on annual level, appropriately to the revised projections. Inflation tendencies were abated mainly as a result of the stabilisation and the gradual decline of world food and oil prices, as well as the measures undertaken by the Government of the Republic of Macedonia and NBRM, which contributed to calming down of the inflation expectations and eliminating the risks arising from them.

CPI trend in 2008 was different by separate consumption groups. Growth was registered in all groups, whereby the highest growth was registered at food (15.3%), restaurants and hotels (11.4%) and housing (6%). In the course of 2008, the base inflation (excluding food and energy prices) increased by 2 p.p. compared to the previous year, reaching 2.6%.

As for the performance of the *banking system*, total deposits in 2008 surged by 10.4% in conditions of lower growth rate of households' deposits by 11.7% and significantly slower growth of deposits of enterprises by 5.9%. Credits to private sector slowed down on annual basis, i.e. they increased by 34.4% compared to 2007, when credits increased by 39.2%. Slower growth of credits to private sector on annual basis started in May 2008. Credits to households and enterprises registered slowed-down increase on annual basis by 37.6% and 32.5%, respectively.

In 2008, positive developments were also seen in the *social sector*. In fact, statistical analyses of the labour market in 2008 (population at the age of 15-64¹) showed increase in the number of employees by 19,279 persons compared to last year, being 3.2% of total employment. Thus, employment rate increased by 1.3 p.p., amounting 41.9%. In general, (except for the last quarter) commenced downward trend of unemployment rate, seen in the last three years, continued in 2008 as well, mainly as a result of the intensified economic activity and active labour market policies. Annual unemployment rate decreased by 1.2 p.p. on annual level, dropping from the historically the highest level of 37.6% in 2005 to 34.0% to 2008. The number of unemployed persons registered in the Employment Agency, decreased for the first time after ten years and dropped below 350,000, amounting 343,363 at the end of December. It should be underlined that 271,774 persons out of the total unemployed persons actively look for a job, while the remaining 71,589 register only for exercising the right to health insurance, showing no interest in employment.

At the beginning of 2009, external economic conditions became even more complex. Due to expansion and deepening of economic crisis, recession in EU and the USA, as well as deterioration of economic activity in the countries in the region, the growth potential of the Macedonian economy in 2009 was significantly limited. Negative risks, for which, it was initially considered that will hit the Macedonian economy with moderate intensity, started to realise with more intensified dynamics, leading to decline of total economic activity.

¹ Labour Force Survey, State Statistical Office of the Republic of Macedonia

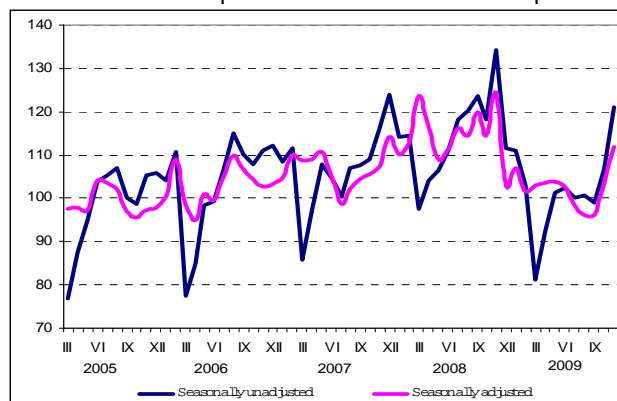
The decline in real GDP in the first half of 2009 was 1.2%, while the growth rate was -0.9% and -1.4% in the first and the second quarter, respectively. However, compared to the other European countries, where, in certain cases, two-digit negative growth rates were observed, the achievements of the Macedonian economy were relatively good. This was a result mainly of the undertaken anti-crisis measures, which were introduced in order to help Macedonian enterprises to weather the economic crisis more easily. Analysed by sectors, the industry (-10,3%) realised the most significant decline, being influenced by the reduced export demand. In addition, the sector of hotels and restaurants registered decline (-5,6%), and as a result of the reduced transport of export goods, the traffic and communications sector also dropped (-5.2%). On the other hand, the positive growth in construction, trade, agriculture and public administration cushioned the GDP decline.

As a result of the deferred impact of the global economic crisis over the smaller economies the negative trend commenced in the last quarter of 2008 continued and enlarged in 2009. This was particularly felt at the *industrial production*, which, as of September 2009 inclusive registered cumulative annual decline of 12.4%. In relation to September 2008, industrial production index decreased by 9.8%, being almost at the same level as in August this year and it can be interpreted as possible stabilisation of the developments in the industry. September 2009 data, analysed on annual level, showed that the industrial production decline was concentrated in the processing industry (-11.4%) having the largest share in the industrial output. This was due to the fact that the processing industry was affected by the negative crisis aspects – decrease of domestic and foreign demand. Slowdown of annual decline of production of base metals by 3.8 p.p. was encouraging (-35.4% in September compared to -39.2% in August), particularly having in consideration the large decrease of total processing industry. The sector for mining and quarrying also decreased by 2.4%, while the sector for electricity, gas and water supply increased by 4.6% annually. The largest negative contribution to the industrial production decline was made by the reduced production of base metals (4 p.p. of the total decline of 9.8%).

On the other hand, in September 2009 industrial production index registered double-digit growth of 13.6% on monthly basis, as a continuance of the monthly growth realised in August 2009 (7.5%).

Deseasonised monthly increase of industrial production was 8.4% in September 2009. Analysis of deseasonised industrial production index shows that the industrial production experienced strong drop since the end of 2008, than very low and unstable production level at the beginning of 2009, and finally, stabilisation and intensified increase of the industrial production in the last several months.

Chart 2.1. Industrial production and seasonal component



Source: Ministry of Finance

At the beginning of 2009, the economy underwent continuous disinflation process, being in line with the global inflation trends. The average *CPI* in the first ten months was -0.4%, implying deflation in the economy. Lower price level reflected the high comparative basis of the components of costs of living referring to food and energy (mainly fuels), lower import prices, as well as depressed aggregate demand. Long-term inflation component stabilised during 2009, thus, in the first nine months of 2009 the core inflation was 0.7%.

Macedonia, as the other small and open economies with relatively undifferentiated production structure, suffers negative effects of the world recession and the reduced demand from foreign partners, mainly Eurozone companies. Hence, as for the *external sector*, in euro terms, export decreased by 33.6% in the period January- July 2009, while the drop of import was lower, amounting to 24.5%, whereby the trade deficit decreased by 9.8% compared to the same period in 2008. Slower decline of the import is a distinctive evidence of the high import dependence of Macedonia and the slow adjustment of the import

of consumption goods. In terms of lower trade deficit, as well as almost the same level of private transfers as last year, the current account deficit in the analysed period decreased by 2 p.p. on annual level, amounting to 6.4% of the projected GDP.

Despite the economic challenge the Macedonian economy faced, regarding the *social sphere*, positive developments were registered. In fact, latest statistical data on the labour market in the second quarter of 2009 (population at the age of 15-64²) showed increase in the number of employees by 31,000 persons compared to same quarter last year, being 4.9% of total employment. Thus, employment rate increased by 2.6 p.p., reaching 43.8% at quarterly level. Unemployment rate amounted to 31.9% in the second quarter in 2009 which compared to the same quarter last year, was a drop by 2.1 p.p.. Introduction of flat tax, implementation of social contributions reforms and gross salary concept, as well as the numerous active measures for job creation caused for the unemployment in crisis situation not only not to increase but to even reduce.

In the period January-September average net wage grew by 26.1% in nominal terms and by 26.6% in real terms, being mainly a result of the gross salary concept introduction and the realised low inflation rate in this period. In September 2009, 2.6% of workers did not receive salary, being by 5.7% less compared to the same period in 2008. Analysed by activities, the highest cumulative increase in monthly net wage was observed in the services sector (27.9%), followed by agriculture (26.2%) and industry (23.6%) sectors. According to the assessments of the Ministry of Finance, if one excludes the effect of the gross salary concept introduction (more specifically, the incorporation of food and travel allowances in net wage and reduced social contribution rates), increase in net wages 2009 would continue to be very high, around 12%.

As for *public finance*, in the first half of 2009, more expansionary fiscal policy was implemented, being aimed at alleviating the impact of the international economic crisis over Macedonian economy. Underperformance of tax revenues registered in this period imposed the need for adoption of two Supplementary Budgets focused on keeping the budget deficit target of 2.8% of GDP, by cutting the expenditures. Reduced revenues and increased performance of expenditures were the main reason for the general government budget deficit to be 1.7% of GDP in the first nine months of 2009.

Government of the Republic of Macedonia sticks to its commitments to ensure continuity of the economic policy aimed at accelerating the economic growth, increasing the competitiveness of the Macedonian economy and improving the living standard of citizens. On medium term, it is expected for the effects of the global economic crisis to be overcome, and for Republic of Macedonia to return on the path to achieving relatively high economic growth rates and to continue the process of convergence towards the European economies.

2.2. Medium-term macroeconomic scenario

Medium-term macroeconomic scenario, on the basis of which, projections for the period 2010-2012 were prepared, is mainly based upon the expectations for reviving the global economic growth after the crisis 2009, being supported by the fact that certain countries have already started to exit the recession, as well as the gradual increase of demand for Macedonian export products and the strengthening of domestic demand. Thereby, fiscal policy reflects the continuous efforts of the Government of the Republic of Macedonia in coping with the consequences of the global economic crisis, maintaining stability and maximum contribution to recovery of the Macedonian economy and renewed realisation of high economic growth rates. Thus, maintenance of macroeconomic stability and setting the economic growth on sound and sustainable bases, as well as the further implementation of coordinated fiscal and monetary policy are a must in the coming medium-term period. As it was already mentioned, the National Bank of the Republic of Macedonia will continue to implement the monetary policy within its strategic commitment to target nominal Denar exchange rate in relation to the euro as an intermediary goal. Therefore, the nominal exchange rate remains a nominal anchor, contributing to stabilisation of the inflationary pressures and maintenance of price stability in the country.

² Same

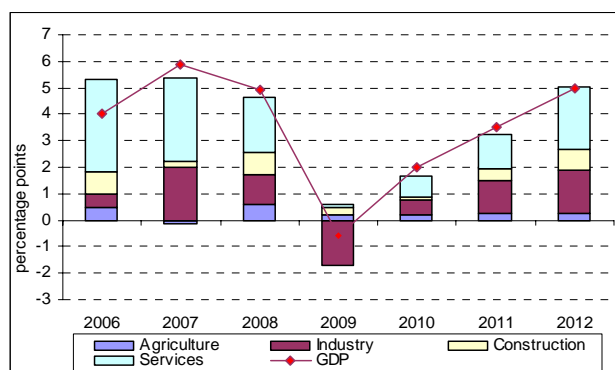
2.2.1. Real Sector

In the first three quarters of 2008 as in 2007, GDP growth continued, reaching 6%, but as a result of the global economic crisis blow, it was terminated. Spillover of crisis caused for the country to fall into recession for the first time after 2001 and to realise semi-annual growth of -1.2% in 2009, in conditions of preserved macroeconomic stability. However, the expectations are that by the end of the year the recession will be overcome, while GDP will realise negative annual growth rate of -0.6%.

Compared to the previous Pre-Accession Economic Programmes, the economic conditions are now completely altered. All efforts of the Government of the Republic of Macedonia are currently focused on alleviating and as soon as possible overcoming of consequences caused by the global crisis. As a result of the stimulative measures undertaken by the Government, as well as due to the recovery signs in certain European economies, it is expected for the recovery of the Macedonian economy to start in the fourth quarter of 2009 and to continue during 2010 as well, when it is expected for total GDP growth to amount to 2%. Hence, as an average for the next medium-term period, it is envisaged for the real GDP growth to be around 3.5%, whereby it is expected for the economic growth rate in 2012 to reach the pre-crisis level (projection of 5%), when it is actually expected for the recovery process of the economy to be completed.

With regard to the production side breakdown of GDP, services are expected to be the main driving force of the growth in general. Trade, transport, tourism and financial sector are expected to realise moderate real growth in 2010, which is expected to be intensified in 2012. It is envisaged for the telecommunication sector to realise high growth, taking into account that the Republic of Macedonia makes serious progress in using the information technology, as well as in the digitalisation process.

Chart 2.2: Contribution to GDP growth – Production approach



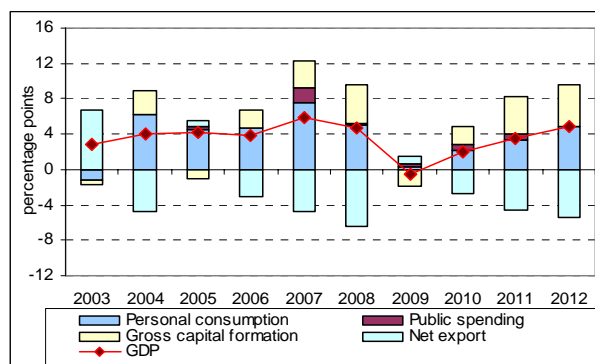
Source: Ministry of Finance

Following the expected strong contraction in 2009, gradually recovery of the industrial production is expected, with a real growth of 2.4% in 2010, 5.6% in 2011 and 7.3% in 2012. As for the construction sector, as a result of the ambitious Government programme for infrastructure development of the country, it is envisaged for the real growth to reach 10.2% in 2012 (2.3% in 2010 and 6.6% in 2011).

Regarding the expenditure side, personal consumption is expected to be driving force of the economic growth, with an average growth rate of 4%, taking into account the expectations for nominal increase in wages and employment and for increase of credits to the private sector.

Gross capital formation, following the drop expected for 2009, are expected to gradually recover in the coming three years and to again realise double-digit real growth by 15% in 2011 and 15.9% in 2012, as a result of the materialisation of the currently delayed capital investments due to the crisis, as well as due to the realisation of the government programme within the second package of anti-crisis measures aimed at encouraging the growth on medium term.

Chart 2.3: Contribution to GDP growth – Expenditure approach



Source: Ministry of Finance

Realisation of announced investments in technological and industrial zones, airports, infrastructure and energetics are basis for the expectations of real growth of investments and their positive contribution to GDP growth. Reduction of labour costs, as a result of the additional reduction of social contributions by 1.4 p.p., the established cadastre on the whole territory of the Republic of Macedonia, Estonian model of profit tax (profit taxation only upon its distribution), recommendation by the European Commission for start of the negotiations, assessment for the adequacy of macroeconomic policies by the International Monetary Fund and the corruption reduction (confirmed by the corruption perception index of Transparency International) provide stimulus for foreign investors. In addition, it is important that according to the 2010 World Bank Doing Business Report, Republic of Macedonia is ranked 3rd on the list of the best reformers among 183 countries in the world. As a result, Republic of Macedonia moved up in the overall ranking by 37 places from 69th in 2009 to 32nd place in Doing Business 2010 Report.

In line with the fiscal strategy, fiscal policy will be prudent and sustainable, with budget deficit planned at 2% of GDP in the period 2011-2012. General recovery of the European economies, as well as the structural reforms for facilitating the foreign trade are expected to positively affect the import, which is expected to realise positive real growth of 12% in the period 2010-2012. Having in mind that the Macedonian economy is highly import dependent, i.e. most of the investment products (machines and equipment) come from import, the expectations are that the import in this period will increase with 13% rate in real terms.

Following the expected deflation in 2009, on medium run, moderate increase of the inflation rate is expected, which is envisaged to be low and to range between 2% and 3% in the period 2010-2012.

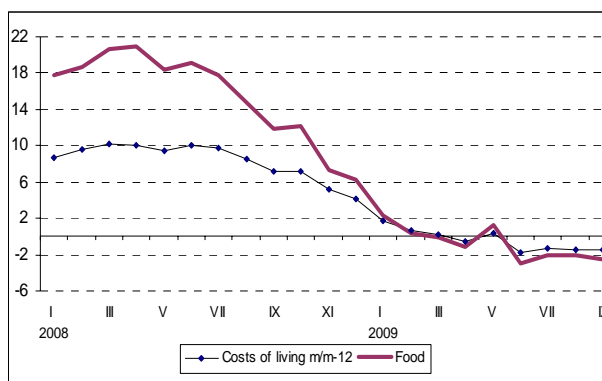
As for the social sector, employment growth present in 2009 is expected to continue. In fact, according to the 2010 projections, employment growth is expected to be higher than 3%, while unemployment will decrease by 3.2%, thus the unemployment in the Republic of Macedonia will reduce well above 30% by the end of 2010. In 2010, nominal increase in net wage is expected to be 2.2%, while the increase in gross wage is projected at 0.5%. Difference in the growth rates is a result of the additional reduction of social contribution rates.

2.2.2. Inflation

The Republic of Macedonia generally characterizes with low inflation rates (in the 1997-2007 period the average inflation rate was 2%). However, this attribute was impaired in 2008 when due to external factors the average inflation rate accelerated reaching 8.3%. In the second half of 2008 a disinflation process has begun which has continued during 2009, whereas in the second half of the year the country has entered into a zone of deflation.

In the first nine months of 2009 a deflation of 0.4% was registered resulting from the downward adjustment of oil and food prices. In September 2009 consumer prices were lower by 1.4% on annual basis under the influence of the decline noted in the following groups: Food (-2,5%), Culture and entertainment (-6,7%), Transport and communication services (-6,1%), Goods (-1,2%), Services (-2,2%) and Miscellaneous services (-1,2%).

Chart 2.4. Costs of living and food



Source: SSO

Retail prices in the January-September 2009 period realized average decline of 1.2% mainly due to the decreased prices of Agricultural products (-4,5%), Non-food industrial products (-3,6%), Goods (-2,3%), Industrial products (-2,1%), Food products (-1,3%) and Food industrial products (-0,4%). In September 2009 the retail price index registered decline of 1.9% compared to September 2008.

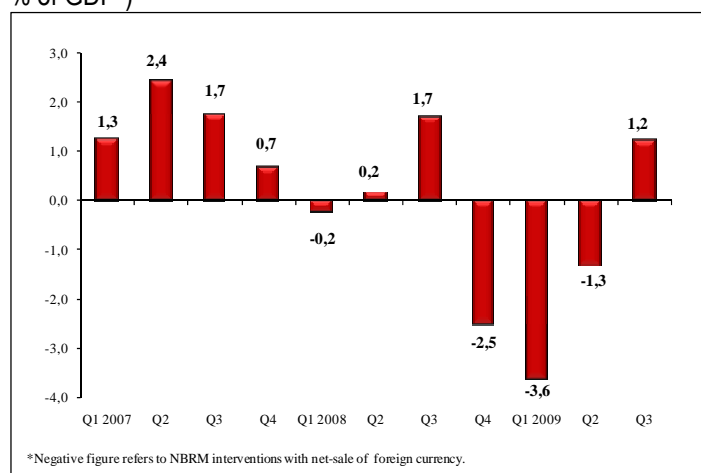
The average inflation rate in 2010 is expected to be low and stable. It is foreseen that it will amount around 2%, whereas this estimation is based on the renewal of the economic growth home and abroad and the gradual increase of the world prices of oil and food products. The successive expansion of domestic demand which is expected during the year will contribute to the moderate increase of the inflation rate. In 2010 the main risks for rise in inflation arise from the removal of disparities in the administratively controlled energy prices in the Republic of Macedonia as well from the possible more rapid than expected growth of input prices in the world market, while at the same time the public sector wage freeze and the well anchored inflation expectations will contribute the inflation rate to range near the anticipated rate.

2.2.3. Monetary and exchange rate policy

Within 2008-2009 period monetary policy was adjusted, as in order to continue in delivering stable currency and low and stable price level. The adjustment was towards further tightening of the monetary stance. In the most of 2008, the economy was above potential, and still recovering from the price shock. The growing demand, amid the deterioration in the terms of trade was widening the trade deficit, while the increased inflation expectations caused adverse pressures on the demand for foreign currency. Still, in the first three quarters of the year, capital inflows were abundant enough to cover the current account gap, thus enabling the central bank to augment its forex reserves, through interventions on the market. The global crisis although depressed the inflation, raised the uncertainty and impacted the balance of payments through falling export and slowing of the capital flows, which created significant pressures on the foreign exchange market.

Aiming at maintaining the peg and price stability, NBRM intervened with net-sale of foreign currency in total of around 0.9% of GDP for the whole 2008. In the last quarter of the year some short-lived psychological effects on the deposit base were also seen, which amid the possible future risks in the banking system resulted in CB introducing new measures on minimum liquidity to be met, that are to have certain macro impact, as well.

Chart 2.5. NBRM interventions on the foreign exchange market (in % of GDP³)



Source: NBRM

As of beginning of 2009, the expectations worsened further, which resulted in increasing preferences for adjusting currency portfolio towards higher weight of foreign currency instruments and the amount of capital inflows was reduced substantially compared to the previous year. The mix of unfavorable factors created strong pressures on domestic currency, which is why the central bank intervened in the first five months of the year with net-sale of foreign currency of 5.2% of GDP⁴. With the depletion of forex reserves occurring, and the prospective external developments not being promising, the need for further monetary tightening was evident. Hence, NBRM increased the policy rate from 7% to 9% in March 2009, while in May as response to the increasing euroization of banks' deposit base the reserve requirement rate on deposits with foreign currency component was increased⁵.

In the second quarter of the year positive shifts were seen. The tightening of the policy contributed towards stabilization of the expectations, hence enabling private transfers to start growing again. Credit market became quite anemic, thus hindering one of the main sources of financing of imports, and the import demand started to adjust more rapidly, enabling year-on-year reduction of the trade deficit in the second quarter of the year. Similar trends marked the third quarter as well. Positive signals came also as regards the global outlook. At the international commodity market the prices started slowly to recover, meaning more favorable environment for our metal producers, compared to few months ago. The shift was instantaneously felt on the forex market, where as of June 2009, the central bank intervenes with a purchase of foreign currency. The interventions on the market, the inflows in amount of Euro 175 million, Eurobond based, as well as the SDR allocation inflows resulted in strong increase of gross reserves within the June-September period (by 360 Euro Million, on a cumulative basis). At the end of September, they are at the level of 1,526.6 Euro Million⁶, comfortably covering 4.3 months of the next year's imports. Albeit, depletion of reserves is to be expected in the next three months, due to the seasonal pattern in some external sector's components, still it is envisaged for them, at the end of the year to be kept at a level covering well above 3 months of the 2010 import.

The interest rate policy of the banks in 2009 was adjusted towards tightening of the terms of financing, which is a combined effect of the changed monetary stance, banks' perceptions for growing risk in the economy and the narrowing of the sources of financing of banks' activities. The Denar lending interest rates increased from 9.8% in December to 10.3% in September 2009. The Denar deposit rate has also

³ 2009 data are derived in terms of the projected GDP for 2009 (October 2009 projections).

⁴ Refers to projected GDP for 2009 according to the October 2009 projections.

⁵ On May 28, 2009, the National Bank of the Republic of Macedonia Council adopted a new Decision on reserve requirements that prescribes increase in the reserve requirement rate on banks' deposits with foreign currency component. This Decision came into force in July (increase in the rate of the banks' liabilities in foreign currency from 10% to 11.5% and the rate of liabilities in domestic currency with FX clause from 10% to 20%), i.e. August (increase in the rate of the bank's liabilities in foreign currency from 11.5% to 13%).

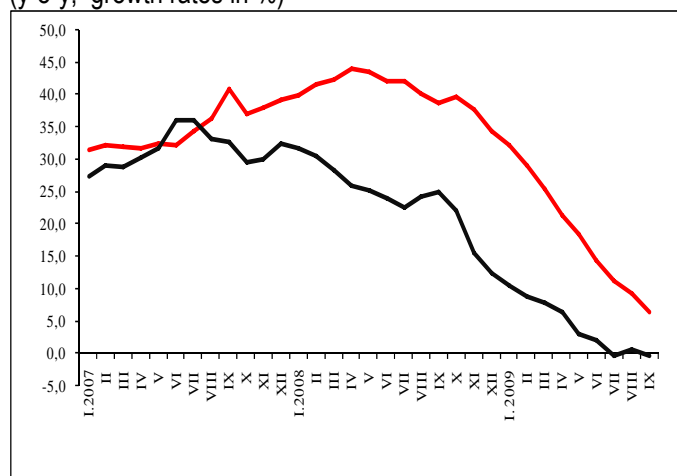
⁶ As of September 30, 2009.

grown, from 6.5% in December to 7.4% in September 2009, reflecting the growing efforts of the banks to maintain or to increase their market share on the deposit market. The policy of increasing the return on deposits is even more pronounced as the growth of deposits base is receding, in line with the contraction of the economy.

The impact of the global crisis to the real and the external sector changed the pattern of the monetary variables as well. Thus, for the first time after six years the money supply M4 contracted on annual basis, with a negative year-on-year growth rate of 1.1% in September 2009. The contraction of the economy, the widening current account gap, as well as the drop in capital inflows, are the main driving forces behind the fall of the money supply. With the money supply narrowing, the financial base for expanding credits is also narrowing, thus disabling additional creation of money supply through the credit channel.

In the first nine months of 2009, significant slowdown in the growth of the deposit base was observed, with the annual growth rate being negative of 0.3% in September (compared to the growth rate of 24.9% in the same month of the previous year). This shift can not be attributed to the labor market developments, as spill-over effects from the crisis are expected with a longer time lag. Hence, net wages increased compared to the end of the previous year, and the private transfers, as one of the sources of deposits' building started to revive.

Chart 2.6. Banks' total deposits and credits of the private sector (y-o-y, growth rates in %)



Source: NBRM

Thus, the sharp adjustment in the deposits' growth should be attributed to the contraction of the economic activity and the lower additional external financing available to the corporate sector which is backed by the sectoral decomposition, which indicated sharp fall in corporate deposits of 21.9% in September 2009, and mild positive annual growth of 8.7% in household deposits. One of the main structural features, when it comes to deposits, is the continuation of the growing importance of foreign currency compared to deposits in domestic currency, seeing that economic agents continued to invest their portfolio in foreign currency, thus resulting in significant growth of total foreign currency deposits (17.7% y/y in September), while the deposits in domestic currency decreased by 15.8%.

In 2009, the credit market was marked by a narrowing of the credit supply and tightening of terms of financing, leading to a more difficult access to financing through banks' credits. Still, this is a prudent response of the banks to the global crisis which to a certain extent enables prevention against excessive erosion of the credit portfolio quality. The first impulses restraining credit growth came from the supply side, while the demand for credits adjusted with a certain time lag, showing its elasticity to the more rigid terms of financing. Still, the largest part of the demand adjustment reflects the rising risks and uncertainty as regards the future trends in labor market and income. The downward adjustment in the supply and demand of credits brought down the annual credit growth rate to 6.4% in September 2009, compared to 34.4%, as of December 2008. The shrinkage of the credits is to be translated into lower import demand, which positively impacts the assessment of the short-term external prospects of the economy.

2.2.4. External sector

The global crisis resulted in decrease of the export demand and changed export trend, leading to a current account deficit of 13,1% of GDP in 2008. Hence, the main sources of the current account deterioration refer to the rising import (year on year increase in import to GDP ratio of 5.5 p.p), related to the acceleration of domestic demand (both personal and investment) and rising energy prices, which resulted in widening of the trade deficit to 26.7% of GDP, compared to 20.3% of GDP in 2007. As a result of the uncertainty arising from the global crisis significant downward adjustment was also exercised by the private transfers, being reduced by near 3 percentage points (year on year), equalling 14.3% of GDP in 2008.

Table 2.2 Current account and components

	2003	2004	2005	2006	2007	2008	I-VII 2009
CURRENT ACCOUNT	-168,2	-362,7	-121,3	-44,9	-414,8	-853,3	-411,9
Goods, net	-753,0	-914,3	-858,5	-1.020,4	-1.174,8	-1.750,7	-898,1
Exports, f.o.b.	1.203,2	1.345,0	1.642,9	1.902,6	2.441,5	2.684,2	1.077,4
Imports, f.o.b.*	-1.956,2	-2.259,3	-2.501,4	-2.923,1	-3.616,3	-4.434,9	-1.975,5
o/w: Energy balance	-211,6	-245,1	-347,5	-456,7	-555,0	-705,0	-292,4
Services, net	-6,0	-43,4	-24,7	22,2	25,5	4,3	3,1
Income, net	-55,3	-33,2	-91,5	-18,4	-277,7	-91,0	-48,9
o/w: interest, net	-27,7	-20,8	-20,7	-19,4	-17,9	-46,3	-47,7
Current transfers, net	646,1	628,2	853,3	981,8	1.012,1	984,0	532,1
Official	89,4	55,5	53,4	58,7	23,9	47,9	26,0
Private	556,7	572,7	799,9	923,1	988,2	936,1	506,1

* Imports data are on fob basis in accordance with IMF Balance of Payments Manual.

Source: NBRM.

In the first seven months of 2009, the current account gap amounted to Euro 411.9 million, or 6.4% of the GDP⁷, which is at the same level compared to the same period of the previous year. Regarding the current account, increased outflows in the income component and a slow decrease of the private transfers was noted. On the other hand, despite worsened export performances, the trade gap narrowed, mirroring the more vigorous adjustment in the import demand. As for the exports, the decline in the foreign demand and export prices yielded in a two digit export decline, while the import demand adjusted with a certain time lag. Hence, import deteriorated significantly in the second quarter of the year, when the lowered import component of exports and the impact of the lower oil prices, was augmented with the effects of the contracted domestic demand, and worsened expectations as well.

In the January-September period, export declined at a rate of 32.1% (y/y), with export of iron and steel contributing with around 70% to the total export fall. The annual rate of fall of imports in the first nine months of 2009 equals 25.7%, with almost 40% contribution of the energy imports, followed by the iron and steel imports (contribution of around 33.5%).

As for the price competitiveness, in the period January-September of 2009 mild appreciation trend was seen, both through the real effective exchange rate (REER) based on producer price and the REER deflated with the consumer price. Thus, both indices appreciated by 1.5% on cumulative basis, reflecting the nominal appreciation. Relative price change was favorable, as domestic prices adjusted downwards, much more stronger compared to foreign prices.

The analysis of the geographic distribution of trade indicates the EU as a main trading partner of Macedonia, followed by the Western Balkan and the group of developing countries (with a share of 53,3%, 20,4% and 18,9%, respectively). In the first nine months of the year, the share of the trade with EU increased by 1.6 p.p. on annual level. As for the trade balances with selected countries, due to the decline in energy prices, and the lower capacity utilization of domestic metal producers, net-imports

⁷ According to October 2009 Projection.

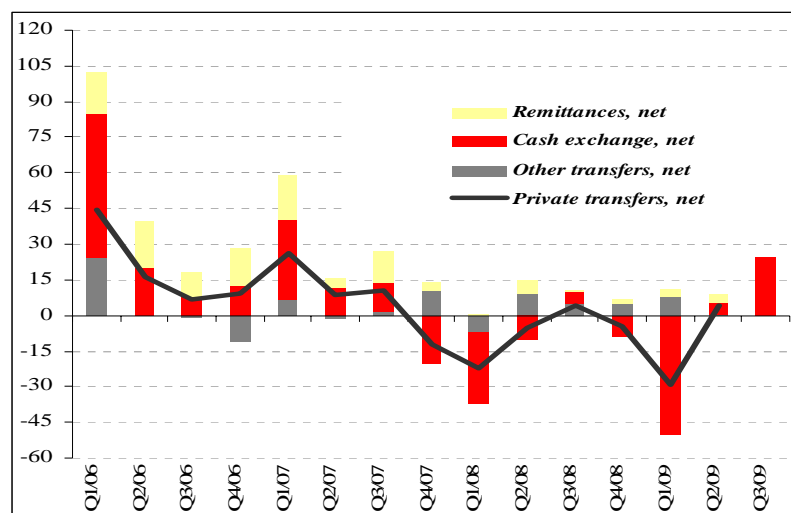
with developing countries, mainly Russia and Ukraine was reduced by 39.9%, while the net-imports with EU increased by 44.5%, reflecting the fall of the external demand for metal products.

Representing almost 15% of GDP, private transfers continue to be the main source of financing the trade deficit. Yet the global turmoil has shown how sensitive this component is to different types of shocks.

As the monetary stance was adjusting, for the purpose of maintaining the stability of the currency and more promising information on global outlook started to flow, the private transfers started to recover, entering again the zone of positive y/y growth rates, as of April 2009.

Although, obviously this component has a more stable pattern now, still its sensitivity makes it one of the most important risks factors for the external position, urging the need for narrowing the wide trade deficit.

Chart 2.7. Private transfers



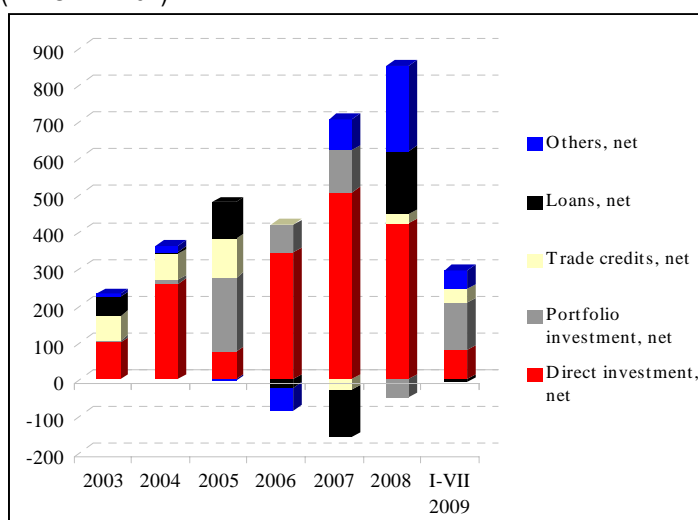
* The cash exchange data for Q3 2009 incorporate the latest data (BOP for July and net-purchases on the currency exchange market for August and September 2009).

Source: NBRM

When it comes to the *financing of the current account gap*, favorable features not only in terms of the amount, but also in terms of the profile of inflows were observed as of 2007, when the share of non-debt creating inflows (FDI) was dominant source of financing. This shift was expected, with the political environment being stabilized, global economy booming, domestic growth accelerating, labor cost decreasing and certain advantages for the foreign investors being introduced. Yet, the positive shift was interrupted with the emergence of the global crisis in 2008. Still the impact started to be felt as of the last quarter of the year, while for the year as a whole, FDI flows leveled at 6.5% of GDP, which is still high in historical perspective. Though the short term perspectives for FDI's are conditioned on the global recovery, on a medium run Macedonia has advantages, compared to some other emerging countries in the CEE. As these economies are going through a faster real convergence process, this also implies wage convergence, which implicitly contributes to the set of factors stimulating higher interests of foreign investors for investing in countries like Macedonia. Macedonian economy is being specific by the low reliance on external debt as a source of financing the current account deficit, which yielded in moderate level of indebtedness. Within the time horizon observed, larger net flows on the basis of external debt were observed in 2008, when also part of the financing burden was taken by the foreign assets of commercial banks. However, the widening of the current account gap was such, that small pressure was felt on the gross reserves, mostly in the last quarter of the year (when the first strong impact of the crisis was seen).

In 2009, Macedonian economy did not experience the "sudden stop" syndrome, but still the amount of capital inflows was to a very large extent reduced compared to the previous year. Hence, in the first seven months of the 2009 the inflows through the capital and financial account equaled around Euro 286,9 million, which is by almost 40% lower compared to the previous year. On the background of the raised uncertainty in the domestic economy, the expectations of domestic agents also played role in lowering capital inflows, through the accumulation of foreign assets by the banks.

Chart 2.8. Capital and financial account and its main components (In EUR million)



Source: NBRM

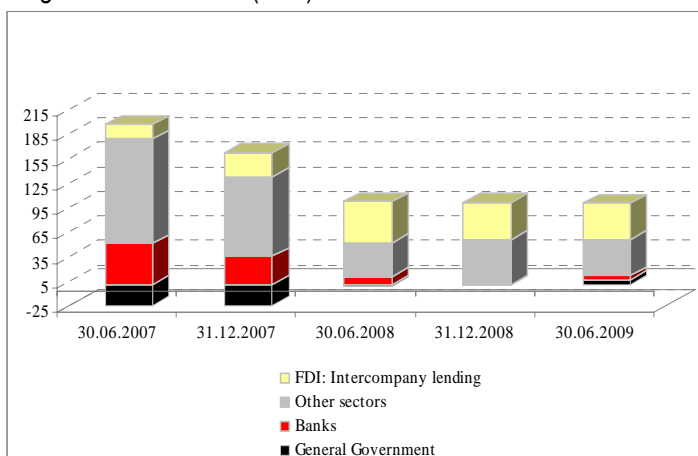
The cumulative amount of inflows through the capital and financial account was not enough to cover the current account gap, burdening around 28% of the current account deficit to be financed through the gross reserves.

In 2009 it is expected for the current account gap to be reduced significantly compared to the previous year, with the latest estimates indicating for it to be around 9% of GDP. The decline in energy trade balance deficit and the revival of private transfers are the largest contributors for the current account narrowing. Although the seasonal pattern in the external sector is supposed to yield in deterioration of the current account gap in the last quarter of the year, anticipated pressures on the gross reserves are not expected to jeopardize the adequacy of the reserves level.

The level of the external indebtedness can be considered as quite prudent and the structure of it also of a higher quality, reflecting to a large extent the inter-company lending and trade credits. Also, it is to be noted that the evolution of the external debt does not point to excessive borrowing, but more to a gradual increase of its share in GDP. Hence, at end June, 2009 the gross external debt equaled Euro 3,450.6 million, meaning an increase of 4%, or 2.9 p.p. of GDP, compared to the end of the previous year. The change, mainly reflects the increased borrowing of the nonbank private sector, while the government and the banking debt remained quite stable.

The structural decomposition points to an increased annual share of the intercompany lending and the debt of the nonbank private sector of 2.6 and 0.5 p.p., respectively. On the other hand the share of the government and banks' external debt was reduced by 2.4 and 0.7 p.p. As for the instruments, the dominant part of the total external debt accounts to the financial loans, with a growing share of the inter-company lending occurring. Long-term loans dominate the external debt term structure.

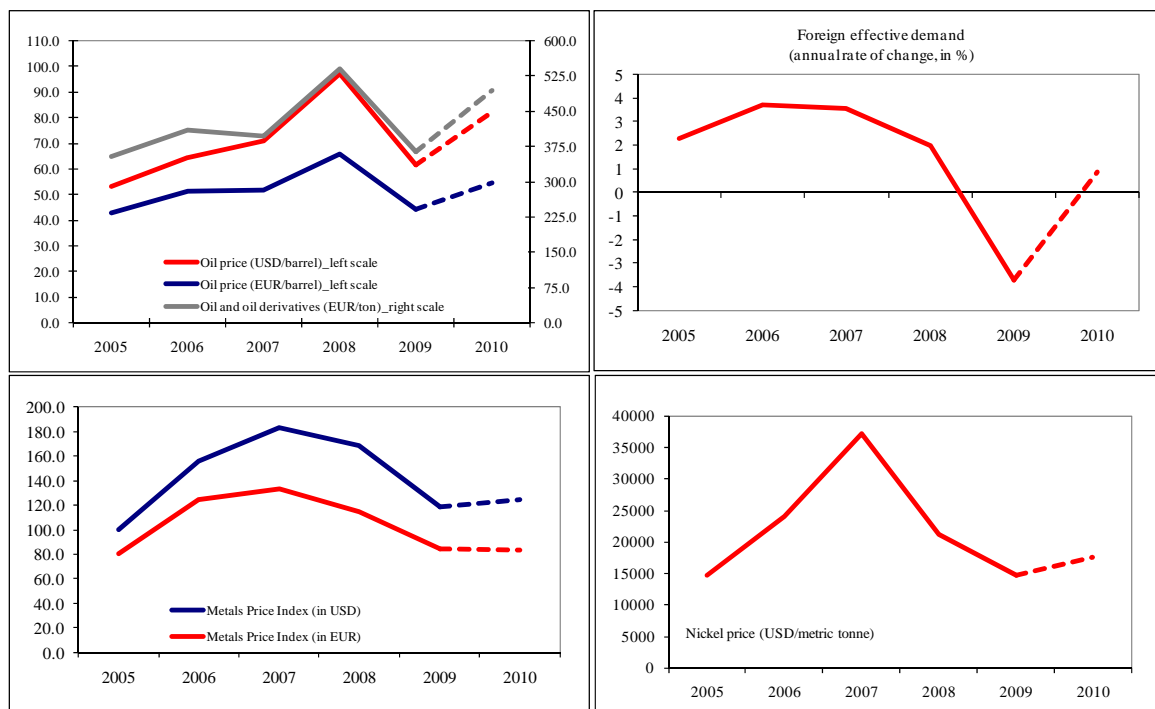
Chart 2.9. Contribution of different sectors in the annual growth of the gross external debt (in %)



Source: NBRM

The balance of payments forecast for 2010⁸. The general prospects for the external sector in 2010 are foreseen as more favourable compared to 2009. As for the current account, in 2010 the deficit is expected to be still on a relatively high level reaching around 9,4% from the GDP. Despite the expectations for a moderate recovery of the exports in 2010, upward pressures to the import demand are also envisaged mainly due to several factors. Namely, a relatively sharp increase of the oil prices is expected, hence, the current estimates of a fairly resilient personal consumption precludes further stronger import reduction and finally, albeit the expected moderate recovery of the domestic and foreign investments has positive impact to the medium-term productivity and export growth, yet in the short-run it is expected for it to boost the import growth additionally.

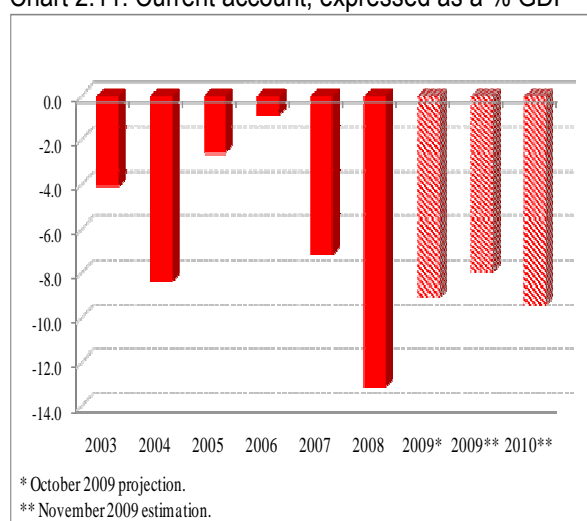
Chart 2.10. Main input components for the projection of the balance of payments in 2010



Source: Bloomberg; Consensus Forecast, October 2009; WEO, October 2009..

As for the separate components of the current account, in 2010 a moderate deterioration of the trade deficit is expected, that is estimated to reach around 25% of the GDP. The nominal growth of the goods export in 2010 is estimated to reach 9,8% on annual basis which is expected to be driven mainly by the metal export, due to the expected rebound of the global demand and prices. In contrast, the relatively high energy dependence of the domestic economy accompanied by the expected increase of the oil prices on the global market in 2010, the recovery of the import-dependent export sector and the moderate recovery of the investment activity in the domestic economy, may result in increase of the goods import that is estimated around 9,9% on annual basis.

Chart 2.11. Current account, expressed as a % GDP



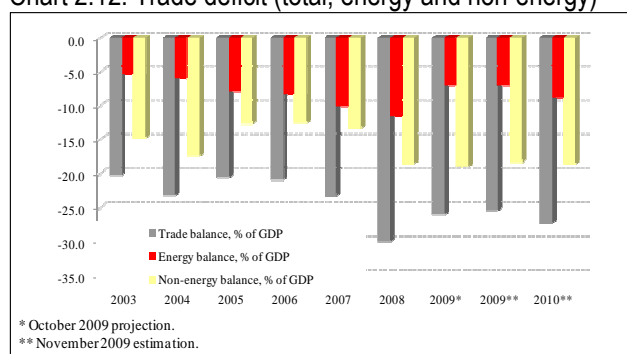
* October 2009 projection.
** November 2009 estimation.

Source: NBRM

⁸ The projections have been done by the NBRM.

The relatively high trade deficit, as before, in greater extent is expected to be covered by the net inflows of the current transfers. In 2010, volatile trends are not expected, whereas the expectations of the economic agents are foreseen to be relatively stable. The net inflows by the private transfers are estimated to grow moderately in 2010 and to reach an annual rate of growth of 4,7%, or to equal 16,2% of GDP.

Chart 2.12. Trade deficit (total, energy and non-energy)



Source: NBRM

Within the capital and financial account, in 2010 the net capital inflows are estimated to reach approximately 10,2% of GDP. The main driving sources of the capital inflows in 2010 are expected to be the net inflows on the basis of foreign direct investments and the additional increase of the external public indebtedness. Namely, the relatively higher global liquidity and the rebound of the confidence of the foreign investors are expected to result in a moderate increase of the net-inflows on the basis of foreign direct investments (by 1,7 percentage points) which are to reach up to 4,1% of GDP. At the same time, on the background of the limited access of financing of the private and public sector through the domestic banking system, and due to the stabilisation of the international capital markets and a relatively favorable credit rating of the country, we expect a more intensive external public and private indebtedness in 2010.

According to the aforementioned assumptions and expectations for the external sector, during the 2010 we do not expect severe pressures on the foreign exchange reserves. Although, this (baseline) scenario for the external sector does not indicate to severe risks, nonetheless there are still some uncertainties and risks. Namely, this projection is based on the estimates for the recovery of the global world economy and does not take into account the so-called “double deep” phenomenon. Similarly, the relatively low confidence levels and risk aversion on the international capital market create some level of uncertainty for the capital inflows.

The medium-term profile of the current account is expected to resemble the one of the other emerging economies. In general, it is expected for the boost of export triggered by the FDI inflows to materialize and to ensure narrowing of the trade deficit.

3. Public Finance

3.1. General government balance and debt

3.1.1. Policy strategy and medium-term objectives

Medium term planning of public finances in essence provides a framework for overall public revenues and expenditures of central and local government and an essential control mechanism for further implementation of disciplined fiscal policy. Defined fiscal framework creates a real basis for designing economic policies and clearly marked directions for government activities in anticipation of the upcoming challenges of integration processes in the forthcoming medium term.

Defining of medium-term economic and fiscal policy guidelines is the key in the overall complex project of budget planning, providing for real economic fiscal assumptions, on which the Budget of the Republic of Macedonia for the next three years is prepared. Preparation of 2010-2012 Fiscal Strategy of the Republic of Macedonia is in line with both the practice and the methodology of the developed countries, and has proven, so far, as a necessary tool when determining the initial framework for conducting fiscal policy in the coming medium-term period.

Fiscal Strategy for the period 2010-2012, was drafted in terms of changed macroeconomic environment directly affected by the consequences of the global economic crisis, which largely dictates the

guidelines and assumptions for the development of Macedonian economy. Current global economic crisis is one of the greatest challenges for the fiscal policies of all countries affected by the crisis. As for the first blast, while the crisis had only financial proportions, Central and Eastern Europe countries, also including the Republic of Macedonia were to a great extent resistant. In fact, the Macedonian economy in the last several years, as well as the other countries in the region, based its model mainly upon the increase of foreign and domestic investments with higher current account deficit present, having sound sources of financing in the form of direct and portfolio investments, foreign currency remittances and similar. These countries soon faced the problem of aversion of investors to invest. Second problem the global crisis imposed on the Macedonian economy was the reduced external demand (export), on the basis of which, there was also contraction of the domestic demand. All this was particularly reflected in the real sector, within which, metallurgy, textile industry and transport were especially affected.

Key strategic priorities of the Government of the Republic of Macedonia for the next period comprise of resurfacing of the Macedonian economy from recession, gradual recovery of the economic growth and improvement of the population's living standard, as well as continuation with the reform activities necessary for accession of the Republic of Macedonia to the EU and NATO. Such defined priorities mean:

- Achieving positive growth rates of the Macedonian economy and increasing the competitiveness of the economy;
- Maintaining macroeconomic and exchange rate stability;
- Maintaining high level of social protection of the most vulnerable groups of citizens, particularly in the aftermath of the global economic crisis;
- Further strengthening of the fight against crime and corruption and rule of law;
- Investing in knowledge, education and health as the most reliable path to creating professional personnel and improving the living standard and
- Reducing the unemployment by improving the job creation and increase of the living standard

3.1.2. Actual balances and medium-term perspectives

Fiscal developments in 2008

As for public finances, disciplined and prudent fiscal policy was conducted in 2008. The fiscal policy was realised within the executed total expenditures of the Budget of the Republic of Macedonia in the amount of Denar 140,219 million, being financed within the executed revenues in the amount of Denar 136,415 million. Performance of revenues and expenditures in the stated amounts resulted in low budget deficit in the amount of Denar 3,804 million or 1% of GDP, meaning realisation of well-balanced budget spending in general.

Within total revenues, the performance of which amounted to Denar 136,415 million or 5.7% less compared to the projected amounts, the performance of tax revenues and contributions amounted to Denar 115,105 million, i.e. less by 3.1% compared to the plan. The underperformance of revenues realization, mainly as a result of the initial impact of the global crisis, led to reduced demand of goods and services from physical and legal entities at the end of the year, causing decreased import and increase in the stocks of producers and traders. In the same period, the reduction of retail prices of oil derivatives led to decrease of the value added tax base and appearance of gap between projected and performed revenues.

Total expenditures of the Budget of the Republic of Macedonia amounted to Denar 140,219 million, being underperformance of 6.7% in relation to the projections. Within total budget expenditures, current expenditures amounted to Denar 120,172 million, i.e. underperformance of 2.6%, essentially providing normal coverage of all legal obligations of the state and smooth realisation of functions and activities of budget users.

Current transfers were realised in the amount of Denar 77,942 and provided regular and timely payment of the state's legal obligations in the field of pension insurance, social protection and financing of health services. Within current transfers, policies of the Government of the Republic of Macedonia for unemployment reduction were also successfully realised. In fact, Ministry of Labour and Social Policy and Employment Agency paid financial resources in the amount of Denar 275.5 million, as financial support to the project for active employment measures.

Funds for financing the health services were realised in the amount of Denar 19.121 million, being intended for payment of the performed health services with those institutions, with which the Health Insurance Fund concluded contracts in the field of primary and secondary health and hospital treatments, as well as procurement of pharmaceuticals and settlement of arrears of health provider institutions with maturity period longer than 60 days.

Financial support in the field of agriculture in the course of 2008 was realised in the amount of Denar 2,529 million for subsidising of total of 67,184 persons in the field of tobacco production, organic production, agriculture, gardening, wine production and fruit-growing, plant and livestock production, as well as financial support to young farmers.

Capital expenditures were realised in the amount of Denar 20,047 million, i.e. deviating by 25.6% from the projections, whereby this realisation was to a great extent a result of the divergence at capital projects, which the budget users realised from credits and donations.

More significant capital investments being realised in the course of 2008 are the projects in the field of transport, education, agriculture (Projects of the Hydro-systems Zletovica, Lisice, construction of Irrigation Programme Southern Vardar Valley, within the activities for expansion of the technological industrial development zones, Agency for State Roads realised significant progress with the construction of Skopje By-pass, by putting into operation the second phase, completing the works of the first phase, lane profile of the regional road R-409 Zirovnicki most- Boskov most was reconstructed, widening and reconstruction of Gradsko-Prilep road section, as well as starting civil engineering works of Kumanovo-Tabanovce road sections, financed with a loan from the World Bank. Significant expenditures were realised for current and investment road maintenance, preparation of projects and feasibility studies for road sections, the construction of which is planned to start in the period to come, as well as solving of expropriation-related issues.

Performance of Budget revenues and expenditures in the stated amounts resulted in realisation of low and controlled deficit in the amount of 1% of the Gross Domestic Product, i.e. realisation of well-balanced fiscal spending.

In the course of the year, total inflows of Denar 10,788 million were realised mainly from domestic sources and withdrawal of foreign credits in the amount of Denar 2,672 million from the World Bank on the basis of PDPL credit, from European Investment Bank, European Bank for Reconstruction and Development, as well as withdrawal in the amount of Denar 574 million on the basis of loans from budget users, intended for financing projects in certain areas.

Within these inflows, principal of domestic and foreign debt in the total amount of Denar 6,977 million was serviced on a regular basis, Denar 1,879 million out of which was for repayment of foreign debt, and the remaining Denar 5,098 million referred to repayment of the domestic debt.

Fiscal developments in 2009

The fiscal policy in 2009 provided a complete balance between the two main objectives- maintaining macroeconomic stability and promoting economic activity to offset the negative effects of the global economic crisis. The total optimality of the fiscal policy in achieving these goals is assessed according to the level of realized budget deficit (2.8% of GDP). At the same time, budgetary spending in 2009 was countercyclical i.e. antirecursive. The temporary increase in public spending directly contributed in smoothing the decline in economic activity and the negative impact of global recession on the Macedonian economy.

Performance of revenues and expenditures in 2009 was strongly affected by the global economic crisis and the adverse effects over the Macedonian economy. However, successfully implemented tax reforms in the last several years improved to a great extent the resistance and endurance of the Macedonian economy, buffering the external crisis blow. The fact that the Macedonian companies have been paying the lowest taxes in Europe of only 10% in the last two years shows that the fiscal policy is aimed at supporting the economy. If we add the effects of the reduction of contribution rates and exemption from profit tax (except for profit distributed in dividend), one can realistically conclude that the fiscal policy is optimally situated for supporting the economy in good economic years, as well as in times of economic crisis.

The realization of 2009 budget was in line of projection, i.e. the budget deficit amounted Denar 10,895 million or 2.8% of GDP. Budget deficit was as a result of the performance of budget revenues in the amount of Denar 128,498 million and budget expenditures realization amounting Denar 139,393 million. To the end of financing the deficit, inflows on the basis of borrowing through short-term securities (Denar 6,098 million), credit lines from the World Bank and EBRD (Denar 1,475 million for financing of infrastructure projects of the Agency for State Roads), inflows on the basis of credit lines for financing of separate projects (Denar 868 million), issued Eurobond (Denar 10,697 million) and replenishment of the budgetary deposit account in the amount of Denar 274 million were realised. At the same time, outflows on the basis of debt repayment in the amount of Denar 8,044 million were realized.

Within the *total Budget revenues*, Denar 128,498 million was realised on the basis of tax revenues and social contributions, i.e. 85% of total revenues. Tax revenues and social contribution amounted Denar 109,860 million, which represents a gap of less than 3% compared to the projections. *Tax revenues* in this period were realised in the amount of Denar 71,023 million whereby the value added tax amounted Denar 35,173 million or 50% of the total tax revenues.

Social contributions were realised in the amount of Denar 38,837 million which is the same as projected. Even though the social contributions were affected by the impact of the global economic crisis, their realization is in line with projection mainly a result of the anticrisis measures, the integrated collection of contributions in PRO, new gross wage concept, undertaken controls at taxpayers and effects of the implementation of the legal solutions for writing-off interests.

Non-tax revenues were realised in the amount of Denar 16,402, mainly on the basis of payment of profit of NBRM in the amount of Denar 1,161 million, dividend from AD Telekom in the amount of Denar 2,400 million, administrative and court fees in the amount of Denar 1,897 million, as well as from collected road toll in the amount of Denar 1,779 million.

Capital revenues were realised in the amount of Denar 1,167 million, mainly from privatisation and lease of construction land, as well as sale of flats and other socially-owned property.

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

Budget of the Republic of Macedonia	2009 Budget	Realisation 2009
1. TOTAL REVENUES	138,459	128,498
1.1. Tax revenues and contributions	112,940	109,860
1.1. 1 Tax revenues	74,010	71,023
1.1. 2 Contributions	38,930	38,837
1.2. 1. 2 Non -tax revenues	20,978	16,402
1.3. Capital revenues	1,675	1,167
1.4. Donations	2,866	1,070
2. TOTAL EXPENDITURES	149,594	139,393
2.1. Current expenditures	130,326	125,965

2.1.1 Wages and allowances	23,516	22,699
2.1.2 Goods and services	19,075	16,220
2.1.3 Transfers	85,235	84,601
2.1.4 Interest	2,500	2,445
2.2. Capital expenditures	19,268	13,428
3. DEFICIT	-11,135	-10,895
4. DEFICIT FINANCING	11,135	10,895
Inflow	19.167	18.939
4.1.1 Privatisation receipts	55	75
4.1.3 Foreign loans	14.676	13.040
4.1.3 Domestic borrowing	4.436	6.098
4.1.4 Deposits/additional sources	0	-274
4.2 Outflow	8.032	8.044
4.2.1 Repayment of foreign loans	2.240	2.356
4.2.2. Repayment of domestic loans	5.792	5.688

Source: Ministry of Finance

Total expenditures of the consolidated Budget were Denar 139,393 million in 2009, whereby current expenditures amounted to Denar 125,965. In this period, total of Denar 22,699 were paid for *wages and allowances* to the employees in the public administration, in conditions of strictly controlled dynamics of new employments (exclusively according to NPAA related to the Euro-integration process and the Ohrid Framework Agreement).

Undertaken anti-crisis measures for saving particularly reflected in the expenditure cuts for *goods and services*, where the lower performance compared to the projected amounts was evident (85%). This was mainly a result of rigorous controls of the unproductive spending.

Social transfers predominated in the current expenditures, amounting to Denar 61,742 million in this period. This included regular settlement of government liabilities in the field of guaranteed social protection of the most vulnerable groups of citizens, the most significant being intended for pecuniary allowances to socially vulnerable households and allowances on the basis of child allowance. Regarding regular payment of *pensions*, coupled with the effects of the regular increase by 3.5%, Denar 36,455 million was allocated for payment of pensions. Besides regular and timely payment of the unemployment benefits, (amounting Denar 2,271 million) the Employment Agency in 2009 has implemented active employment measures, project of self employment and public works for the unemployed. Funds for financing *health services and allowances* amounted to Denar 18,711 million. Regarding *other transfers* from the Budget of the Republic of Macedonia, grants were transferred to local government units on regular basis, whereby Denar 1,162 million from VAT revenues was transferred to local level. In addition, Denar 11,620 million were transferred as earmarked donations for financing the transferred competences in total of 68 municipalities in the second decentralisation phase, as well as earmarked donations for financing the operating costs in local institutions. Unlike the previous year, in 2009, activities for allocating subsidies in the agriculture started on time, with realized payment amounting Denar 3,552 million.

Denar 2,445 million was allocated for regular servicing of liabilities on the basis of interest, according to the depreciation schedules on domestic and foreign borrowing, Denar 1,434 million out of which were interest on foreign borrowing.

In 2009, *capital expenditures* accounted for Denar 13,428 million. Performance of capital expenditures in 2009 was more intensified than the previous years. However, weaknesses registered in this sphere

in the entire transition period refer to necessity for additional strengthening of the institutional capacity of the public sector for better preparation and performance of capital expenditures.

Realised inflows in the Budget enabled regular *principal repayment* of liabilities in the amount of Denar 8,044 million, Denar 2,356 million out of which on the basis of foreign borrowing and Denar 5,688 million on the basis of domestic borrowing.

Medium-term fiscal framework

Government of the Republic of Macedonia remains dedicated to ensuring continuity of the economic policy aimed at accelerating the economic growth, increasing the competitiveness of Macedonian economy and improving the living standard of citizens.

Positive trends are based upon the expectations for surmounting the global economic crisis in the main trade partners of the Republic of Macedonia, as well as the expected price increase on the world stock exchanges of the most important export products in the Republic of Macedonia. Surely, the global recovery will also mean realisation of the majority of the previously announced investment projects in the Republic of Macedonia, which will contribute to intensification of the economic activity.

Fiscal policy on medium term should be well-balanced in achieving the following two goals:

1. On shorter run, to respond to the need for alleviating the fluctuations of business cycle, i.e. to have influence when neutralising the consequences of the global economic crisis, by conducting countercyclical policy (in this case moderately expansive) fiscal policy.
2. On longer run, fiscal position must be led by the need for establishing sustainable level of public debt, by maintaining moderate level of budget deficit, which will not contribute to increase of the level of public debt above the long-term sustainable level.⁹

During 2010, the budgetary support for the economy will be reflected both through the revenue and expenditure side of the Budget of the Republic of Macedonia, where the revenue side does not incorporate increase in the tax rates, while on the other hand it incorporates further reduction of the tax wedge. On the expenditure side, the level of public spending is decreased while there has been a significant improvement of the quality of public expenditure in favor of capital investment at the expense of reducing the unproductive expenditures.

During the 2010, public expenditure expressed through budgetary total expenditure is projected at the level of 37.3% of GDP, while the budget deficit is projected at the level of 2.5% of GDP. The improved structure of the public expenditure side will be realized through increase in productive development component, i.e. an increase in capital expenditures by more than 18% as compared to 2009.

Having into consideration the above, 2010 fiscal policy will be realized within the projected revenues which are expected to amount Denar 143,334 million, which will be intended for financing the planned expenditure in the amount of 153,796 million. This will result with low and controlled deficit of 2.5% of the projected GDP. This rate includes the core budget deficit of 1.9%, the deficit of the Agency for State Roads of 0.2%, deficit of Pension Fund of 0.1% and the deficit of the projects financed by foreign loans of 0.3%.

During 2010 the tax policy and the policy of reduced social contributions will be further implemented as they were before the beginning of the crisis, so as for the burden of the economy to be decreased while increasing the potential of investment and job creation, which in the end will result with an increased profitability and competitiveness of the Macedonian companies. The intention of this approach is for a signal to be sent to the business community and to increase the confidence in the consistency of this policy. The fact that in the last two years the fiscal policy was conducted in terms of the lowest rates of personal income tax and profit tax has provided greater sustainability and vitality of the Macedonian economy. If we add the reduced social contributions rates, as a measure that many countries in the region have already undertaken to prevent further deepening of the crisis, we can conclude that the

⁹ MoF assessments are that it is a level of public debt of 30% of GDP

Macedonian economy is coping successfully with the crisis and the fiscal policy had a significant contribution to that. The expectations for a recovery in the economic activity on a global level and its impact on the Macedonian economy provides basis for planning a moderate increase in total revenues of about 3.3% compared to 2009, while the growth mainly will be as a result of the tax revenues which are projected to increase by 4.9%.

In 2010 the policy of reduced contributions will continue at a slower pace of reduction, while the rates will be reduced from 28.4% to 27% in total, which will result for a 1.4 p.p. decrease of the labour costs while providing stimulus for investment. In accordance with the projected increase in the number of employees and the increase in wages, the revenues from social contributions are projected to increase by 5%.

In this context, Macedonian Government decided to continue to implement restrictive budget spending further while implementing restrictive control of the unproductive costs at the expense of productive investment in infrastructure projects and other capital projects that mean increased engagement of construction sector and domestic companies. Simultaneously, the 2010 Budget does not provide any increase in wages of the public sector neither any additional employments.

The 2010 budget provides funds for regular and timely payment of pensions, social and child protection, allowances, unemployment benefits, etc. The main priorities are enhancing the economic development, infrastructure improvement and environmental protection, healthcare, education, science and sports, social protection and child care etc. At the same time, an increase in subsidies for the agriculture is projected.

By increasing their participation in total public expenditures, in particular through investment in road and railway infrastructure and by implementation of other projects, capital expenditures will make a modest contribution to the revival of economic activity and will further enhance the development. Within the Agency for state roads, investments in total amount of about 5,400 million will be realized, which will be funded by credit lines from the World Bank and EBRD allocated for improvement of the Corridor X. Investment in rail infrastructure, planned in total amount of Denar 320 million.

Investment in transport, environmental protection, education, social and child protection, investment activities for increase in the capacities of TIRZ Skopje-1 and the start of construction of TIRZ Skopje-2, TIRZ Stip and TIRZ Tetovo, as well as completion and continuation of various projects related to culture, will lead to an increased engagement of construction sector and higher level of employment in this sector as well as additional incentive for intensifying the economic activity.

Budget deficit in 2010 will be financed by domestic and foreign sources, where the bigger part will be financed from external sources i.e. World Bank and EBRD for development and infrastructure projects, budget support from World Bank amounting to 60 million dollars, as well as other sources of funding. Domestic borrowing in the form of short-term government securities in 2010 is planned at a lower level than in 2009 by 11%. This trend of reducing the amount of domestic borrowing is expected to be further maintained in the medium term.

Medium-Term Projections of the Budget of the Republic of Macedonia

In line with the strategic Government commitments to gradually reduce the share of public sector, projections of the revenues of the *consolidated government budget* in the coming three years show relative reduction from 36.7% of GDP in 2010 to 34.3% in 2012. This was a result of the tax cut policies, contributions and customs duties, which will provide space for freeing available resources in the private sector and their focusing on increased investments and job creation, thus directly accelerating the development of the national economy.

Thus, on medium term, public spending reduction is envisaged. Total expenditures in the period 2010-2012, in conditions of rational management of public finance at all government levels, according to the

planned policies and low level of budget deficit, decline as a share of GDP from 39.2% in 2010 to 36.4% in 2012.

Table 3.2. Consolidated General Government Budget

Consolidated General Government Budget	2010	2011	2012
(Denar million)			
Consolidated General Government Budget - Revenues	151,474	154,898	160,912
% of GDP	36.7	35.6	34.3
Consolidated General Government Budget - Expenditures	161,927	165,969	170,516
% of GDP	39.2	38.1	36.4
Consolidated General Government Budget - Deficit	-10,453	-11,071	-9,604
% of GDP	-2.5	-2.5	-2.0
Central Budget- Revenues	85,350	88,004	93,451
% of GDP	20.7	20.2	19.9
Central Budget- Expenditures	94,547	97,338	100,680
% of GDP	22.9	22.4	21.5
Central Budget- Deficit	-9,197	-9,334	-7,229
% of GDP	-2.2	-2.1	-1.5
Extra-Budgetary Funds- Revenues	44,459	44,417	44,397
% of GDP	10.8	10.2	9.5
Extra-Budgetary Funds- Expenditure	45,715	46,154	46,772
% of GDP	11.1	10.6	10.0
Extra-Budgetary Funds- Deficit	-1,256	-1,737	-2,375
% of GDP	-0.3	-0.4	-0.5
Local Government Budget - Revenues	21,665	22,477	23,064
% of GDP	5.3	5.2	4.9
Local Government Budget - Expenditures	21,665	22,477	23,064
% of GDP	5.3	5.2	4.9
Local Government Budget - Deficit	0	0	0
% of GDP	0.0	0.0	0.0
Gross Domestic Product	412,591	435,492	468,698

Source: Ministry of Finance

Such determined main fiscal policy postulates enable for an optimal level of *budget deficit of around 2%* of the projected GDP to be realised on medium term.

Projected revenues in the Budget of the Republic of Macedonia. Projection for *genuine revenues in the Budget of the Republic of Macedonia* for the next medium-term period is mainly based on the realised and revised revenues in the current 2009 and the expected macroeconomic indicators for the coming period. For the projection of revenues, the effects of the so-far reforms in the tax area were taken into consideration, particularly the effects of removing the obligation for paying profit tax, functioning of the Big Taxpayers Office and electronic submission of tax forms, extending the capacity of the existing e-tax services portal for electronic submission of tax returns of small and medium taxpayers, policy for reduced social contributions, as well as the effects of the integrated collection of all types of contributions and personal income tax.

Having the above-mentioned in mind, total revenues for the period 2010-2012 are planned to around 33% of the projected GDP. Thereby, tax revenues still account for the most in the structure of projected revenues with around 55%, revenues on the basis of social contributions with around 28%, non-tax and capital revenues with around 15.3%, while the other revenues are expected to be realised from IPA Funds. As for tax revenues, the most significant amount of revenues will be realised on the basis of VAT, personal income tax and excises.

Projections of *social contributions*, being genuine revenues of the Pension and Disability Insurance Fund, the Health Insurance Fund and the Employment Agency, slightly decrease in the coming medium-term period in line with the policy for their reduction, also including the effects of the successful implementation of the reform for integrated collection of social contributions and personal tax and gross wage concept. Regarding the structure of revenues on the basis of social contributions, the pension insurance contributions accounted the most with around 68% and the health insurance contributions with around 28%, while the employment contributions are lower. Such structure of social contributions is in line with the legally imposed contribution rates on the salaries of employees.

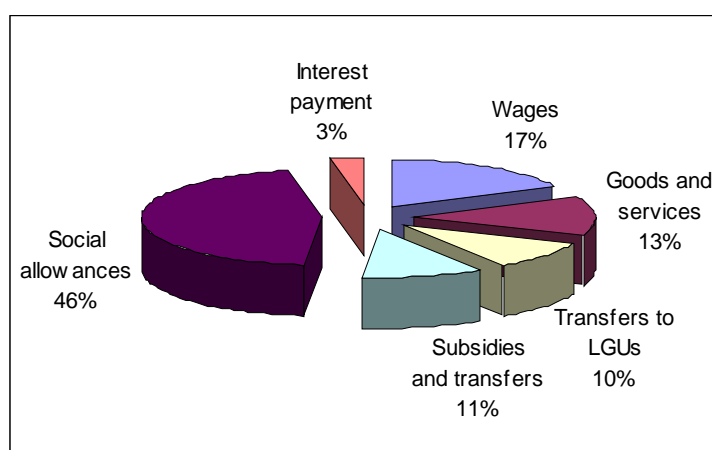
Non-tax revenues in the coming medium-term period participate with around 12% in the total revenues, whereby the share of revenues on the basis of profit from Telekom and NBRM, land sale, administrative fees, as well as the revenues from road tolls and registration of vehicles realised by the Agency for State Roads is the most significant.

As for the revenues from *foreign donations*, they include the donations that the budget users would realise for specific projects, as well as disbursements from the EU pre-accession funds.

Expenditure projections in the Budget of the Republic of Macedonia. Expenditure projections in the state budget for the next medium-term period are prepared on the basis of following key postulates:

1. Reduction of the level of public spending and improvement of its structure. Thus, average level of *consolidated Budget* in the coming medium-term period amounts to around 35% of GDP. Thereby, structural improvement through further increase of the share of capital expenditures, for the account of the decrease of current expenditures is envisaged.
2. As for the expenditures intended for payment of *wages and allowances*, policies of strict discipline for new employment in the public sector will continue, thus there will be only employment related to the Eurointegration process and the realisation of the Ohrid Framework Agreement. Projection also includes the effect of full implementation of the second phase of fiscal decentralization. Provided that the economic conditions allow it, policy for wage rise in the public sector will continue.
3. On the basis of implementation of reforms for better targeting of beneficiaries in the social sphere and introduction of treasury system and DRG system in health sector, moderate decrease of the share of *social transfers and health services* (from 57% of the current expenditures in 2010 to 55.3% in 2012, i.e. by 1.7 percentage points less) is expected. Projected level of social transfers is in line with the existing legal solutions, for the purpose of full and timely payment of social contributions and preservation of the material condition of the beneficiaries of these rights.

Chart 3.1. Current revenues structure



Source: Ministry of Finance

Expenditures for pensions were projected on the basis of the estimated growth of the number of pension beneficiaries and the calculated pension indexation in accordance with the projected indicators for the growth of the costs of living and the wages in the next medium-term period.

Around 90% of the total expenditures of the Employment Agency in this period will be intended for payment of the rights on the basis of unemployment, whereby it is expected for the right to pecuniary allowance to be used by around 26 thousand persons, actually retaining the same number of beneficiaries.

In the next medium-term period, around 97% of the total expenditures of the Health Insurance Fund will be focused on services and allowances arising on the basis of health insurance of the population. This included the introduction of full health protection of the population in the middle of this year. To the end of enhanced control and efficient usage of funds for health protection, implementation of the health treasury system is expected to start next year. This means full integration of total revenues and expenditures of public health in single health treasury account. Thus, in addition to the full application of budget principles, full scope of public health revenues and their earmarked usage will be provided.

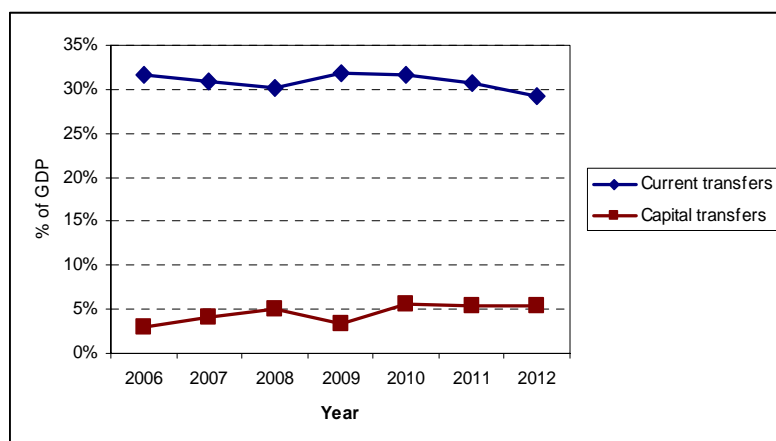
Within the medium-term projections of social transfers, funds were planned for regular fulfilment of the state's obligations towards the socially most vulnerable families in the form of social welfare, child allowance, allowances on the basis of rights of disabled persons, invalids of war and civilian invalids and asylum seekers. Planned reforms in the social sphere through better targeting of the categories of beneficiaries of these rights, as well as the planned reforms in the field of employment and labour market will contribute to gradual reduction of their share in the total expenditures.

Planned reforms in the agriculture will create conditions for building-up an efficient and competitive agricultural sector allowing its successful integration in the EU. These reforms will be successfully realised through increased financial support to farmers, provision of credit lines from the Agricultural Credit Discount Fund and development of the market for purchase of agricultural products by establishing new points of purchase and distribution. Therefore, subsidies to farmers are envisaged in the amount of EUR 100 million in 2010, EUR 115 million in 2011 and EUR 130 million in 2012.

One of the key qualitative shifts in the budget structure on medium term is the increase of the share of expenditures for capital investments. Thus, to the end of realising and maintaining positive economic growth rates, increase of the level of *public investments* is planned, which in the next medium-term period will participate with 14.9% in 2010, 15.2% in 2011 and 15.4% in 2012 in the total expenditures.

Such level of capital expenditures implies investments mainly in road, railway and utility infrastructure, improvement of conditions in education and health system, capital investments in health sector and penalty-correctional institutions, as well as better quality of infrastructure in social, cultural and sports area. As for the road infrastructure, implementation of the Regional and Local Roads Programme Support Project, financed with foreign credits from the World Bank and EIB will continue. At the same time, budget funds will be used for construction of routes for connection with TIDZ, as well as necessary expropriation-related activities and preparation of projects and studies. As for the railway infrastructure, continuation of commenced activities for renewal of the rolling stock, modernisation of railway line along Corridor 10 is envisaged, while funds from foreign sources will be provided for construction of Corridor 8. Investments in the field of energy will be financed from foreign sources, as well as from private funds of the energetic companies. Funds for reconstructions and maintenance of facilities in the field of education, sports, culture, child protection and social care are planned within the total amount of capital investments. At the same time, funds for continuation of the current multi-annual projects are envisaged, for which, obligations for procurement of medical equipment in the field of health, information technologies, transport and environment have been already taken on.

Chart 3.2. Current and Capital expenditures



Source: Ministry of Finance

In the subsequent period, continuation of the implementation and start of realisation of many projects financed from foreign credits is planned, which, will to a great extent contribute to successful completion of the commenced structural and reform processes. Efficient usage of the loans from international financial institutions and bilateral creditors will be the base for series of investment activities and reforms envisaged in line with the loan agreements, which will provide job creation and favourable business environment.

As for the judiciary, reforms will continue to be supported through the World Bank project for implementation of reforms in the legal and court system and institutional support. For the purpose of continuation of the reforms for protection of property and legal relations and registration of property rights, activities related to cadastre reforms, supported with the Real Estate Cadastre and Registration Project will continue.

During the transformation process of the health sector and the increase of transparency, efficiency and fiscal discipline in the health sector, reforms envisaged to be implemented under the Health Sector Management Project will be finalised with a loan from the World Bank in the course of 2010. Project for rehabilitation and reconstruction of 49 health provider institutions is under preparation and it will be financed with a loan from the Council of Europe Development Bank.

Education Modernisation Project supported with a loan from the World Bank and grant from the Kingdom of the Netherlands provides support in the decentralised education system. Council of Europe Development Bank will increase the level of physical education and its harmonisation with the recommendations from the Council of Europe by financing the Project for Building Physical Education Facilities in Secondary Schools.

Regarding the social policies, activities are supported under the Social Protection Implementation Project financed by the World Bank, the main goal of which is improving the effectiveness and efficiency of social protection system through better administration and long-term stability of the pension system and better targeting and administering of other pecuniary social allowances. Conditional Cash Transfers Project that will start this year, financed by the World Bank is aimed at alleviating poverty of vulnerable groups by stipulation of the existing pecuniary allowances.

In 2010, implementation of the Project for Reconstruction of Penitentiary Institutions will start and it will be financed with a loan from the Council of Europe Development Bank. With the realisation of this Project it is expected the reconstruction of five penalty-correctional institutions to be completed, wherewith the standards envisaged under the European Prison Rules will be implemented.

Project for Housing of Vulnerable Groups in the Republic of Macedonia which will 50% be financed with a loan from the Council of Europe Development Bank is aimed at providing access to appropriate housing and fight against poverty and social exclusion.

With the Agriculture Strengthening and Accession Project financed with a loan from the World Bank activities will carry on to the end of creating modern and competitive agricultural sector, being of particular importance for the economic and social development of the country, in the support to the Republic of Macedonia in acquiring absorption power for using IPA assistance and meeting the requirements for EU membership.

Government activities for improving the management at local level will be supported with the Municipal Services Improvement Project financed with a loan from the World Bank. This Project, the implementation of which started in 2009, will enable the municipalities and the public utility enterprises to finance utility and infrastructure projects.

To the end of improving the conditions and increasing the quality of life in rural areas in the Republic of Macedonia, Project for construction and rehabilitation of the water supply and sewerage infrastructure in rural areas in rural areas financed from KfW will be implemented, thus providing sustainable supply of drinking water to the population in the selected municipalities.

To the end of alleviating the consequences of the global economic crisis over small- and medium size enterprises, the implementation of the Small and Medium Sized Enterprises Project financed with EUR 100 million from the European Investment Bank will continue in the next two years. In addition, this Project is expected to contribute to support for new projects, new employment and increased liquidity in the economy and increased export. Macedonian Bank for Development Promotion will implement this project, disbursing this loan through the banks to the final beneficiaries.

Projected deficit and its financing. In line with the projections of the revenues and expenditures of the Budget of the Republic of Macedonia, sustainable level of fiscal deficit of 2.0-2.5% of the projected GDP, including the central budget deficit and the budget of the Agency for State Roads is planned in the next medium-term period. Central budget deficit in the period 2010-2012 is projected at around 1,6% - 2% of the projected GDP (including credit disbursements by budget users to their own accounts causing deficit of around 0.3% of GDP), while the Agency for State Roads is envisaged to realise deficit of 0.4%.

Financing the deficit of the Budget of the Republic of Macedonia on medium term will be mainly financed from foreign sources, in line with the policy of lower domestic borrowing. External sources include credits from international financial institutions (among which the Development credit for budget support from the World Bank in the amount of US\$ 60 million), credit lines for financing specific projects, as well as borrowing on the capital market. The commitment is to gradually reduce the domestic borrowing through government securities. Foreign borrowing, as a source of financing, will be used by budget users for specific projects and by the Agency for State Roads in accordance with the concluded contracts for construction of certain road sections of the national roads.

Table 3.3. Deficit and financing sources

<i>Deficit and financing sources</i> (Denar million)	2010	2011	2012
Budget balance	-10,462	-11,071	-9,604
Financing	10,462	11,071	9,604
Inflows	18,505	19,162	15,841
Privatisation receipts	400	400	500
Domestic borrowing	3,989	3,500	3,000
Deposits	0	0	0
Foreign borrowing	14,116	15,262	12,341
Outflows	8,043	8,091	6,237
Repayment of domestic debt	5,546	5,162	2,913
Repayment of foreign debt	2,497	2,929	3,324

Source: Minister of Finance

Local Government Budget. In the period to come, process of administering the local government revenues in line with the European Charter of Local Self-Government, i.e. right of municipalities to set the rate of taxation and the fee amount independently will continue. In line with the fiscal projections for the coming medium-term period, local government revenues are projected at around 5.2% of GDP, within which, increase of own revenues in line with the legal solutions (revenues from concessions, compensation for production of fossil fuel energy, expropriation income and construction site rent) and improved collection (on the basis of improved data base of taxpayers as well as more precise calculations of the market value of property).is expected. In the period to come, appropriate effect of the legal possibility for participation of private capital in the public sector is also expected, through public-private partnership, being at the same time stimulus for improving the quality of local services and increase of revenues.

In general, it is envisaged for fiscal decentralisation in the medium-term period to reach its final phase, i.e. for the transferred competences in all municipalities to be financed with block grants, thus contributing to stabilisation of local government revenues as well.

Medium-term projections do not include the effects of possible change of the legal solutions related to re-structuring of the existing financing model or new methodologies, by which genuine revenues would increase or new sources for financing LGUs would be provided, except for the changes envisaged under the amendments to the Law on Financing of Local Government Units regarding the increase of VAT percentage, being transferred from the central government from the current 3% to 4.5% in 2013.

The amendments to the Law on financing of the local self-government units, created a more liberal access to the capital market, by enabling a more liberal conditions and procedures for municipal borrowing, particularly by increasing the percentage for calculating the limit for short or long term borrowing. In direction of providing additional instruments for financing, the possibility for municipal borrowing by issuing short and long-term securities on the domestic and foreign capital market is emphasized. The amendments also introduced a possibility for short-term and long-term borrowing from the Central Budget, as a tool for providing liquidity, with an obligation that the loan to be returned by the end of the current fiscal year in which it is approved, or for a period of less than five years without any interest.

At the same time, activities for finding methods for strengthening the financial capacity of LGUs are being undertaken, as well as further strengthening of the operability and financial independence of the municipalities.

3.1.3. Structural Balance

Potential growth and cyclical position of the Republic of Macedonia

The potential growth of GDP in the Republic of Macedonia is one of the main parameters used in projecting the basic macroeconomic aggregates is. Two methodologies have been used to calculate the potential output. The first one, which belongs to the group of statistical approaches, is the Hodrick-Prescott trend estimation. Accordingly, trend value (s^*) is determined by minimising the gap between the real domestic production (s) and the trend and the variability thereof 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 parameter for smoothing the time series. According to literature, the assumption is that the value of the parameter is 30. Thereby, we point out that the many structural disturbances that occurred in the past period, as well as the external shocks which the Republic of Macedonia was exposed to, together with the long period of transition (i.e. significant decline of the economic activity by 1995), there is a great probability that the Hodrick-Prescott method produces biased results in the case of Macedonia.

Table 3.4. Potential economic growth and GDP gap

	2008	2009	2010	2011	2012
GDP	4.8	-0.6	2.0	3.5	5.0
Potential growth	3.4	3.0	3.0	3.2	3,3
Ouput gap	1.4	-3.6	-1.0	0.3	1.7

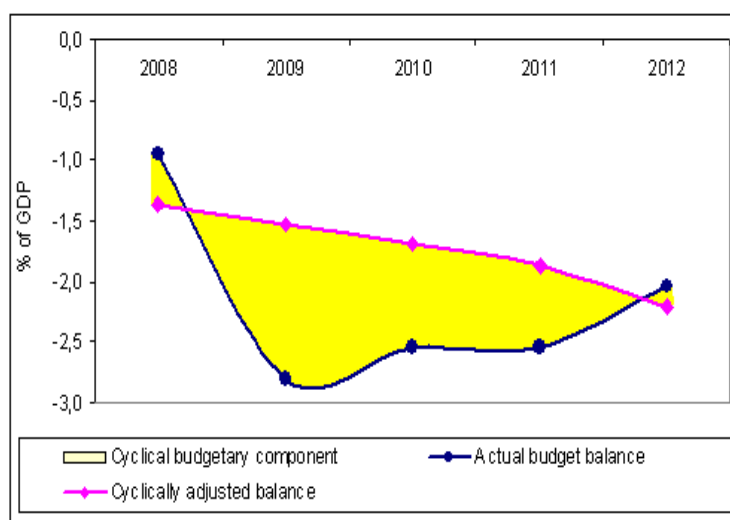
Source: SSO and Calculations of the Ministry of Finance

The estimate shows that potential GDP growth in the period 1997 – 2012¹⁰ is 3.1%, whereby GDP gap is positive and amounts 0.1 p.p., having in mind that the actual (and the projected) economic growth in this period is 3.2%. GDP growth had (has) accelerated pace in 2007 and 2008 resulting in the positive economic gap of 2.1 p.p. and 1.4 p.p. respectively. In 2009, the global economic crisis spilled over the economy of the Republic of Macedonia as well, causing for the (projected) economic growth to be significantly below the potential. Negative economic gap is also expected in 2010, while the production growth is expected to range around the potential growth in 2011. As a result of such trends in the economy above and below the trend growth path, the realised budget balance does not show the real fiscal position of the government, i.e. it is better to analyse the cyclical fiscal position.

Hence, we will calculate the cyclical adjusted balance, i.e. the budget balance when the real GDP is considered to be at its trend growth path, i.e. when there is no gap between the actual (projected) and potential output. Thus, if we remove the cyclical component from the actual (projected) budget balance, we obtain the cyclical adjusted budget balance, i.e. the balance that shows more closely the intentions of the authorities, i.e. their fiscal policy. Taking this into account, the results point to the following: cyclical budget component was positive in 2008 and since the economic growth was above the potential, thus the cyclical adjusted budget deficit was higher than the realised. In 2009, as a result of the downward cyclical trends of the economy and the relatively high production gap, cyclical adjusted budget deficit was below 1.5%, resulting in negative cyclical budget component of 1.3 p.p.. As it is expected for the economy to recover, thus the gap between the projected and potential growth will narrow, corresponding with the reduction of the cyclical budget component.

Such counter-cyclical fiscal policy, led by increased capital investments is expected to additionally encourage the economic growth in 2012 which is expected to be significantly below the potential, thus leading to cyclical adjusted budget deficit projected at 2.2% of GDP. Such trend of cyclical adjusted budget deficit is still within the Maastricht Criteria (-3% of GDP)

Chart 3.3: Cyclical adjusted budget



Source: Calculations of the Ministry of Finance

Second methodology on determining the potential growth is the structural approach. Thus, according to the production function approach, based on the functional relation between GDP and capital and labour force, potential growth is 3.3%. Namely, in addition to historical data, medium-term assessments on

¹⁰ 2001 is excluded due to non-economic developments

growth of employment and investments were used when doing the calculations. Thereby, Hodrick-Prescott filter is applied at all growth components.

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

Legal framework regulating borrowing of public sector in the Republic of Macedonia comprises the following: Public Debt Law, Budget Law, Law on Local Financing, Public Debt Management Strategy and Manual on the Manner and the Procedures for Borrowing by Municipalities, Public Enterprises and Companies Fully or Predominantly Owned by the State, the Municipalities, the Municipalities in the City of Skopje and the City of Skopje. Public debt issuers, pursuant to the Public Debt Law, are Government of the Republic of Macedonia, municipalities, municipalities in the City of Skopje and the City of Skopje, public enterprises and companies fully or predominantly owned by the state, the municipalities, the municipalities in the City of Skopje and the City of Skopje and the National Bank of Macedonia.

Basic objectives of public debt management, pursuant to the Public Debt Law, are the following:

- providing 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.

Public sector can borrow in the form of a loan from domestic or foreign creditors or in the form of government securities issued on domestic or foreign capital market. Regarding external and domestic borrowing, as well as issuance of sovereign guarantees for external and domestic financing, pursuant to the Public Debt Law, positive opinion has to be obtained from the Ministry of Finance, followed by an approval by the Government of the Republic of Macedonia. Should it be a matter of external borrowing and issuance of sovereign guarantee for external borrowing, law needs to be adopted by the Parliament of the Republic of Macedonia.

Ministry of Finance has signed an agreement for fiscal agent 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.

Borrowing by local government units is regulated by the Law on Local Financing and the Law on the City of Skopje. Municipal borrowing can be short-term and long-term. Total amount of short-term borrowing cannot exceed 20% of the level of operating revenues realised in the previous fiscal year. Total amount of long-term borrowing cannot exceed 15% of the level of operating revenues realised in the previous fiscal year.

Framework for the borrowing policy in Macedonia is the Medium-Term Public Debt Management Strategy, adopted by the Parliament of the Republic of Macedonia. It sets the framework for external and domestic borrowing in the period 2009 – 2011 and provides guidelines for improvement of features of the debt portfolio of the Republic of Macedonia.

Table 3.5. Target set in 2009-2011 Public Debt Management Strategy of the Republic of Macedonia and their realisation

Targets*	Public debt portfolio parameters as of September 2009	Targets for 2009-2011 according to Public Debt Management Strategy
Public debt to GDP ratio	26,9%	not to exceed 40%
General government debt to GDP ratio	24,0%	not to exceed 30%**
Ratio between domestic currency denominated debt and foreign currency denominated debt	Foreign currency denominated debt- 96,5% Domestic currency denominated debt- 3,5%	Domestic currency denominated debt- 13% (with 3 p.p. deviation)
Share of euro-denominated debt in external debt	67%	70% (with 5 p.p. deviation)

Share of external public debt in total public debt	External public debt- 73,8%	70%-80%
Net borrowing in 2009	EUR 157 mil.	EUR 370 mil.
Net borrowing for guaranteed public debt in 2009	EUR 6.7 mil.	EUR 150 mil.

Source: Ministry of Finance

* When monitoring target realisation, NBRM debt was not included in the calculations of the total public debt pursuant to the Law on Modifications and Amendments to the Public Debt Law regarding the Strategy

Public Debt of the Republic of Macedonia- Total public debt of the Republic of Macedonia, according to GFS methodology, amounted EUR 2.020,8 million at the end of September 2009, and compared to 2008, it increased by EUR 150,8 million. Total public debt to GDP, as of September 2009 accounted for 31,2% and compared to the previous year, it increased by 2,5 p.p.. General government debt amounted to EUR 1.551,1 million, i.e. 24% of GDP, being significantly lower in relation to Maastricht criteria, according to which general government debt must not exceed 60% of GDP. As for the coming period, higher budget deficit is projected, subsequently leading to higher public debt level. Such increase of the debt is mainly due to new investments in road and railway infrastructure, water supply and sewerage, sports facilities, construction of social flats, as well as investments in education. In addition, more investments are expected in the energy sector, to be realised through borrowing by public enterprises in this sector, by providing sovereign guarantee.

External debt accounts for around 67% in the total public debt portfolio (being increase by 7,3 p.p., compared to 2008), while with respect to currency structure, foreign currency denominated debt accounts for 86,6% and compared to last year, it increased by 9,6 p.p.. Interest rate structure is balanced, whereby 56,5% of public debt portfolio is with fixed interest rates and 43,5% with floating interest rate.

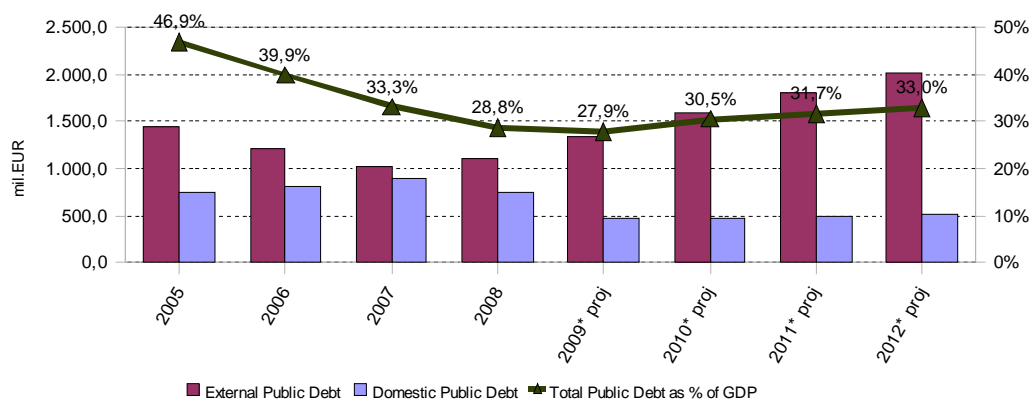
Table 3.6. Stock of total public debt

EUR million	2005	2006	2007	2008	30/09/2009
EXTERNAL PUBLIC DEBT	1.441,2	1.223,0	1.027,9	1.115,7	1.357,5
General government debt	1.245,4	1.025,2	877,2	921,2	1.098,0
Central government debt (consolidated)	1.245,4	1.025,2	877,2	921,2	1.098,0
Central government debt	1.208,0	981,9	841,8	886,7	1.067,1
Public Funds	37,4	43,3	35,4	34,6	30,9
Municipalities	0,0	0,0	0,0	0,0	0,0
Central Bank	52,7	42,4	0,0	0,0	71,5
Public enterprises	143,2	155,4	150,6	194,5	188,1
DOMESTIC PUBLIC DEBT	750,4	806,5	899,9	754,5	663,3
General government debt	603,7	648,4	552,8	465,9	453,1
Central government debt	603,5	648,2	552,8	465,5	452,8
Municipalities	0,2	0,2	0,0	0,4	0,3
Central Bank	146,7	155,3	344,3	285,2	207,4
Public enterprises*	N/A	2,8	2,8	3,5	2,8
TOTAL PUBLIC DEBT—GFS methodology and Public Debt Law	2.191,6	2.029,5	1.927,8	1.870,0	2.020,8
Total public debt as % of GDP	46,9	39,9	33,3	28,7	31,2
Total public debt as % of average export	133,4	106,7	79,0	69,7	95,9

Source: Ministry of Finance and NBRM

*Since April 2006, public enterprises began submitting the first reports on public debt stock (in line with the Public Debt Law) to the Ministry of Finance.

Chart 3.4. Trends of total public debt in relation to GDP

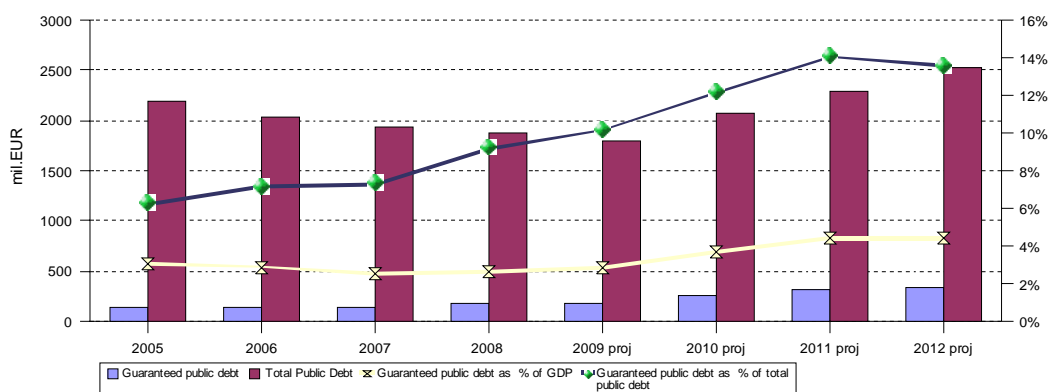


Source: Ministry of Finance and NBRM

*Projections of total public debt do not include debt of the monetary authority.

Issued sovereign guarantees are potential liabilities for the Budget of the Republic of Macedonia, which, as of 30 September 2009 inclusive, amounted to EUR 164,5 million, accounting for 8,1% of the total public debt or only 2.5% of GDP of the Republic of Macedonia. Compared to 2008, the guaranteed public debt decreased EUR 7,3 million or 0,4 p.p., in relation to total public debt.

Chart 3.5. Guaranteed public debt



Source: Ministry of Finance and NBRM

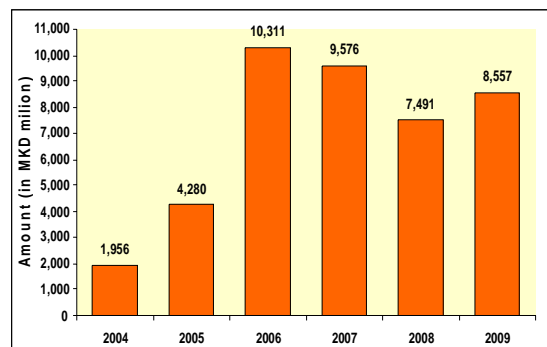
Primary government securities market. Starting March 2009, Ministry of Finance also introduced 1-month treasury bills so as to better respond to liquidity needs of market entities, as well as to provide additional funds for financing the budget needs. In the period March -September 2009, there were four issuances of 1-month treasury bills. Percentage of coverage of offered amount to demand, at the auctions of 1-month treasury bills during this period was 81,44%.

In June 2009, Ministry of Finance also introduced government securities with foreign exchange clause. Introduction of this financial instrument was triggered by several goals including: response to the needs of potential investors on government securities market, reduction of interest-related costs of the Ministry of Finance, extension of maturity of government securities portfolio and sending clear signals for the stability of the domestic currency. In addition, frequency of carrying out auctions was reduced, simultaneously focusing on issues of government securities with longer terms. Overall rate of realisation of auctions was 90.87%, which is a high percentage of realisation on the basis of which the success of realised auctions is measured.

In September 2009, stock of outstanding government securities was in the amount of Denar 8.56 billion, or EUR 139.94 million, out of which Denar 7.16 billion related to treasury bills and the remaining is related to treasury bonds.

As for the ownership structure of outstanding government securities, reduced participation of banks, insurance companies, pension funds and savings houses is noted, while the participation of individuals and the category "other" increased.

Chart 3.6. Stock of outstanding government securities

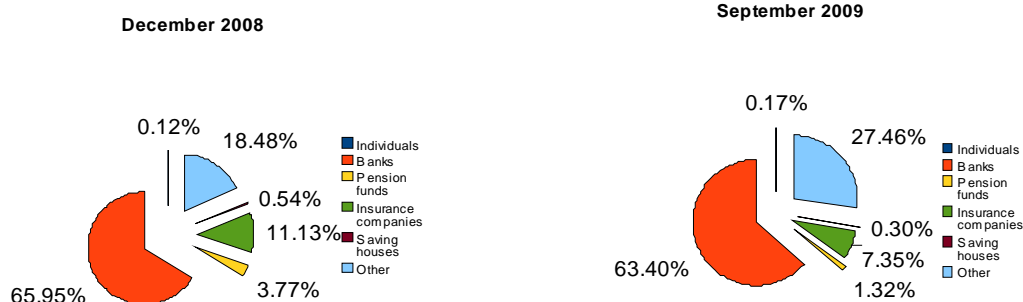


Source: Ministry of Finance

Chart 3.7. (a and b) Ownership structure of outstanding government securities

Chart 3.7. (a)

Chart 3.7. (b)



Source: Ministry of Finance

Depending on the type of auction tender applied, interest rates on treasury bills are determined by the market (interest rate tender) or predefined by the Ministry of Finance (volume tender). In the January - September 2009, continuous increase of interest rates in all maturities of government securities without foreign exchange clause was registered. During this period, interest rates on government securities without foreign exchange clause increased from 1 to 2 percentage points on average. Upward trend of interest rates was also seen for at long-term securities, thus coupon interest rate on the single auction of 2-year government bonds, held in February, increased and equalled 8.50%.

The level of interest rates on treasury bills with foreign exchange clause, depending on the maturity period, ranges from 5.25% to 7.00%. By introducing of government securities with foreign currency clause, interest rates on government securities, dropped from 2.50 to 3.50 percentage points on average.

Secondary government securities market. Structural bonds (eight issues of government bonds for denationalization, bonds for old foreign exchange savings and bonds for selective credits), and continuous government bonds are traded on the Macedonian Stock Exchange. In the period January - September 2009, government bonds for denationalization, and bonds for old foreign exchange savings were traded. In this period, total trading volume amounted to EUR 11.3 million, while total trading turnover amounted to EUR 9.7 million, or Denar 596.5 million.

International capital market. On 30th June 2009, Ministry of Finance, on behalf of the Republic of Macedonia successfully issued Eurobond on the international capital market in the amount of EUR 175 million. Maturity period of the Eurobond is 3.5 years, i.e. it fall due in January 2013. Coupon interest rate achieved is 9.875% per annum. The fact that the demand was higher than the offered amount

defined in the prospectus for the issue, being EUR 48.6 million, speaks of the high interest for this Eurobond. Investor base is geographically dispersed across the European continent and beyond, including investors from the UK (59.9%), Switzerland (11.3), Brazil (8.6%), Austria (6.9%), Denmark (5.1%), Germany (3.1%), Greece (2.9 %), Benelux (1.5%) and others (0.7%). The main buyers are management funds (35.8%), pension funds (22.9%), investment funds (18.6%), private banks (10.8%), banks (7.6%) insurance funds (3.4%), other (0.9%).

Credit rating of the Republic of Macedonia in 2009. Standard & Poor's - On 22nd September 2009, Standard and Poor's credit rating agency assigned new revised outlook of the credit rating of the Republic of Macedonia: foreign currency - from BB + /negative outlook in 2008 to BB/stable outlook, and local currency - BBB-/negative outlook to BB + /stable outlook.

Fitch - On 21st May 2009, Fitch credit rating agency assigned new revised outlook of the credit rating of the Republic of Macedonia. Credit rating for foreign and local currency is BB + with negative outlook. Previously assigned credit rating in 2008 was: BB + with stable outlook for foreign and local currency. At the same time, the agency confirmed the short-term foreign currency rating B, and the country ceiling BBB-.

3.1.5. Budgetary Implications of Major Structural Reforms

One of the key qualitative shifts in the budget structure on medium term is the increase of the share of expenditures for capital investments. Thus to the end of realising and maintaining positive economic growth rates, increase of the level of public investments is planned. In line with this objective, significant amount of funds is allocated to structural adjustment of the Macedonian economy, i.e. to reforms in number of areas, necessary for improving the business climate. Section 4 explains in details the structural reforms undertaken by the Government of the Republic of Macedonia, while Table 10 presents details of the fiscal implications from the numerous reforms.

In fact, fiscal implications actually present the necessary funds (budget funds, as well as loans and credits and donations) necessary for implementing structural reforms.

In the coming period, continuation of reforms in the field of education for the purpose of increasing the quality in the education and teaching process, increase in the number of educated staff, as well as better match of labour supply and demand, through the analysis of the labour market needs, is planned. In addition, dispersed studies project will continue for the purpose of enabling greater availability of citizens to high -education institutions, as well reducing unemployment and creating staff in line with the labour market needs.

Taking into account that the unemployment is one of the biggest problems in the Macedonian economy, reforms for increasing the labour market flexibility will continue in future, by reducing the social contributions, further improvement of the legislation, as well as through active labour market measures, improving the knowledge and qualifications of the labour force or subsidising the employment of vulnerable groups of citizens.

Regarding the agriculture as significant sector in the economy, significant structural reforms and investments for development and promotion of agriculture, improvement and development of infrastructure related to agricultural development, improvement of organization of farmers, improvement of their knowledge and qualifications and improvement of conditions/stimulating the population to deal with agriculture are planned. Planned reforms in the agriculture will create conditions for building up of an efficient and competitive agricultural sector and its successful integration in the EU. These reforms will be successfully realised through increased financial support to farmers, provision of credit lines from the Agricultural Credit Discount Fund and development of the market for purchase of agricultural products by establishing new points of purchase and distribution. Therefore, subsidies to farmers are envisaged in the amount of EUR 100 million in 2010, EUR 115 million in 2011 and EUR 130 million in 2012. Priorities in the agriculture will be realised by using budget funds and through foreign donations and loans.

3.2. Sensitivity analysis

3.2.1. Sensitivity Analysis of Budget Deficit

This section provides review of the results obtained from the sensitive analysis of the budget deficit. Namely, within the sensitive analysis, three scenarios were prepared, based on assumptions, differing from those medium-term projections, taken as starting point in the baseline scenario. Effects are analysed within the three scenarios, i.e. change in the budget deficit under the assumption that the given economic variable deviates from the path envisaged with the medium-term projections.

The baseline scenario, on the basis of which, the budget deficit forecasts are made, projects positive real GDP growth of 2% in 2010, furthermore increasing to 3.5% and 5% in 2011 and 2012 respectively, in line with the expectations for recovery of the economy from the global economic and financial crisis. Furthermore, the budget revenues are projected to increase by 1.3% in 2010, accelerating in 2011 and 2012 (2% and 4.1% respectively). Budget expenditures are envisaged to increase by 0.7% in 2010, 2.3% in 2011 and 2.8% in 2012. Under these assumptions, budget deficit is projected at the level of 2.5% of GDP in 2010, remaining at the same level in 2011, while reducing to 2% of GDP in 2012.

Table 3.7. Sensitivity Analysis of Budget Deficit

	2008	2009	2010	2011	2012
GDP, real growth rate	4.8	-0.6	2.0	3.5	5
GDP deflator	7.3	0.1	2.0	2.0	2.5
Budget revenues, growth rate	14.1	-6.1	1.3	2.0	4.1
Budget expenditures, growth rate	19.4	-0.7	0.7	2.3	2.8
Budget deficit:					
Baseline scenario	-0.96	-2.81	-2.53	-2.54	-2.04
Scenario 1. Halving the GDP growth rate	-0.96	-2.81	-3.87	-4.00	-4.16
Scenario 2. Halving the growth of revenues	-0.96	-2.81	-2.73	-3.03	-2.52
Scenario 3. Doubling the growth of expenditures	-0.96	-2.81	-3.00	-3.00	-2.48

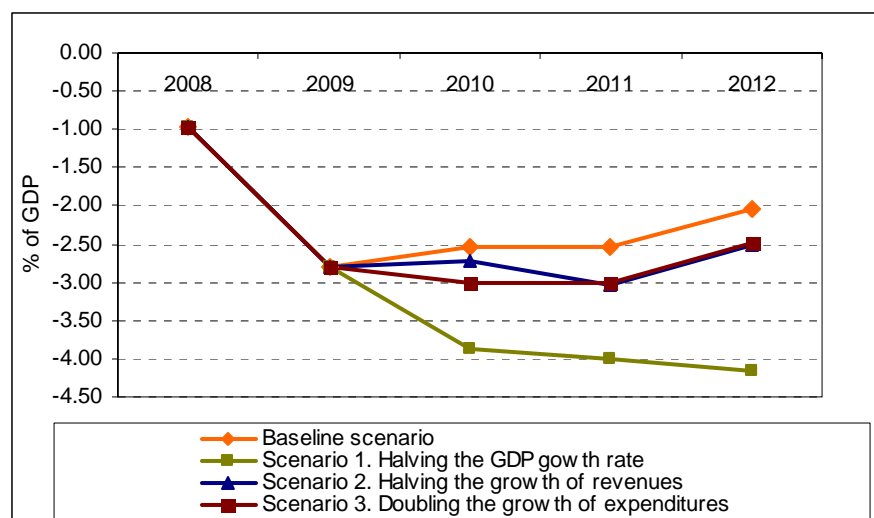
Source: Calculations of the Ministry of Finance

The first scenario assumes GDP shock, as main indicator, being related to the budget planning. In fact, halving the real GDP growth rate is assumed for every year in the medium-term period 2010-2012. In such conditions, strong responsiveness of budget deficit was registered, i.e. it increased to 3.9% of GDP (increase by 1.3 p.p.) in 2010, followed by 4.0% of GDP in 2011 (increase by 1.5 p.p.) and 4.2% of GDP (by 2.1 p.p.) in 2012.

In the second scenario, we make an assumption that the growth of budget revenues during two subsequent years (2010 and 2011) is reduced by half compared to the baseline scenario, due to certain reasons (such as for instance, deteriorated collection of budget revenues). The effect of this assumption is an increase of budget deficit by 0.2 p.p. compared to the initial projection, reaching the level of 2.7% of GDP. Furthermore, according to the assumption for another year of halved growth of budget revenues, budget deficit would deteriorate by 0.5 p.p., reaching 3.0% of GDP in 2011. In 2012, when we did not assume any shock on budget revenues, the budget deficit is stabilised at 2.5% of GDP. This analysis can lead to conclusion that the resistance of budget balance to such shock is relatively strong, taking into account that even with halved budget revenues growth rate in the two

subsequent years, Republic of Macedonia would remain within the framework of Maastricht criterion of 3.0%.

Chart 3.8. Sensitivity analysis



Source: Calculations of the Ministry of Finance

The last scenario assumes one-off shock on the expenditure side in 2010 as a result of the failure at the projected execution dynamics of capital expenditures. In fact, it assumes doubling of growth rate of expenditures in 2010. Thereby, one can notice that the budget deficit increases to 3.0% of GDP in 2010 and 2011, while it returns to 2.5% of GDP in 2012. Despite such shock, the vulnerability of the fiscal scenario is not excessive, having in mind that the Maastricht criterion of 3.0% of GDP is still not exceeded.

Analysis has been made on the basis of hypothetical assumptions, but however, it shows the effects on the budget balance that might be expected on the medium term, if underlying postulates move in unfavourable direction. Results of the sensitive analysis point out that the fiscal scenario is most exposed and most vulnerable to the risk of reducing the GDP growth rate and they can at the same time serve as basis for timely undertaking of precaution measures.

3.2.2. Sensitivity Analysis of Public Debt

To the end of examining sensitivity of public debt portfolio of the Republic of Macedonia to market risk exposure, i.e. interest rate risk and exchange rate risk, influence of both interest rate and exchange rate risk on external general government debt was analysed.

Table 3.8. Index of interest costs in the Budget of the Republic of Macedonia on the basis of external debt in case of interest rate risk or exchange rate risk

	2010	2011	2012
Basic scenario	100,0	100,0	100,0
Scenario 1 (+0,5% increase in interest rates)	104,7	104,1	103,9
Scenario 2 (+1% increase in interest rates)	109,4	108,2	108,0
Scenario 3 (+2% increase in interest rates)	118,7	116,4	115,8
Scenario 4 (appreciation of the euro against other currencies by 10%)	99,2	99,3	99,4
Scenario 5 (depreciation of the euro against other currencies by 10%)	100,9	100,8	100,7

Source: Ministry of Finance

This sensitive analysis of the trends in interest costs in the Budget of the Republic of Macedonia on the basis of external debt is based on the following assumptions:

- By changing a single variable, all other variables remain unchanged, i.e. ceteris paribus.

- In case of possible movements at other currencies in relation to Euro, Denar exchange rate in relation to Euro keeps the stable value.
- Absence of correlation between interest rate movements and exchange rate movements.

Main conclusions arising from this analysis are as follows:

- Debt servicing costs on the basis of external general government debt are highly sensitive to interest rate movements. If interest rates in 2010 increase, by only 0.5 p.p., it would lead to increase of debt servicing costs by 4.7 p.p.. This sensitivity is a result of high exposure of the debt portfolio to interest rate risk, as a result of the relatively high share of the variable debt.
- Future 10% appreciation/depreciation of Euro in relation to other currencies in the portfolio (US dollar, Japanese yen and SDR) will lead to reduction/increase of debt servicing costs due to fixed exchange rate regime of the domestic currency, the Denar, in relation to the Euro. However, possible unfavourable trends in exchange rates of other currencies in relation to the Euro will not strongly affect the debt servicing costs due to the fact that most of the external debt of the general government is denominated in Euro.

3.3. Quality of public finances

Government of the Republic of Macedonia remains consistent to its goal and reform policy aimed at quality management of public finance, putting strong efforts to improving the collection of public fees, thereby taking account of their efficient usage in projects aimed at improving the Macedonian society and attaining the European standards.

Tax administration

By implementing the strategic objectives, administrative capacities of the tax administration are strengthened and its functions and competences are expanded, thus ensuring increased tax revenues in the state budget, improved services to taxpayers, development of human resources and strengthened international cooperation with the bodies and institutions in the EU Member States and broader.

At the same time, to the end of decentralising the services to taxpayers and facilitating communication between tax officer and taxpayer, new organisational entities and communication channels have been established, which are easily accessible and fully correspond to the needs for rendering quality and fast services to taxpayers. Thus, in 2008, second stage of the Project for E-Services to Small and Medium Taxpayers was put in operation, and preparations commenced for such services to be available to natural persons as well. Contact Center is organised at national level, including direct access services and contact with clients, as well as national telephone network – call center. Office- Contact Center as a new organisational unit, providing necessary usage of resources in favour of clients is part of the centralised functions of PRO.

To the end of reducing both tax burden and administrative burden for enterprises, i.e. to the end of creating more transparent system, with easily recognisable labor force costs, the Government undertook structural reform in the system commenced in January 2009, comprising the following: full harmonisation of bases for payment of contributions and reduction of the minimum basis, reduction of social contribution rates, introduction of gross wage concept for workers with broadened tax base and integrated collection of social insurance contributions and personal income tax in the Public Revenue Office.

To the end of providing continuous training and specialisation in the field of tax issues, PRO started implementing the “Regional Tax Academy” Project. The Regional Tax Academy is training center for all tax administrations from South-East Europe, including educational programme for employees in PRO, financial workers from PRO of the Republic of Macedonia, tax advisors, taxpayers, as well as students from the faculties of social sciences. As new organisational unit, providing special usage of resources in favour of specialisation of tax officials, the Regional Tax Academy is part of the centralised functions of PRO and it will be established in line with the international and OECD standards.

Public procurement

Starting September 2009, Public Procurement Bureau acquired the capacity of a legal entity, responsible for providing professional assistance to the contracting authorities and the economic operators, during the practical implementation of contract award procedures. The need for such reform was pointed out by the European Commission for a long period and it was positively assessed in the 2009 Annual Progress Report of the Republic of Macedonia.

Public procurement system in the Republic of Macedonia is regulated under Law on Public Procurement and the Law on Modifications and Amendments to the Law on Public Procurement, as well as under bylaws adopted pursuant to the Law. According to the assessment of the European Commission, the text of the new Law on Public Procurement is highly harmonised with the respective EU Directives in the field of public procurement.

In the period 2010-2012, for the purpose of strengthening the competitiveness in contract award procedures through strengthening the legal framework, Strategy for the Development of the Public Procurement System 2010-2015 will be prepared.

More significant changes planned to be introduced in the public procurement system are the following:

- Introducing simpler documentation for verifying the selection criteria in contract award procedures.
- Establishing central procurement body;
- Strengthening the remedies system in contract award procedures, as well as
- Transposing the new Directive 2009/81/EC of the European Parliament and the Council on coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defense and security, amending Directives 2004/17/EC and 2004/18/EC.

Capital investments

According to the Medium-Term Fiscal Strategy of the Republic of Macedonia, one of the key qualitative changes in the budget structure on medium term is the increase of the share of expenditures for capital investments. Thus, to the end of realising and maintaining positive economic growth rates, increase of the level of public investments is planned, which will participate with 14.9% in 2010, 15.2% in 2011 and 15.4% in 2012 in the total expenditures in the next medium-term period.

Capital expenditures include investments in road, railway and utility infrastructure, improvement of conditions in education and health system, capital investments in health sector and penitentiary institutions, as well as better quality of infrastructure in social, cultural and sports area.

Investment in education, as the most reliable path to create long-term gains, is one of the strategic priorities of the Government of the Republic of Macedonia. Global policy and development strategy in the education sector is aimed at improving primary, secondary and high education through construction, reconstruction and rehabilitation of the facilities and their equipping, improvement of the quality of education in line with the labour market demands and the economic needs. At the same time, funds for continuation of the current multi-annual projects are envisaged, for which, obligations for procurement of medical equipment in the field of health, information technologies, transport and environment have been already taken on.

3.4. Sustainability of public finances

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

- Strong GDP growth in the following forty years by more than 4%;
- Stable productivity growth by more than 2%;
- Small increase of male participation rate (from 77.8% in 2010 to 84.2% in 2050);
- Small increase of female participation rate (from 50.9% in 2010 to 71.7% in 2050);
- Strong decline in the unemployment rate (from 30.8% to 11.5% in the coming 40-year period);

- Steady participation growth of older population by 1.5 percentage points each ten years.

Estimations also include the introduction of gross wage concept, while the reduction of social contribution rates as one of the reform pillars is particularly emphasised in the assumptions. It is also assumed that there will be no further changes in the regulations. In addition, another assumption is that most of the budget revenues as percentage of GDP will remain the same, and all other expenditures, except for those for pensions, health and education will retain their current share in GDP.

On the basis of the above-described assumptions, moderated decrease of the revenues from pension insurance contributions is estimated: from 6.7% of GDP in 2010 to 6.3% in 2020, stabilising in the subsequent years. Such decline may be explained by the gradual decrease of social contribution rates as part of the “gross wage” reform. Share of revenues from pension insurance contributions is expected to stabilise at the level of 6.3% of GDP after 2015, as a result of the somewhat higher increase of wages per employee than the increase of labour productivity and projections for reduction in the unemployment rate.

Projected outcomes show significant decrease of public expenditures for pensions from 5.3% of GDP in 2005 to 4% of GDP in 2050. Public expenditures for pensions include only the expenditures of the State Pension Fund, rather than the expenditures of the private pension insurance funds (whether mandatory or voluntary pension insurance). Such decrease of public expenditures is mainly a result of the reduction of relative pensions (pension-wage ratio) paid from the first pillar. It is expected that payments from the second pillar will partially or completely compensate for the decrease of relative pensions. It is worth mentioning that the projections take into account the gradual decrease of the share of those pensioners, whose pensions are entirely paid from the first pillar, and the growing share of those, who will receive part of their pensions from the first pillar and the other part from the second pillar.

Public expenditures in the health care system as percentage of GDP are projected to slightly decrease from 4.4% in 2010 to 4.2% in 2050. Such relatively stable increase of expenditures for health sector in line with the GDP growth is a result of the estimated effect of aging population and increased health care expenditures in line with the productivity growth.

As for the expenditures for education, it is envisaged for them to gradually increase as percentage of GDP from 5.2% in 2010 to 5.8% in 2050, regarding their significance for the economic growth.

3.5. Institutional features of public finances

The area of public finance in the Macedonian institutional and legal system is regulated with many acts. Main act that sets the general regulations on the fiscal sector is the Budget Law, while public finances are also regulated through the annual Budget of the Republic of Macedonia and the adopted decrees, rulebooks and other bylaws.

To the end of further harmonisation of the legislation in the field of budget operations with the EU regulations, modifications and amendments were proposed to the adopted Budget Law. Existing Budget Law is based on most of the main objectives and principles in budget management. However, what remains is the obligation to apply all principles on which the budgets of the EU Member States, i.e. candidate countries, are based. Therefore, proposed amendments and modifications to the Budget Law fully cover the objectives and the principles of a contemporary budget. Draft amendments and modifications to the Budget Law also define adequate terminology and set the procedures, under which the Budget Law becomes an instrument that enables multi-annual budgeting, i.e. consistent realisation of the development-aimed goal of the budget.

Defining of the provisions that regulate budget planning and execution is made in line with Council Regulation (EC, Euratom) no. 1605/2002 and Council Regulation (EC, Euratom) no. 1995/2006 on the Financial Regulation applicable to the general budget of the European Communities, providing the legal framework for application of basic principles when executing the budgets (thoroughness, singularity, budget equilibrium, economy, efficiency, effectiveness, transparency and sound financial management), i.e. the principles on which the budgets of the EU Member States and the candidate countries are

based. In line with the above-mentioned, this Law also proposes amendment to the contents of the Budget of the Republic of Macedonia, which comprises: general, special and development part. Development section of the budget presents medium-term plans for the budget users' programs intended for development-aimed investments approved by the Government of the Republic of Macedonia.

The proposed Law also introduces changes in the budget process, i.e. in the stages of preparation and harmonisation of the draft budget. Budget preparation process introduces a new stage - preparation of development program plans, representing medium-term review of the programs intended for development-aimed investments, prepared by the budget users at executive power level and the Funds. Budget users at executive power level, after having received the budget circular, prepare draft plan for development programs and submit it to the Government of the Republic of Macedonia. Government of the Republic of Macedonia decides upon the proposals for development program plans of the budget users at executive power level and the Funds, in line with its strategic priorities and prepares a list of approved development program plans, submitted to all budget users at executive power level and the Funds. Budget users at executive power level and the Funds submit the approved development program plan, as an integral part of their budget request, to the Ministry of Finance.

Novelty being introduced with the proposed amendments and modifications is also the procedure for negotiating/harmonising the budget request between the head of the budget user and the Ministry of Finance, as well as the obligation of the Minister of Finance to inform the Government of the Republic of Macedonia, when submitting the draft budget, on the disagreed budget requests.

In addition, Draft Law on Amendments and Modifications to the Budget Law, in the Budget Execution Section, introduces several essential changes to the existing provisions in the Budget Law, aimed at the necessary harmonisation with the European acquis, as well as detailed clarification and modification to the existing legal provisions. This section also contains modification to the Law, with a provision pursuant to which the Budget of the Republic of Macedonia is executed under a special law adopted by the Parliament of the Republic of Macedonia. The mentioned modification is actually a legal standardisation to the practice so far, i.e. for special law to be adopted for the execution of the Budget of the Republic of Macedonia. Provisions governing the functions of the Treasury contain modifications that extend the Treasury competence, aimed at creating legal basis for the following: debiting the account within the Treasury Ledger on the basis of contractual authorisations and in case of correction of an error by the treasury, liquidity management regarding the accounts within the Treasury Ledger, as well as stopping the execution of certain payments of the central government budget users and the spending units in case of detected undermining of the financial discipline and in conditions of deterioration in the projected liquidity in the treasury account. These modifications are carried out as a result of the observations made in the past practice since the establishment of the Treasury (2002), and they are aimed at enabling greater efficiency of the Treasury.

Regarding the submission of the budget final statements, there is an amendment so as to make more precise the existing legal provision in terms of regulating the obligation for submission of final statement of the Budget of the Republic of Macedonia to the Government of the Republic of Macedonia, having the report by the authorised state auditor on the audit carried out over the core budget as attachment. This is proposed due to the fact that the proposed legal provision is applicable only from the point of view of the scope and deadlines for performing an audit.

At the same time, when preparing the amendments and modifications to the Budget Law, recommendations by the State Audit Office have been taken into consideration so as to introduce more efficient procedures for management of budget funds.

At the end of 2009, amendments to the Budget Law were adopted, so as to harmonise the existing Law on Public Procurement regarding the provision of consents for multi-annual public procurement for projects included in the programs of the development section of the budget.

4. Structural Reform objectives

4.1. Enterprise sector

Industrial policy and strategy. Government of the Republic of Macedonia adopted the strategic document "Industrial Policy of the Republic of Macedonia 2009-2020 " with Action Plan. This document, prepared within the interministerial working group, business community, chambers of commerce, university and the National Entrepreneurship and Competitiveness Council is one of the key documents of integrated policy leading to increase of the economy competitiveness on the long run, based on knowledge and innovations, through clear establishment of generally accepted vision, good coordination among institutions, defining of key areas for intervention and specific measures.

Conduct of pro-active integrated industrial policy, aimed at increasing the competitiveness of economy will ensure coordination between measures and instruments and proposing of new measures, being under the competence of many ministries and institutions, leading to increase of productivity, research, development and innovations, strengthening of cooperation between enterprises and their connection in clusters, support for enterprises in the process of internationalisation, support and promotion of entrepreneurship, creation of attractive business climate for foreign investments, improvement of capacities and professionalism of employees, increased application of ICT and other measures and instruments , through which, priorities and goals defined in the national industrial policy are realised.

Pro-active industrial policy of the Republic of Macedonia is focuses on the concept for economic growth, supporting the encouragement of domestic industry for production of goods and services with higher value added, based on knowledge, innovations and mutual cooperation.

Industrial policy is based on development of possibilities for application research and industrial production of sustainable, organic and specialised high-technologic products and services for the needs of the international market. Within the industry sector structure, industries will be supported that will use domestic resources, produce in line with environment norms, create both new technology and their own design, with highly specialised labour force, contemporary management approach, through research and development.

Realisation of pro-active industrial policy will be focused on the following scope of activities:

1. Increasing applicable research, development and innovations by intensification of investments in research and development
2. Increasing international cooperation and internationalisation of key concerned parties in the economic development process (enterprises, universities and development institutions)
3. Promoting sustainable development by using the natural opportunities for production of renewable and alternative energy, as well as the natural environmental opportunities existing in the country.
4. Increasing competitiveness of Macedonian industry by stimulating cooperation through regional and international networking of clusters and other associations of small enterprises and
5. Advancing the development of SMEs and entrepreneurship with increased annual number of new enterprises and promotion of fast-growing innovative SMEs through better financing.

One of the proposed projects to end of improving the competitiveness and the export is also accepting the idea and supporting companies in active participation in clusters, understanding the advantage of associating and foundation of network of clusters. Activities related to initiating and supporting the clusters are intensified and coordinated by the Ministry of Economy, continuing to support both the initiatives for cluster organisation and the operations of the already established clusters. Today, there are 10 registered clusters and several new cluster-related initiatives. Starting 2009, realisaition of four-year programme for support and development of cluster association through appropriate measures commenced.

Government support that should be realised through public-private dialogue, will contribute to creation of new cluster-related initiatives, as well as self-maintenance of clusters, based on innovations.

In addition to the cluster projects, within the vertical aspect of industrial policy, several strategies for development of certain sectors are prepared (as textile, steel, tourism).

Within the Industry Department in the Ministry of Economy, Strategy for Development of Textile Industry and Action Plan for Revitalization of Textile Industry are prepared. This document should stimulate the development of textile industry in the coming period through its restructuring towards production of higher profit products, with own brand, slowly leaving the present low profit work based on Lohn system. Realisation of four-year Programme for Revitalization of Textile Industry started in 2009.

Within steel industry, National Strategy for Restructuring of Steel Industry is prepared and implemented, prepared as an obligation from Protocol 2 of SAA. Strategic objective of the National Strategy for Restructuring of Steel Industry is creation of conditions, where companies from steel industry can reach maximum profitability and reduce the costs, for which individual business plans were prepared by each company. Individual plans are implemented and aimed at improving operations of companies. Three bulletins for steel were published, and publication of the fourth bulletin for steel, including complete information and data on trends in steel industry is also envisaged.

Privatisation Economic activities in the country are based on dominant private ownership with overall functioning of market economy on the principles of free interaction between supply and demand. Further privatisation process includes the privatisations of inessential constituents of public enterprises and sale of previously unsold shares of the state or of the Pension and Disability Insurance Fund. Regarding the process of transformation of JP Makedonski zeleznici (PE Macedonian Railways) from the two enterprises selected as inessential activities, one was sold (Repair of railway lines and civil engineering DOOEL – Skopje) and as for the other enterprise, Factory for Rail Vehicles DOOEL- Veles, procedure for sale of state capital continues. Restructuring of JP Makedonski zeleznici was also implemented by division into two new enterprises, such as: Public enterprise for railway infrastructure Makedonski zeleznici – Skopje and Joint Stock Company for transport Makedonski zeleznici Transport AD – Skopje (state-owned). Within the activities for privatisation of the four large companies: EMO AD Ohrid, OHIS AD Skopje, Tutunski kombinat AD Prilep and Eurokompozit AD Prilep, procedure for transformation of the claims towards the state in equity in these enterprises (pursuant to specific Law) is on going, as well as preparation of detailed analyses by consultants, who will also actively participate in the phase of sale of both the Pension and Disability Insurance Fund capital and the state capital.

Entrepreneurship of Small- and Medium-Sized Enterprises Small- and Medium-Sized Enterprises (SMEs) are a dominant type of enterprise in the Macedonian economy. Achieved progress was a result of the activities envisaged in National Strategy for SMEs Development in the Republic of Macedonia 2002-2013, 2007-2010 Programme for Development of Entrepreneurship, Competitiveness and Innovation of Small- and Medium-Sized Enterprises, as well as in the annual programmes.

Support of development of SMEs sector in 2008 and 2009 was focused towards more efficient operations of enterprises and support for strengthening the competitiveness and innovation by:

- financing the activities of the Agency for Promotion of Entrepreneurship of the Republic of Macedonia (APPRM) and
- Co-financing the establishment of 12 new business centers in municipalities not having institutions for support of SMEs, programme activities of business incubators (3 new business incubators were also opened in addition to the existing 7), projects of non-financial nature of regional centers, activities of EIICM and HRDF and the Forum for SMEs and Observatory for SMEs.

In 2008, implementation of the third phase of the Human Resources Development Fund for Enterprises was completed, the implementation of which started in January 2007. Many types of workshops and trainings were realised, by which, total of around 300 managers from 100 Macedonian companies were included in the implementation of this Project. 5 Manager Clubs were established through the Fund, promoting the best practice and exchange of experience between the managers, as an integral part of the activities of the groups for exchange of experience (Manager Club) and improving the services of consultants through their training and specialisation.

Realisation of Voucher System of Counseling and Info Pult, Projects of APPRM continued, and many events were organised for promoting the entrepreneurship and entrepreneurial learning, alternative manners of financing, raising the awareness of ICT, introduction of quality standards, research and innovative connection, international scientific cooperation and raising the awareness of intellectual property rights.

In addition to that, working group for determining the annual needs for trainings of SMEs, the coordinator of which is the Ministry of Economy was established. This working group prepared Questionnaire and Methodology, on the basis of which, 500 enterprises will be surveyed for the purpose of preparing report for the needs for trainings of SMEs.

The Ministers of Education and Science and of Economy signed Declaration for Promotion of the Entrepreneurial Learning for joint promotion and strengthening of the entrepreneurial learning in the Republic of Macedonia.

Entrepreneurship in the Higher Education Project (ETF-European Training Foundation) and the Capacity Building Project for creating knowledge-based economy (Austria Development Foundation) are under realisation.

Internet portal for SMEs is under preparation and it will be activated at the end of the year.

Medium-term goals 2010-2012 In 2010, new 4-year programme will be prepared and it will define the measures and the activities for support of SMEs and development of entrepreneurship, competitiveness and innovation for the period 2011-2014, as well as Strategy for Craftsmanship in the Republic of Macedonia. In addition, the implementation of the "International Technical Assistance Project for Implementation of the European Innovation Scoreboard in the Republic of Macedonia" Project will start. In 2010, activities determined under the annual programme will continue. In the period 2011-2012, activities will be generally aimed at strengthening the institutional infrastructure, improving the business environment and improving the competitiveness and the innovation. Specific measures for realisation of these goals will be defined in the new 4-year programme, which should be based on the principles of the Small Business Act.

Tourism and catering industry Tourism and catering industry are significant economy branch for economic growth, foreign currency inflow and employment.

Number of employees in the field of tourism and catering industry in relation to the number of employees in 2008 did not change, however, by 2010 it is expected for total employment in the field of hotel trade to increase by 33.3%, while by 50% in travel agencies, under the assumption that the trend of average annual increase by 20% for all indicators will continue and that policy of sustainable tourism development will be conducted.

Table 4.1. Number of employees in tourism and catering industry/total number of employees in the economy (%)

	2006	2007	2008	2010 (estimate)
Hotels and restaurants	3.1	3.2	3.2	4.0
Travel agencies and tour-operators activity	0.2	0.2	0.2	0.3

Source: State Statistical Office

Table 4.2. Foreign currency inflow, dollars

	2006	2007	2008	2010 (estimate)
Tourism, net	58,450,000	84,250,000	92,150,000	120,000,000
Inflow	129,170,000	185,840,000	228,460,000	260,000,000
Outflow	70,720,000	101,600,000	136,310,000	140,000,000

Source: NBRM

Tourism and catering industry in the last three years contributed to positive balance in the payment operations, thus tourism is significant export branch in the improvement of foreign currency inflow of the Republic of Macedonia. In 2008, total foreign currency inflow on the basis of tourism increased by

22%, while net inflow surged by 9.4%. Projections are that foreign currency inflow in 2010 will increase by 30%, while net inflow will increase by 15%.

In 2008, process of adoption of medium-term National Strategy for Tourism Development 2009-2013 started and it will set the main parameters and action plans for tourism development of the country during five-year period, including vision for development of tourism and catering industry for 20 years. It will be adopted by the Government of the Republic of Macedonia in 2010.

Republic of Macedonia, through annual tourism development programmes and in line with the changes of the global tourist market, defines the following strategic tasks for development of tourism and catering industry:

- Increase of accommodation capacities and tourist infrastructure;
- Improvement of the quality of services;
- Intensified promotion of the Republic of Macedonia as recognizable tourist destination;
- Institutional creation of Agency for Promotion and Support of Tourism in the Republic of Macedonia;
- Implementation of the National Tourism Development Strategy, being under preparation
- Principles for sustainable development;
- Protection of natural and tourist environment;
- Improvement of the shape of selected tourist locations and
- Development of new types of tourist products:
 - development of rural tourism
 - development of cultural tourism
 - development of health tourism
 - development of conference tourism.

4.2. Financial sector

4.2.1. Banking system

Background. As of 30th June 2009, banking system of the Republic of Macedonia consisted of 18 banks and 11 savings houses¹¹ (role of the savings houses is insignificant). The three largest banks hold approximately two thirds of the market in terms of total assets, deposits and loans.

Foreign capital accounted for 73.5% in the total share capital of banks (compared to 74.3% as of 31st December 2008). Fourteen banks are dominantly owned by foreign shareholders whereas their in total assets and total capital at banking system level reached 93.2% and 85.1%, respectively. Thereby, the largest part of the assets of the banking system remained concentrated with the banks with dominant owners from the EU Member States.

In the first half of 2009, level and dynamics of financial intermediation of the banking system in the Republic of Macedonia was affected by the drop of the domestic economic activity and the still present uncertainty for the effects of the global economic crisis. In such circumstances, the trend of contraction of banks' deposit activity and overall activities, as well as banks' decelerated credit activity continued, affecting the level of financial intermediation. At the end of June 2009, level of financial intermediation from a viewpoint of total assets and deposit activity equalled 62.3% and 44.3% of GDP, respectively, which compared to 31st December 2008, decreased by 0.6 percentage points and 1.1 percentage

¹¹ In August 2009, the governor revoked the working license of one saving house and liquidation procedure was initiated.

points, respectively. Financial intermediation, measured through the total credits to GDP ratio, still registered an upward trend, reaching 42.8% on 30th June 2009 (being a rise of 0.7 percentage points relative to end-2008).

In the first half of 2009, narrowing of activities of the banking system, commenced in the last quarter of 2008, continued. Semi-annual growth rate of banks' assets (June 2009/December 2008) was negative (-0.9%), thus the annual growth rate dropped to 3.0%, unlike the two-digit growth rates registered in the past periods.

Main reason for narrowing banking system activities was the downward trend of the deposit core in the first half of 2009. Namely deposits went down by 0.1 annually. Despite such dynamics, deposits of non-financial entities remained dominant source of funds. Additionally, currency transformation of deposits (which started in the second half of 2008) continued, in favour of the deposits with an FX component, with vivid downward trend in the Denar deposits. On 30th June 2009, 54.8% of the deposit base was in foreign currency, while 45.2% was in Denars. From a viewpoint of the structure by sector, household deposits are still dominant with 64.1%. Regarding the maturity structure, 89.7% of total deposits were with maturity up to one year.

Despite the narrowing of all activities, credits extended by banks continued to grow, however at a significantly slower pace compared to the previous periods. On the 30th of June 2009, semi-annual growth rate equalled 1.7%. Despite such dynamics, annual growth rate of credits to non-financial entities equalled 14.4%. In conditions of contraction of collected deposits, increase of credit activity was to a large extent supported by structural transformation of assets (expressed through lower placement of funds in securities, at the expense of rise of the placements in domestic economy and through rise in placements in foreign banks).

In the first half of 2009, indicators of banks' credit portfolio quality deteriorated, while non-performing loans went up more rapidly. On one hand, such deterioration was a result of decelerated growth of credit exposure, which started at the end of 2007. On the other hand, it was a result of the so-called "maturing" of credit portfolio acquired in more relaxed terms of lending, common for the past period of credit expansion. Additionally, when assessing credit risk, start of the application of Credit Risk Management Decision should be taken into account. The Decision includes changes in the manner and the criteria of credit exposure classification, as well as changes in assessing the amount of the credit risk impairment and special reserves. On 30th June 2009, share of the exposure classified in risk categories C, D and E in the total credit exposure at the banking system level equalled 7.6%, which is by 1.2 percentage points higher relative to end-2008. On the other hand, credit risk provisions set aside (impairment) accounted for high 84.4% of the exposure classified in risk categories C, D and E (91.2% on 31st December 2008).

In the first half of 2009, indirect credit risk (derived from embedded foreign exchange clause and clause for so called "adjustable" interest rates¹²) in credit relations with clients remained as an important element in the overall risk profile of the banks in the Republic of Macedonia. Thus, the foreign exchange component accounted for 59.7% of the total credit exposure to enterprises and other clients and 36.5% within credit exposure to natural persons. At the same time, share of adjustable interest rates equalled 80.8% within credits to non-financial legal entities and 88.0% within credits to households.

At the end of the first half of 2009, downward trend of liquid assets, characteristic for the past year and a half, showed certain slowdown. This situation, on one hand, was prudent response by the banks to the worsened domestic economic environment and increased risks in their operations. In addition, banks' obligation to comply with the new Liquidity Risk Management Decision had certain influence.

Despite the present turbulences in the real sector, changes in currency preferences of depositors and contraction of deposit core, banks in the Republic of Macedonia had sufficient assets available to cover the due liabilities. Deposit contraction did not significantly influence the structure of the sources of funds, and deposits remained to be dominant source of financing. According to banks' expectations and

12 Adjustable interest rates are considered those interest rates that can be changed with the decision of the banks' management bodies.

empirical analysis, level of stable deposits increased by 4.5 percentage points relative to end-2008, reaching 88.8% at end-June 2009. Sight deposits continued to demonstrate high stability.

Indicators of banking sector profitability deteriorated, i.e. as of 30th June 2009, ROA was 0.5%, while ROE was 4.3%, where at end-June 2008, they equalled 2.2% and 19.1%, respectively. In addition, cost to income ratio increased from 57.3% (on 30th June 2008) to 69.2% on 30th June 2009.

Banks have sufficient capital available to cover operating risks. They have high solvent position. On 30th June 2009, capital adequacy ratio was 16.4%, being twice higher than the legally prescribed minimum of 8%.

NBRM continued to conduct stress-tests on quarterly basis, analysing various scenarios. Stress-tests include individual and combinations of several hypothetical adverse shocks. Assumed shocks include deterioration in credit portfolio quality, hypothetical withdrawal of deposits, change in interest rates, foreign exchange rate, etc. Findings show that Macedonian banking system is relatively stable and resistant to various shocks.

Legal framework.

The set of the new prudential regulation provides high level of application of revised Basel Core principles, as well as adoption of international best practice and supervisory standards.

In 2008, the following bylaws were adopted:

1. Decision on managing interest rate risk in the banking book, which sets forth minimum elements of the system for managing interest rate risk in the banking book and the manner of determining the change in the economic value of the banking book. If the identified change in the economic value of the banking book is equal to or exceeds 20% of the own funds, the bank will be obliged to submit draft measures for decreasing this proportion to NBRM. This Decision will be applied from 1st July 2010.
2. Decision on the Contents and the Manner of Functioning of the Credit Registry and corresponding Guidelines, which defines the legal framework of the improved Credit Registry. This Registry contains data and information on credit exposure of banks and saving houses in the Republic of Macedonia to legal entities and natural persons. Improvement of the Credit Registry contributes to the following: extending the type and the scope of data it keeps, reducing the reported individual exposure threshold, shortening the deadlines for submission and processing of data, transfer to reporting on monthly basis and improving the reporting forms of the registry.
3. Decision on Managing Banks' Liquidity and the Guidelines, that adds to strengthening of the principles for liquidity risk management system and prescribes the methodology for maintaining the minimum liquidity level by the banks. Banks are required to follow two sets of liquidity ratios that encompass the necessary liquidity level up to 30 days and up to 180 days. Adoption of this Decision is part of NBRM measures aimed at limiting the adverse influence of the latest developments on the international markets and the current liquidity problems in the banking systems of the countries from West Europe.
4. Decision on Modifications and Amendments to the Decision on Methodology for Determining Capital Adequacy and Guidelines on modifications and amendments to the Guidelines on implementing the Decision on Determining Capital Adequacy, introducing new higher risk weight for the banks' claims on natural persons occurred on the basis of overdrafts and credit card loans. Purpose of such a measure of NBRM is to limit the size of credit risk, arising from credit products extended to households, to an acceptable level.
5. Decision on Modifications and Amendments to the Decision Bank's Information System Security, provided additional criteria, which contributed for reducing the risk of banks' exposure, in the state of globalisation of financial services, when concluding an agreement for utilisation of these services from outsourcing companies, the main office of which is situated in other countries.

In the period January-September 2009, NBRM adopted the following regulation:

1. modifications and amendments to the Decision on Methodology for Determining Capital Adequacy and the respective Guidelines, introducing the capital requirement for operational risk, according to the Basel II Methodology (simple approaches). Banks may choose between two approaches for determining the capital requirement for operational risk: basic indicator approach and standardised approach. This regulation will be applied from end-2011.
2. modifications and amendments to the Decision on Liquidity Risk Management and the respective Guidelines, allowing the banks to include their placements in monetary policy instruments (except for foreign currency reserve requirement), regardless of their currency, when calculating the minimum liquidity indicator either in denars or in foreign currency.
3. Decision on the Manner and the Procedure for Implementation and Application of Bank's Program for Prevention of Money Laundering and Financing Terrorism. The Decision prescribes the minimum elements to be covered with the bank's program for preventing money laundering and financing terrorism.

In July 2009 Law on Modifications and Amendments to the Banking Law was adopted, according to which, when bankruptcy procedure of a bank is initiated, claims of legal entities and physical entities on the basis of deposits are treated as declared claims from the day of initiating the bankruptcy procedure.

Planned activities. During 2010, Law on Modifications and Amendments to the Banking Law will be prepared with a main objective to overcome the legal gap created with the abolishment of several provisions of the Banking Law with decisions of the Constitutional Court of the Republic of Macedonia.

During 2010, Law on Financial Companies will be prepared in order to complete the regulatory framework that applies to non-banking financial institutions in the Republic of Macedonia. Pursuant to the new Law on Financial Companies, during 2010, Law on Modifications and Amendments to the Law on Consumer Protection in Consumer Credit Contracts will also be prepared.

To the end of further harmonisation of the EU acquis, during 2010, Law on Modifications and Amendments to the Law on Deposit Insurance Fund will be prepared. The Law will provide the possibility for deposits of legal entities to be included in the Deposit Insurance Fund, in case of a risk event, being in full compliance with Directive 19/1994/EC on deposit-guarantee schemes.

In the course of 2010, Law on Distance Marketing of Consumer Financial Services is considered to be prepared. The Law will provide an opportunity for distance marketing of consumer financial services, including consumer protection and compliance with Directive 65/2002/EC concerning the distance marketing of consumer financial services.

During 2010, new Law on National Bank of Republic of Macedonia will be adopted. The Law will provide for greater independence of NBRM and better compliance of NBRM operations with the ECB Statute and the Treaty establishing the European Union.

In 2011, Law on Financial Conglomerates is planned to be prepared. Main objective of the Law is to establish rules for exercising supplementary supervision of banks, insurance companies, reinsurance companies, brokerage houses and investment fund management companies, when they are part of a financial conglomerate, as well as harmonisation with the EU acquis, i.e. Directive 87/2002/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

During 2012, Law on Modifications and Amendments to the Banking Law is planned to be prepared to the end of further harmonisation with the banking Directive 48/2006/EC (related to the taking up and pursuit of the business of credit institutions) in the area of cross-border provision of services.

Activities related to Introduction of New Capital Accord - Basel 2

Having in mind the features of the banking system in the Republic of Macedonia, the complexity of the activities the banks perform and the risks they are exposed to while operating, NBRM adopted plan for gradual application of the new Basle Capital Accord (BASEL II) with the following time frame:

- Application of Pillar 1 - Minimum capital requirements:
 - In 2009 an analysis has been made so to measure the effects related to the implementation of the Standardised Approach when determining the required capital to cover credit risk, to the end of assessing the scope and the extent of the implementation of this approach, while taking into consideration the characteristics of the banking sector and the market conditions in the country. In addition, this analysis incorporates the Basel II changes that came out in July 2009, as well as the draft changes to EU Directive 2006/48 for foundation and operation of the credit institutions;
 - Regulations for determining the required capital to cover credit risk according to the Standardised Approach are expected to be completed by the end of 2010 .
- Application of Pillar 2 - Supervisory review
Activities already commenced, by the establishment of new methodology for risk-based supervision, new framework defining the principles for risk management in banks, as well as requirement to establish an internal process for capital adequacy assessment. Banking Law sets a requirement for a bank to increase its own funds, i.e. requirement for a bank to reach and to maintain certain capital adequacy level above the regulatory minimum, according to the scope and complexity of its activities;
- Application of Pillar 3 - Market Discipline.
By adopting the Decision on Reports and Data Disclosure by a bank. This Decision determines the data and the reports the banks are obliged to disclose on a regular basis, and which pertain to: bank's operations, bank's shareholders' structure, amount of the own funds and capital adequacy and risk management systems and processes. The Decision fully entered into force on 1st January 2009 (partial implementation of the decision started on 31st December 2007).
- Regarding the advanced approaches for determining the level of capital requirement for covering both, credit and operational risk, Internal Ratings-based approach and the Advanced Measurement Approach, NBRM finds that there are no preconditions in the banking system of the Republic of Macedonia for their prescribing and implementation yet. Hence, having in mind the requirements for harmonisation of national regulations with EU Directives, in particular to these advanced approaches, will be incorporated in the Macedonian banking regulations, but not sooner than 2013.

Banking Supervision. The activities related to implementation of Risk-Based Supervision Plan continued. Training of supervisors in the field of risk management, within the Dutch grant, continued by the end of 2009.

In June 2009, after a consultant was selected, activities for establishing document management system in the Division of Supervision, Banking Regulations and Financial Stability followed. This Project should be completed by February 2010.

Planned activities. Within the activities to supplement regulatory framework with additional segments of the New Capital Accord (Basel 2), activities were commenced in 2009 for gradual regulation of the elements in the first pillar of the New Capital Accord so as to determine required capital to cover credit risk (Standardised Approach). Future (medium-term) challenges will be application of simple approaches to determine required capital to cover credit and operational risk, as well as regulation of advanced approaches.

By January 2010, Procedures for Transfer of Assets and Liabilities from a Bank in Administration into Another Bank, as well as Procedures for Carrying Out Sale of Assets of Bank in Administration will be prepared, providing for greater uniformity and transparency when applying these procedures.

Training of supervisors continues on permanent basis. In February 2010, it is expected to train supervisors from the respective supervisory bodies in the Western Balkans and Turkey, as a segment of the Project initiated by EU, aimed at overcoming consequences from the financial crisis and preventing similar crisis events. This Project should be realised in the next two years.

4.2.2 Non-banking sector

Capital Market

Background Total of 26 authorised participants, operating with securities, 19 out of which are brokerage houses and 7 are banks, are registered on the capital market in the Republic of Macedonia. Within SEC Registry, total of 48 investment advisers, who have obtained license for operating with securities from SEC are registered, but at the moment, the investment advice companies are not yet operating on the capital market. As of 30th September 2009 inclusive, 36 companies were listed on the Macedonian Stock Exchange. Shares issued by listed joint-stock companies, bonds issued by the Republic of Macedonia (8 issues of denationalisation bonds and old foreign currency saving bonds) and corporate bonds are traded on the stock exchange.

In the first nine months of 2009, total turnover realised on the Macedonian Stock Exchange amounted to around Denar 5.25 billion, and compared to the same period in 2008, it dropped by 41.6%. Turnover with shares decreased by 60.8% compared to the same period in 2008, while trading in bonds issued by the Republic of Macedonia, increased by 47.4%. Such increase of trading in bonds indicates the shift of demand from shares to bonds, as more secure financial instrument.

Latest developments on the Macedonian Stock Exchange show stabilisation of the situation as a result of stabilisation of the situation on the financial markets in global terms. Thus, following the strong decline of the Macedonian Stock Exchange index (MSEI-10) in 2008 of almost 73%, in 2009 it already stabilised. In September 2009, MSEI-10 was 3,101.88 index points, and compared to September 2008, slower decline of 30% was observed. In September 2009, share of foreign investors in the turnover realised when purchasing on the Macedonian Stock Exchange accounted for 6.93%, and their share in the turnover realised when selling on the Macedonian Stock Exchange accounted for 12.04%. Favourable developments on the capital market can be expected as investors (especially foreign ones) confidence is gradually regained and global liquidity improved, depending on the exit of developed economies from the crisis.

There are five investment fund management companies on the capital market in the Republic of Macedonia, managing eight open-end investment funds. In addition, Securities and Exchange Commission has registered 14 private investment funds managed by 9 private investment fund management companies. Total funds collected by the open-end investment funds amounted to 140.94 million, while foreign investors participate with 45.71% in the total collected funds. Establishment of investment funds in the Republic of Macedonia is of great importance for further incentive and dynamic development of the capital market in Macedonia, as well as for the national economy as a whole.

Legal framework. Basic law regulating the capital market is the Securities Law, to a great extent harmonised with the EU Directives. Other laws regulating the capital market are the following: Law on Investment Funds, Law on Takeover of Joint Stock Companies, as well as bylaws arising therefrom. In January 2009, new Law on Investment Funds was adopted. Law on Investment Fund is to a great extent harmonised with the EU Directives governing the operations of the undertakings for collective investment and establishment and management of assets of investment funds (Directives: 31985L0611, 32001L0107, 32001L0108, and in some parts it is also harmonised with the Directives: 32000L0064, 32004L0039 and 32007L0044).

Planned activities. Starting October 2008, activities were commenced aimed at amending the Securities Law, to the end of further harmonisation with the EU Directives. Main amendments to the Law are aimed at harmonisation of the national regulation regarding the establishment of investor compensation scheme and Guarantee Fund in case of unsettled transactions on the Stock Exchange, as well as introducing the concept of acquiring qualified holding in brokerage house, stock exchange and

securities depository. Draft Law on Modifications and Amendments to the Securities Law is expected to be adopted in 2010.

Ministry of Finance applied for a Project for the Securities Law within IPA 2010. Purpose of the project is using consulting assistance in preparing new Securities Law, having in mind that it is a matter of a complex issue and the Law needs to be harmonised with more EU Directives in the field of capital market. If the Project is approved, its realisation will commence after 2012, following the signing of Technical Assistance Agreement.

Harmonisation of the national legislation in the field of capital market with the EU acquis and IOSCO principles will continue in future as well.

Insurance

Background. Insurance market in the Republic of Macedonia experiences continuous upward trend and development, both in terms of increase in the number of active entities, as well as improving the quality of insurance products and distribution channels. Total share capital by foreign legal entities accounted for 80.6%, 0.2% was owned by foreign natural persons, 8% by domestic legal entities, 8.9% by domestic physical entity and 3.6% by the state.

Entrance of foreign capital in the insurance sector contributed to certain strengthening of competition in this segment of the financial system and expanding the offer of insurance products and services. Capitalisation of insurance undertakings contributed to further improvement of their solvent position.

In the period 1st January 2009 – 30th September 2009, there was 5.4% decline of gross written premium, which accounted for Denar 4.4 billion, (mainly due to the decision of the Government to reduce the technical rate of motor TPL insurance premium). Non-life insurance premium share in the total premium volume was 95.8% while life assurance accounted for 4.2%. Life assurance premium grew by 7% as compared to the same period in 2008. In this period, there was no significant change in terms of the structure of insurance services, and 61.6% from the premium was written in motor insurance (casco and liability), 16.5% property insurance, 10.5% casualty insurance.

Pursuant to the Insurance Supervision Law, the Agency should be established as independent regulatory body, with public authorisations. Within its authorisations and competences, the Agency should ensure legal and efficient functioning of the insurance market and protection of policyholders' rights. Agency has the following competences: supervising insurance entities, granting licences and consents, adopting bylaws, promoting and developing insurance market.

In August 2009, Council of Experts was elected. The Council comprises president and 4 members. Afterwards, the Council adopted the Statute and other internal acts. On 1st of November 2009, the Agency effectively started with its activities.

Planned activities.

One of the main priorities of the Ministry of finance is to create efficient legal framework for further adjustment with the EU acquis.

Leasing

Background. There are 8 leasing companies, actively operating on the financial leasing market in the Republic of Macedonia, the number of which remained unchanged compared to end-2008. In August 2009, Ministry of Finance issued license for performing financial leasing activities to three new companies, expected to begin performing financial leasing within the legally foreseen period of three months, whereupon 11 companies will actively operate on the market.

During the first six months of 2009, regardless of the slowdown of the global economy, leasing companies continued their activity with intensity similar to the one in the past years. 1,094 new contracts were concluded in the first half of 2009 in the total amount of Denar 1,105 million, whereupon despite the almost even number of contracts concluded with legal entities relative to the number of contracts concluded with natural persons, legal entities had dominant share (65%) in the total value of new contracts.

During the first half of 2009, all financing through leasing was related to movables. Average interest rate of newly concluded leasing contracts is 10.54%. Value of total assets of leasing companies for the first half of 2009 amounted to Denar 8,720 million (EUR 142 million), being an increase by 2.29% compared to the value of total assets at the end of 2008.

Ownership structure of the leasing sector in the first six months of 2009 remained unchanged compared to 2008, featured by large domination of foreign capital of about 97%. Most of this capital, i.e. 69%, is owned by foreign financial institutions, while the remainder is owned by foreign non-financial legal entities (27.8%) and natural persons (0.2%). Domestic natural persons also hold 0.2% of the total capital, while domestic non-financial legal entities hold around 2.8%.

Legal framework. Law on Leasing was adopted in 2002 and it was modified and amended several times. The Law regulates the manner and the conditions for conducting leasing on movables and real estate, as well as the rights and the obligations of the parties to the leasing contract. Pursuant to the Law, lessors are domestic and foreign companies, having established subsidiary in the Republic of Macedonia, pursuant to the Company Law. Ministry of Finance issues license for performing financial leasing activities. Procedure for obtaining license is relatively simple. Financial leasing contracts, in economic terms, have the same purpose as well as the credit contracts, and consequently the Law on Consumer Protection in consumer credit contracts is also applied to the financial leasing contracts concluded with natural persons.

Planned activities. Continuous monitoring of the regulations in the area of financial leasing to the end of its improvement, which will contribute to further development of the leasing industry.

4.3. Labour market

4.3.1. Current developments on the labour market

Economic activity of population over 15 years (ILO definition)¹³ in the second quarter of 2009 was 57%, which represents an increase of 0.8 p.p. compared to the same quarter of the previous year. Despite the fall in production in the Republic of Macedonia, the employment rate in the second quarter increased to 38.8%, an increase of 1.1 p.p. compared to the same quarter last year. During this period, the number of employees increased by 29,031 persons, representing growth of 4.8%.

On a net basis, the jobs were created by the private sector, where the number of employees increased by 6.9%, while there was a decline in employment of 0.8% in the rest of the economy. Analyzed by economic status of employees, considerable growth can be seen in the number of workers (the so-called employed at an employer) of 7.9%. This increase in the number of workers can partly be explained by the measures undertaken by the Government for formalizing businesses and reducing the informal economy. It is partly a result of the introduction of the gross wage concept, which contributed to reduction of the tax burden per employee on the one hand, and also through the introduction of an integrated collection of social contributions and harmonization of databases, which reduced the opportunities for manipulation or avoidance of the registration of workers.

When analyzing by economic sector, the highest employment growth in the second quarter of 2009 on an annual basis was recorded in the services sector (11.5%). The biggest drop in employment (5.2%) is observed in the primary sector, while in the industry sector the reduction of employment is insignificant (only 0.3%). The reduction in employment in agriculture is followed by growth in output, which indicates high growth in productivity (8.4%). Specifically, productivity in agriculture is the highest compared with other sectors. The average growth of productivity in the economy stood at -5.9%.

Analyzed by age categories, the number of employees/employment rate grew in the primary age group (25-49 years) for 2.4% and amounts 56.5%. The youngest age group had insignificant growth in employment of 0.5%, where the employment rate reached 16.1%. The low employment rate among

¹³ According to ILO definition, population at the age of 15-80 years is considered to be working-able population. According to Eurostat, however, population aged 15-64 is considered working-able.

young people underlines the disadvantaged position of these persons in the labor market, as they can hardly find first job and therefore are often reluctant to continue their education.

On the other hand, growth in the number of employees is highest among persons with higher education (12.2%), among people with secondary education growth is 5.4%, while among those with primary education or less, a decline in employment of 1.3% is registered.

The unemployment rate reached the lowest level since 2003, amounting 31.9% in the second quarter of 2009, a decline of 1.9 p.p. compared to the same quarter the previous year. The number of unemployed was lower by 4.1%. By level of education, persons with primary and lower level of education have the highest unemployment rate (38.9%), which is lower by 1.6 p.p. compared to the second quarter of 2008. There is a drop in the unemployment rate for persons with secondary (high school) education by 2.4 p.p., stating 30.9%, while for persons with higher education, the unemployment rate rose by 0.5 p.p., to 22.9%.

The reduction of unemployment rate is partly explained by the reduction of informal economy, or the process of incorporating in the system of those workers who have worked so far, but have not been registered. On the other hand, although the number of employees is reduced in the sectors directly affected by the economic crisis, other sectors register an increase of the number of employees.

4.3.2. Educational Reforms

Primary education.

Towards the provision of quality the educational and teaching process, the Law on Amending the Law on State Educational Inspection, the Law on Amendments and Modifications to the Law on Bureau for Development of Education, and the Law on Amendments and Modifications to the Law on Vocational Education and Training were adopted in 2009.

Adoption of the Law on Amending the Law on State Exam Centre will delegate the competences necessary to be implemented by the State Exam Centre, regarding the realisation of the whole process of external evaluation of achievements of pupils and professors from primary and secondary schools.

Amendments to the Law on State Educational Inspection will enable the implementation of an integral evaluation which will be carried out every third year under the competence of the State Educational Inspectorate.

Starting from 2009/2010 school year the Law on Textbooks for Primary and Secondary Education, enabled free textbooks to be allocated for all pupils in primary and secondary schools in the Republic of Macedonia, which previously were allocated only to children from socially vulnerable families.

Secondary education. In 2008/2009 school year, compulsory secondary education was introduced, and thereby, provision of equal regional development in secondary schools started, by providing adequate equipment for carrying out the lessons in schools.

Vocational education and training. Vocational Education and Training Centre in line with the labour market annual analyses, was focused on preparing vocational standards, teaching and examination programmes for certain deficient vocations.

The Vocational Education and Training Centre in collaboration with the British Council and foreign experts during the first half of 2009, has set a Methodology for preparation of standards which form the basis for preparing the standards of vocations. During the 2010-2012 the IPA enables for several projects to be implemented which aim to: promotion of vocational education through establishment of standards for professional qualifications in the biennial and triennial secondary vocational education, reform of the curriculum for biennial and triennial secondary vocational education and training for implementation of the reformed curriculum for biennial and triennial vocational education.

Adult education. As for the adult education during 2008, the Government of the Republic of Macedonia reached decision for establishing Adult Education Center, and Law on Workers Universities is under preparation. This Law will regulate the competences of these universities in realising primary education

for adults, acquiring first level of qualifications, as well as providing informal education. As for the informal education, activities were also undertaken by the Lifelong Learning Project under Cards Programme, whereby, during 2009, working group was established, preparing modular packages for acquiring literacy and certain degree of qualifications, which will include around 200 people from rural areas and vulnerable groups.

Within the IPA during the 2010-2012, through implementation of appropriate projects, funds will be used for strengthening the capacities of the Adult Education Centre, developing programs for adult education and developing programs for literacy and completion of primary education of socially vulnerable groups.

National Agency for European Educational Programme and Mobility. The National Agency for European Educational Programme and Mobility, Skopje, since its establishment adopted Statute, Rulebook for Systematisation of Working Posts of the National Agency, Employers Union Agreement and Rulebook for Organisation of the National Agency. Besides the Employers Union Agreement the other acts were revised in line with the directions given by the European Commission –Directorate General of Education and Culture as well.

In line with the Guidelines for National Agencies adopted by the European Commission and the other acts of the European Commission, governing the implementation of programmes “Lifelong Learning” and “Youth in Action”, the National Agency, has already prepared the final version of the following: Rulebook on the Organisation of Operations of National Agency, Rulebook on the Implementation of Public Procurement, Rulebook on the Description of Working Places, Rulebook on the Manner of Implementation of Lifelong Learning Programme, Rulebook on the Manner of Implementation of Youth in Action Programme and Guidelines for Applicants intended for both programmes.

Higher education. Regarding the higher education, Republic of Macedonia, through the Lifelong Learning Project under CARDS Programme and the TEMPUS Project for Higher Education and in order to ensure the mobility of the students as well as the labour market mobility, works on preparation of National Qualifications Framework in line with the European Qualifications Framework in the light of lifelong learning. Adoption of National Qualifications Framework will facilitate the mobility of labour force on the labour market within and outside the borders of the Republic of Macedonia.

In the Republic of Macedonia, towards ensuring greater availability of citizens to high -education institutions, and for the purpose of reducing unemployment rate and creating staff in line with the labour market needs, new universities were established and many dispersed studies were opened within the already existing universities.

Ministry of Education and Science will be responsible for adoption and implementation of the Law on Recognition of Professional Qualifications in line with the European Directive 36/2005/EC. Recognition of professional qualifications is closely related to the recognition of the general qualifications of the National Qualifications Framework, as well as the process of valuating completed adequate education.

In 2009, University for Information Technologies in Ohrid was established, while within the State University “St. Kliment Ohridski” – Bitola, new Faculty of Veterinary Medicine and Technological-Technical Faculty, as well as Faculty of Law in Kicevo with dispersed studies in Bitola.

In 2009, the Accreditation Board accredited 9 new faculties, 3 new private universities and 130 New Accredited Study Programmes.

Planned reform activities in the field of education:

1. Training for employment of adults having incomplete education for first degree of professional qualifications;
2. Retraining and qualification of employees and adults and
3. Acquiring literacy and first degree of professional qualifications for persons in custody in the penal- correctional institutions in the Republic of Macedonia;

4.3.3. Reforms for advancement of labour market functioning in the Republic of Macedonia

Main goal of the employment policy in the Republic of Macedonia is to further advance the labour market functioning and better match of labour force supply and demand. Thereby, the policy is mainly focused on the three elements:

- Further improvement of legislation and its enforcement;
- Strengthening the capacity of labour market institutions and
- Implementing active labour market measures, affecting the knowledge and qualifications of the labour force or subsidising the employment of vulnerable groups of population.

At the beginning of 2009, the Government of the Republic of Macedonia adopted the National Action Plan for Employment 2009-2010. This document was prepared under CARDS Project "Employment Policy – Third Phase, in line with the new EU Integrated Guidelines for Growth and Jobs. National Action Plan for Employment 2009-2010 includes the main challenges of the labour market, as well as the planned programmes, projects and activities that will enable realisation of the goals included in the National Employment Strategy 2010, Programme on Government Operations of the Republic of Macedonia and other strategic documents. In addition, the Government of the Republic of Macedonia established body composed of representatives from the institutions, being involved in the preparation of National Action Plan for Employment, to the end of ensuring continuity in the preparation of employment policies and measures, evaluation of employment policies and monitoring of their implementation.

National Employment Strategy envisages realisation of general employment rate of 48% in 2010, employment rate of women of 38% and employment rate of elderly people of 33%. Thus, the Government of the Republic of Macedonia continuously increases the funds allocated for financing of active employment measures, improving at the same time the type and the scope of measures, to the end of increasing the efficiency in terms of integration of target groups that have difficulties in entering the labour market (long-term unemployed persons, women, young people, vulnerable groups, elderly persons) and increasing the job opportunities of these persons. In addition to the undertaking of national measures for job creation, large contribution to the job creation is realised through preparation of local action plans for employment.

During 2009, in line with the Operational Plan for Active Employment Programmes and Measures 2009, many active employment programmes and measures were implemented, targeting different vulnerable groups of unemployed persons, such as:

- Self-employment support (focused on long-term unemployed persons, women and young persons up to 27 years);
- Formalisation of existing businesses;
- Preparation for employment (retraining and qualification);
- Employment subsidising (vulnerable groups);
- Public works;
- Internship Programme as support for the first employment (of young persons up to the age of 27 and young persons finishing their studies) and
- Economic strengthening of women- victims of family violence and support for employment of Roma persons.

In 2009, implementation of Programme for Self-Employment through Credits continued, according to which credits are being approved to specific categories of individuals. EUR 6 million was intended for this Programme as credit line for business start-ups, whereby 2, 000 unemployed persons from the target groups will be employed. Credits in the amount of EUR 3,000 per employment of unemployed persons are with interest rate of 1% annually with 3-year repayment period.

In total, Denar 1,185.1 million (0.29% of GDP) is allocated for active employment programmes and measures in 2009 (Operational Plan and Programme for Self-Employment through Credits) increasing by 79% compared to 2008. Thus, the number of persons, included in the active employment programmes increased by 60% compared to 2008.

Within CARDS Project "Employment Policy – Third Phase", ended in may 2009, trainings for competent bodies and institutions were also organised, regarding the main principles of the European policies, information on labour market and management of grant schemes.

Modernisation of Employment Agency of the Republic of Macedonia Activities for strengthening the capacities of EARM, as one of the most important institution on the labour market continued during 2009 as well.

- New service model for EARM was developed, for which Rulebook was prepared;
- Total of 11 Local Action Plans for Employment were prepared;
- Employees in EARM were additionally trained for skills needs analysis;
- Information materials in line with the new EARM service model were prepared;
- Mid-term Training Plan for EARM was updated, particularly in line with the needs of the new EARM service model;
- Extensive training programme for introducing the new service model in EARM organisation was implemented;
- ISCO88 system (International Standard Classification of Occupations) was introduced in EARM;
- Model for monitoring the implementation of the labour market active measures was designed and
- Recommendations for preparation of the labour market active measures were provided.

4.3.4. Labour legislation reform

Starting in May 2008 until September 2009, Twinning Project "Review of National Labour Legislation" was implemented, financed from EU and managed by EAR. Project's goal was improvement of the capacity in strengthening the labour market and harmonisation of the national labour legislation in the field of labour law, antidiscrimination and equal treatment, as well as occupational health and safety, with EU legal regulations, as part of the preparations for accession to the EU.

In line with the recommendations of the International Labour Organisation, the European Commission and international experts in the amendments to the Labour Relations Law in October 2009, new benchmarks for determining the representativeness of trade unions and employer associations and procedure for determining the representativeness were set. In addition, as for these amendments, full harmonisation with the Directive 2003/88/EC of the European Parliament and of the Council was carried out, concerning certain aspects of the organisation of working time. Activities regarding terms, manner and procedure for part-time working under specific conditions were also defined. This creates normative and legal pre-conditions for continuous and more efficient functioning of the social dialogue.

Process of establishing agencies for temporary employment continued, whereby 3, out of total 27 registered agencies, were registered in 2009. Two out of the newly registered agencies are with license "C", with a possibility for concluding up to 100 employment contracts and 1 with "A", with a possibility for concluding over 250 employment contracts.

Planned activities In the coming medium-term period, MLSP plans to undertake many activities for improving the labour market functioning, to the end of encouraging employment, reducing unemployment, as well as reforming the legal framework for the purpose of increasing the labour market flexibility and greater harmonisation of national legislation with the EU acquis.

Within the labour market employment policies, activities are planned in the coming medium-term period, being the following:

- Adopting new Operational Plan for Active Employment Measures,
- Preparing National Employment Strategy 2011-2015,
- Preparing National Action Plan for Employment 2011-2012 and
- Implementing trainings and activities for development of capacities of MLSP and other labour market institutions for long-term labour market planning.

As part of labour legislation reforms, amendments to the Labour Relations Law, amendments to the Law on Employment and Insurance in the Case of Unemployment and amendments to the Law on the Agencies for Temporary Employment are planned.

4.3.5. Effects of the introduction of the concept of bargaining, calculation and payment of a gross salary of employees gross wage system

Elements of the concept of bargaining, calculation and payment of a gross salary of employees

In order to reduce the total tax burden of labor force, stimulate employment and formalizing of informal employment, the Government undertook the following measures:

- Introduction of the concept of bargaining, calculation and payment of gross wages to workers and inclusion of the food and transport allowance at the same time;
- Reduction and harmonization of the minimum base for payment of social contributions from 65% to 50% of average wage and introduction of maximum base for payment of social contributions;
- Reduction of the level of social contributions from 32.0% in 2008 to 22% in 2011 (27.9% in 2009 and 26.5% in 2010) and
- Integrated collection of social security contributions and personal income tax by the Public Revenue Office.

Benefits from the introduction of the concept of bargaining, calculation and payment of gross salary of employees

With the introduction of the concept of payment of gross wages to workers, there are many benefits regarding employers, employees and the system in general.

After the introduction of the concept of payment of gross salary, the employer's only cost is the salary of the employee. The new system has reduced the tax burden on wages due to reduced rates of social contributions and reduced minimum base, especially among the lowest levels of salary. Furthermore, the calculation of wages is simplified, thereby reducing the administrative burden of the employer. So, in terms of the employer, a transparent system is created, in which the employer is aware how much is his cost for the employee at the time when the contract is concluded. With the integration of payment, the costs are reduced, and also the time required to complete the forms for the calculation of salary and the payment requests. At the same time, the newly established system enabled for time efficiency when submitting payment applications which can also be done electronically.

With the change of the concept, the margins for possible manipulation by the employer in the direction of avoiding the obligation for payment of contributions are narrowed, since now the direct taxpayer for the payment of contributions is the employee, and the obligation of payment is connected to the payment of wages. The employer pays the contributions on behalf of the employee. Also, the harmonization (crosslinking) of databases from the social funds and the Public Revenue Office allows diligent fulfilment of the commitments to all the funds, because with the new system there is no opportunity to pay one contribution and not pay the others, what happened in practice in the previous period; or to pay wages, and not to pay contributions and personal income tax (PIT). This significantly contributes for increased social security of workers.

The success of this reform can be measured through the effect on employment, wages and collection of compulsory social security contributions.

The quarterly *employment rate* in 2009 follows a trend of growth, it grew from 37.3% in the fourth quarter of 2008, to 37.8% in the first quarter of 2009 and 38.8% in the second. If the influence of seasonal factors is eliminated, the quarterly growth in the number of employees can be observed, which amounts 8.102 persons in the first quarter and 9.635 persons in the second quarter of 2009. On the other hand, the unemployment rate follows descending trend in the analyzed period, i.e. it decreases from 33.5% in the fourth quarter of 2008, to 32.7% in the first and 31.9% in the second quarter of 2009.

In terms of economic crisis, the increase of employment and decrease of unemployment can be partly explained by measures carried out with the reform. On the one hand, part of the registered unemployed people who work in the informal economy, are included in the system as a result of the harmonization of databases of PDIF, HIF, ESA and the PRO, and on the other due to the reduction of tax burden, which makes unviable for the employer not to register his employees.

According to the *net and gross wages* data, published by the State Statistical Office (SSO), the positive effect of the gross wage concept can be re-emphasized. According to the SSO, the average monthly net salary for January 2009 (first salary from the introduction of the reform) increased by 13% compared to December 2008. The increase is due to the inclusion of food and transportation allowance in the gross salary of employees.

At the same time, the increase of the gross salary in January 2009 compared to December 2008 was only 4.5%. This low percentage can be observed both in sectors with the lowest personal income while reduction of gross salary in January 2009 was observed in sectors with higher wages which is due to the introduction of the highest base for calculation of contributions, which amounts four average wages, so that contributions are not paid on the portion of salary above this amount.

After the initial growth of wages in January 2009 as a result of the reform, a significant increase or decrease in wages is not observed in the following months, since they follow a stable trend.

Observing the trend of wages in the cumulative period January-August 2009 (latest available data), one can see growth of 27.1% of the average paid monthly net salary, compared to the same period last year. Cumulative growth of gross salary in the analyzed period is 17.1%, where in low personal income sectors, there has been little or no growth in gross salary.

In January 2009, only 2.6% of employees did not receive any salary, which represents a reduction of 4.9 p.p. compared to December 2008. The percentage of unpaid wages records stable trend, and in August 2009 it amounts 3.7%, which is about 4 p.p. less compared to the same period last year.

The aim of the reform is achieved, i.e. the food and transportation allowance is included in the gross wage without significant increase of the costs of the employer (relatively, in terms of net wages, costs are reduced). At the same time, the social security of workers is significantly increased and the rate of employees who have not received any salary during 2009 is at the lowest historical level.

In terms of collection of contributions, in the period January to September 2009, on the basis of compulsory social security contributions from salary, income higher by 1.8% is collected compared to the planned and higher by 10.9% in terms of income generated in the same period of 2008, as evidence of the positive impact of integrating of the collection of social contributions and personal income tax from wages and reducing the compulsory social security contributions rates on the collection of contributions.

The total income on the basis of contribution for pension and disability insurance in the first nine months of 2009 was about 3% higher than planned and by 15.6% higher than the revenue generated in the same period last year.

When observing the collection of contributions for health insurance, because of the higher reduction in the rate at which the contribution is paid (from 9.2% in 2008 to 7.5% in 2009), the total revenue realized on the basis of this contribution in the period from 01.01 to 30.09.2009 is lower than the planned by 1%, but higher by 0.6% compared to the income generated in the same period of 2008.

When observing the contribution for insurance in case of unemployment, a reduction of total revenue by 0.5% compared to the planned is registered, but there is an increased collection by 5.2% compared to the same period last year. The contribution for insurance in case of unemployment rate dropped from 1.6% in 2008 to 1.4% in 2009.

In the period January-September 2009, the total income generated from PIT is lower by 0.65% compared to the planned and higher by 2.7% compared to the realized income in the same period of 2008.

Increased revenues on the basis of collection of compulsory social security contributions and PIT from salaries and other personal income, especially in terms of crisis, represent another evidence of the success of the reform and achievement of the goals that were designated.

4.3.6. Pension Reform

Social safety of the citizens of the Republic of Macedonia is a constitutional obligation of the country, and Pension and Disability Insurance is key component of the Social Insurance System.

Transition to market economy caused reduction of number of active insured persons on one hand, and increase in the number of pensioners on the other, thus reducing the ratio between insured persons and pensioners and increasing the financial pressure on the mandatory state pension system, as well as increasing the costs for pensions as a percentage of GDP.

Current Pay As You Go system is very sensitive to the ratio between the insured and pensioners, as there is a risk of inability to pay pensions because of insufficient funds from the current insured. In order to avoid that, the Republic of Macedonia established a new basis for the overall pension system in 2000, by introduction of the three pension pillars. With the establishment and existence of multi-pillar pension system, as a combination of public (Pay As you Go) and capital pension system (funded in advance), the safety of the individual is increased because of diversification of risks by providing pensions from two or three sources, and also the reliability of the system by achieving solvency of the pension system, long-term increase in national savings, development of financial markets and the growth of the economy.

The structure of the existing pension system in the Republic of Macedonia is based on three pillars. The First pillar constitutes the State Pension and Disability Insurance Fund of Macedonia (PDIFM) which is funded on an ongoing basis. The State pension fund provides realization of the rights of pension and disability insurance in case of old age, disability and death, which means it is paying part of the old age, disability, family and the minimum pension.

Contribution for pension and disability insurance for 2009 is 19% of the salary, and in the coming years a reduction of 18% in 2010 and 15% in 2011 is foreseen. For members of First-pillar system, the total contribution remains PDIFM, while for members of Second-pillar system, the contribution shall be allocated as follows: 65% in PDIFM, and 35% in private pension funds.

In order to encourage the development of fully funded pension insurance, liberalization of fully funded pension insurance market was enabled, with the opportunity of new companies to enter through open licensing process.

In accordance with the recommendations of the Report of the European Commission on the progress of the Republic of Macedonia for 2008, in April 2009 the Law on Amendments to the Law on Mandatory Fully Funded Pension Insurance was enacted, which provides greater diversification of assets in their investment and greater choice of companies when investing the assets by pension companies, and larger scale investments of pension funds abroad. Certainly, the law and bylaws regulate that investments of private pension funds are obliged to have regarded the stock rating abroad and the benchmarks of equity. Also, with this law, the systematic application of a solution to guard the property of the mandatory pension funds begun, i.e. transfer of the role of custodian of pension assets to commercial banks. Namely, National Bank of Republic of Macedonia had this role only as a transitional solution until the capacity of banks to perform the duties of guardian of property is developed.

The third pillar has started to function from the end of 2008, which created the opportunity for employers to establish occupational pension schemes for their employees and opportunity for individuals, whether employed or unemployed, to pay to the pension fund for themselves or for third parties. With the introduction of a third pillar, provision of higher levels of income in old age was enabled, which increases the material security in old age and the range of people who are socially insured. During the 2009 the first two licenses for management of voluntary pension funds were granted.

4.4. Agricultural sector

Agriculture and rural development are the key elements of Macedonia's pre-accession to the European Union. National Strategy for Agriculture and Rural Development 2007-2013 is an instrument for development of the Macedonian agriculture and rural areas. It also enables setting a base for support of the operational plans for agriculture and rural development, in particular the Instrument for Pre-Accession Assistance for Rural Development (IPARD).

In 2009, Programme for Promotion of Fisheries and Aquaculture and National Strategy for Vine Growing and Wine Production, as strategic document were adopted. In 2010, many significant documents are planned to be adopted to the end of promoting the agricultural sector, among which the more significant are the following:

1. Joint Main Live Stock-Breeding Programme for 10-year period
2. Programme for Conservation of Live-Stock Biodiversity for 7-year period
3. Programme for Fisheries and Aquaculture in the Republic of Macedonia for 12-year period
4. 2010 Programme on Financial Support of Agriculture
5. Programme for Measures for Promoting Development of Fisheries and Aquaculture in 2010

MAFWE adopted the following strategic goals, as basis for agricultural and rural development and formulation of agricultural policy:

- Strengthening the ability of Macedonian agriculture to be competitive on the integrated regional markets of the European Union and Southeast Europe, through measures for increasing the efficiency of agricultural production, processing and marketing;
- Constructing appropriate, effective, public and private institutions;
- Increasing the income per farm;
- Proving consumers with access to safe and health food and
- Constructing rural municipalities capable of survival through sustainable rural development.

Significant share of labour force in agriculture (around 20%) points out to the agricultural nature of the country. In certain rural areas, where most of the agricultural areas are populated, lack of labour force, particularly qualified is noticed.

4.4.1. Reforms in the field of agricultural land

New Law on Agricultural Land governs usage, disposal, protection and reuse of agricultural land, measures for using state-owned land, consolidation of arable land, implementation of agro-technical and agro-meliorative measures, prevention of erosion, pollution and contamination of the agricultural land, regulation of the manner of temporary and permanent reuse etc.

Thus, cooperation with the World Bank- financed Project Unit for Agriculture Strengthening and Accession continued. In addition, Emerald Project was implemented, the main goal of which was support of the Government of Macedonia when establishing the main development guidelines for comprehensive rural development, as well as establishing and developing the real estate market. In January 2010, start of the Stimerald Projects is planned, as continuation of Emerald, for the purpose of preparing strategy for rural development and institutional strengthening.

4.4.2. Rural Development

MAFWE realised coherent rural development policy with prepared 2009 Programme on Financial Support of Rural Development and Programme for Amendments and Modifications to the 2009 Programme on Financial Support of Rural Development, as well as Decree on Amendments and Modifications to the Decree on Implementation of Rural Development Policy.

In addition, internal procedures of the *IPARD management body* accredited by both the National Authorising Officer and the European Commission were established, and proposal of internal procedures for realising the technical measure of IPARD Programme was determined. At the same time, modified IPARD Programme was supplemented with amendments to the relevant national legislation and the EU *acquis* and additional financial allocation from the European Union amounting to EUR 14 million was introduced for 2011. Accordingly, programme for using the funds of the IPARD Programme for the period 2007-2013 was prepared and system for monitoring of implementation was established.

Taking into account the multifunctional nature of the agricultural activity, from the viewpoint of environment protection, Codex of Good Agricultural and Hygiene Practice was prepared in 2009.

In 2010, many activities are planned in the field of rural development, those being the following:

- Programme on Financial Support of Rural Development 2010;
- Amendments and Modifications to the 2010 Decree on Implementation of Rural Development Policy
- Audit of internal procedures for realisation of technical measure of IPARD Programme in the IPARD management body from the point of view of accreditation process;
- Establishing internal procedures for agro-ecological measures and “LEADER” measure;
- Amendments and modifications to IPARD Programme (third regular modification 2010);
- Amendments to by-laws for implementation of IPARD Programme (2010);
- Organisation of meetings of inter-agency body for rural development;
- Preparation of Agro-Ecological Programme (2010-2013);
- Audit of the National Strategy for Agriculture and Rural Development 2007-2013 in the field of rural development;
- Preparation of National Programme for Rural Development (2011-2013);
- Establishment of necessary systems for monitoring the realisation of agro-ecological measures;
- Realisation of meetings of IPARD Monitoring Committee (at least twice a year – spring and autumn);
- Realisation of meetings of Steering Committee for assessment of IPARD Programme (at least twice a year);
- Realisation of meetings of Working Group for coordination of activities related to communication and publicity under IPARD Programme (at least once a month);
- Preparation and implementation of Annual Public Communication Action Plan under IPARD Programme;
- Establishment of pilot rural network in the Republic of Macedonia;
- Decree on the types of activities that may be carried out as additional activities by family agricultural economies and their scope;
- Decree on determining criteria for areas with limited possibilities for agricultural activity;
- Good agricultural and hygiene practice;
- Information on social and economic examination of underdeveloped areas;
- List of areas with limited possibilities for agricultural activity;
- Establishing National Committee for formation and transfer of knowledge;
- Establishing system for constant lifelong education, additional training and retraining for farmers and
- Information on usage of funds from the Agricultural Credit Discount Fund (semi-annual and annual).

4.4.3. Phytosanitary policy

Phytosanitary policy is governed by three laws: Law on Plants Health, Law on Products for Protection of Plants and Law on Fertilizers. All laws are in line with the EU measures and standards. To the end of completing the legal frameworks, it is necessary to prepare by-laws arising from the above-mentioned laws.

Phytosanitary inspection which was under the Phytosanitary Office transferred into the State Agricultural Inspectorate, and thus the inspection surveillance over the implementation of laws is carried out by the State Agricultural Inspectorate. In 2009, Phytosanitary Office continuously implemented measures for repression and localisation of new manifestations, repression of calamities and manifestations with high intensity, decrease of their potential in the following years, reduction of economic damages and indemnity of owners for destroyed plants and products.

Law on Plants Health was approximated with Directive 2000/29 EC, and Programme for Plants Health was also adopted in 2009.

Law on Products for Protection of Plants was approximated with the Directive 91/414 EC.

One-stop shop system – exim for issuance of approvals for import of products for protection of plants was introduced.

In 2009, pursuant to the Law on Fertilizers, being approximated on the basis of Regulation 2003/2003 EC, in line with NPAA, Phytosanitary Office prepared the following by-laws:

- Rulebook of Inorganic Fertilizers and
- Rulebook of Procedure and Documentation for Recording and Content of the Records of Imported Fertilizers.

In 2009, Phytosanitary Office accepted i.e. implemented the List Annex 1 of active substances, being approved for usage in products applied for protection of plants on the territory of the European Union with defined conditions in decision for usage, published in line with Annex I of the Directive 91/414 EC. At the same time, having in mind the above-mentioned, the products for protection of plants in the Republic of Macedonia, including one or more active substances, not included in the List Annex 1 are withdrawn from circulation and usage. To the end of starting the registration and pre-registration process in line with the EU measures and standards, it is necessary to adopt the other Annexes II, III, IV, V and VI of the Directive 91/414 EC, to be jointly adopted and published in package so as to complete the legal framework regarding the Law on Products for Protection of Plants by the end of the current year.

Procedure, according to which, documents for assessing the active substance and procedure for assessing the products for protection of plants are carried out, is in line with uniform assessment principles according to Annex VI of the Directive 91/414 EC, being the only principles for assessment and approval of products for protection of plants in line with the EU principles.

Phytosanitary Office started with the registration and pre-registration process in line with the EU uniform principles by the end of the year. In addition, the product for protection of plants that will be placed on the market of the Republic of Macedonia will be appropriately packaged, declared and labeled according to the regulations adopted pursuant to the Law on Products for Protection of Plants and the relevant EU regulations.

In the period 2010-2012, the Phytosanitary Office will undertake many activities, among which the following: preparation of Monitoring Programmes of harmful organisms and their implementation, preparation of Monitoring Programmes for products for protection of plants and their implementation, introduction of register of producers, manufacturers, importers and distributors of plants, plant products and other items and objects, preparation and introduction of registry of producers of fertilizers, establishment of register of inorganic fertilizers, register of organic fertilizers, register of microbiological fertilizers and register of bio-stimulators, substances improving the soil and introduction and implementation of passports for plants in the Republic of Macedonia. Introduction and implementation of passports for plants would mainly achieve full control over the health of plants in our country, and the

accession of the Republic of Macedonia to the EU and export of plants in the EU Member States with the document- passport of plants would guarantee the good health of plants. Introduction of passport for plants and the accession of the Republic of Macedonia in the European Union will replace the phytosanitary certificate with passports for the plants in the EU Member States.

In the period 2010-2012, pursuant to the Law on Fertilizers, preparation and introduction of registries for producers of fertilizers and registries for placement on retail and wholesale market is planned, by which form, contents and manner of keeping the registries for fertilizers on the territory of the Republic of Macedonia will be prescribed, and preparation of bylaws will be proscribed, by which, closer conditions for storehouses, accommodation and storage of fertilizers and for environmental protection will be regulated.

4.4.4. Veterinary policy

Activities regarding the further harmonisation of the national legislation in the field of veterinary medicine, by adopting the other bylaws, envisaged with the existing laws continued during 2009 as well. By the end of 2009, another two specific laws such as the Law on Veterinary - Medical Preparations and the Law on Animal Nutrition are expected to be adopted.

In addition, in 2009 new Law on Food Safety was prepared, the adoption of which (end-2009 or first half of 2010) will abolish the Law on Veterinary Health and the Law on Food safety and and Materials Coming into Contact with Food. Accordingly, its adoption will prevent the overlapping of competences regarding the control of food safety between two different institutions, i.e. MAFWE – Veterinary Directorate and MoH- Food Directorate. This will enable efficient functioning of the food safety control system in line with the EU standards and requirements.

To the end of efficient transposition of the EU acquis and subsequently possible amendments to the national legislation in the field of veterinary medicine, new Strategy for Transposing the Relevant EU Acquis is under preparation. Therefore, TAIEX Expert Mission was carried out in the second half of 2009. During its preparation, recommendations of the European Commission obtained during the TAIEX Mission will be followed. Realisation of activities (transposing and implementation of the relevant acquis) included in the Strategy have significant influence in the commencement of negotiations i.e. opening of Chapter 12.

Institutional Strengthening of Veterinary Office is implemented with EU Pre-Accession Assistance (IPA) such as:

IPA 2008: Goal of this Contract is providing support to the Veterinary Directorate so as to improve the overall ability and capacity for implementation of the EU acquis and obligations of the Pre-Accession Partnership, particularly emphasising the capacity for transposing the EU acquis into the national legislation, strengthening the inspection services, control of animal diseases, establishment of animal waste management system and establishment of system for identification and registration of pigs.

IPA 2009: Goal of this Project is improving the institutional framework regarding the food safety by strengthening the existing system of competent bodies, i.e. Veterinary Directorate, Phitosanitary Office and Food Directorate for the purpose of providing integrated and multidisciplinary approach that will include all phases in the food chain.

IPA 2010: This Project envisages further strengthening of the institutional capacity of the bodies in charge of food safety, veterinary and phytosanitary policy.

Veterinary Information System (VIS). Several modules of the system have been already developed, while the others are under preparation. Veterinary Information System will significantly improve the Veterinary Directorate operations, including the veterinary inspection services as well. It is worth mentioning that all requests for its designing are on the basis of the relevant EU acquis. VIS will be composed of functionally independent modules for performing veterinary activities. Completion of VIS, as well as the integration with the overall Agricultural Information System will be realised in the period 2009–2010, through Agriculture Strengthening and Accession Project, with financial support from the World Bank, while part of the activities are financed from IPA.

Within the Integrated Border Management Project (Cards 2006 Regional Programme), the veterinary component- construction of infrastructure for Tabanovce border crossing is planned. Construction of Airport - Skopje border crossing is planned with IPA 2010 Project assistance. Regarding the above-mentioned border crossings, procurement of appropriate equipment for conducting veterinary and sanitary examinations is also planned.

Implementation of HACCP system for food of animal origin– HACCP campaign. To the end of successful implementation of HACCP principles by operators of food of animal origin, HACCP campaign intended for all operators of food of animal origin, and particularly the operators, still not having implemented HACCP system in their companies or being under implementation process was carried out in the second half of 2009.

Adaptation of production capacities for food of animal origin to the EU standards and their categorisation. For the purpose of meeting the EU infrastructural and hygiene requirements, the Veterinary Directorate prepared Programme for Categorisation of Facilities/Operators of Food of Animal Origin. Categorisation of food facilities and operators of food of animal origin is carried out from two aspects: a) capacity for implementation, regarding the requirements determined under the Law on Veterinary Health, being harmonised with the EU acquis in terms of meeting the relevant EU standards and b) capacity for assessing the facilities submitting request for IPARD Programme, to the end of providing support under the IPARD Programme. Categorisation will enable determination of mechanism for assessment of the possibilities for certain facility to meet the EU food safety standards.

4.4.5. Seed and seedling material

In 2009, Law on Selection Rights, being in line with the UPOV Convention criteria was adopted, thus the Republic of Macedonia will become full-fledged member of UPOV Convention. This Law enables the selectors of new types of plants to protect their copyrights in the country, as well as in the other member countries of this international organisation. By-laws that should be adopted in 2010 arise from this Law.

One-stop shop system-exim for issuance of approvals for import of seed and seedling material from plants was introduced.

Activities from the Seed and Seedling Material Office are planned for the period 2010-2012, being the following:

- Allocating public authorisations to legal entities and laboratories and contract conclusion therewith;
- Increasing the financial resources in the Seed and Seedling Material Programme in the next three years, so as for the Office to be able to implement the planned activities;
- Amendments and modifications to the Law on Seed and Seedling Material of Agricultural Plants, for the purpose of its successful application;
- Preparation of other by-laws of the Law on Seed and Seedling Material of Agricultural Plants and preparation of planned by-laws of the Law on Selection Rights;
- Implementation of the procedure for labeling seed and seedling material in the Republic of Macedonia for more successful control of the certified seed and seedling material, which is being traded;
- Introduction of the European catalogues of types of agricultural plants, in order to change the assortment of types requested on the European markets;
- Implementation of greater control of seed and seedling material in the Republic of Macedonia, as for the farmer to be procured with high-quality and certified seed and seedling material;
- Preparation of National Variety List, Recommended Variety List and Descriptive Variety List of types of seed and seedling material in the Republic of Macedonia and
- Establishment of National Gene Bank of the Republic of Macedonia, within MAFWE.

4.4.6. International cooperation

To the end of more efficient usage of foreign assistance, as well as identification of new areas for donor assistance in the short and medium run, draft document titled "Priorities for Donor Assistance in Agriculture and Rural Development" was prepared. Document is in line with the Programme Based Approach introduced in the Republic of Macedonia from the Secretariat for European Integration within the Government of the Republic of Macedonia, in cooperation with the donators.

Five priority areas for additional donor assistance were identified, such as:

1. Rural Development Programme
2. Agricultural Competitiveness Programme
3. Water Economy Programme
4. Forestry Programme and
5. Food Safety Programme

Current and planned technical assistance. In 2009, project financed under CARDS Programme Establishment of System for Monitoring and Management of Vine Plantations (second phase), as well as the Project for Establishment of National Animal Identification System (third phase) were finalised. Within GTZ Project "Implementing EU Directives in the Macedonian Agricultural Policy and Support of the Cooperation in the Agricultural - Food Sector with the Countries in the Region", activities in the field of bringing closer the agricultural - food sector of the Republic of Macedonia to the one of EU, as well as strengthening the regional cooperation in the sector were realised. Project lasted until December 2009. Project "Defining and Promoting the Legal Framework for Organising the Producers" ended in March 2009.

World Bank-financed Agriculture Strengthening and Accession Project is aimed at creating contemporary and competitive agricultural sector, having significant economic and social role, as well as assistance to the country for increasing the absorption capacity and implementing reforms in the agriculture sector.

Goal of the Project "Strengthening the Readiness for Protection of the National Forests against Fire" (FAO) is prevention, monitoring, registering, repression and safety against forest fires, education and establishing informative system for protection against forest fire. Project lasts from October 2008 until 2010.

4.5. Infrastructure

4.5.1. Energy market

In 2009, the Government of the Republic of Macedonia adopted Action Plan for further harmonisation of the national legislation with the EU acquis in the field of electricity and natural gas, for the purpose of determining the activities and the institutions responsible for further harmonisation of the national legislation with the EU acquis in the field of electricity and natural gas. The planned adoption of new Energy Law is only one part of the activities in this Action Plan. In addition, most of the activities are related to the bylaws.

Some of the bylaws necessary for smooth functioning of the energy sector have not been adopted yet, and some of them need to be harmonised with the anticipated new Energy Law, as adjustment of the regulatory framework in the energy sector.

Investments in the energy sector – Security of electricity supply

Ministry of Economy signed an agreement with the Macedonian Academy of Science and Arts (MASA) for preparation of Strategy for Energy Development. European Commission, Energy Community Secretariat, World Bank and USAID had their contribution in the preparation of the Strategy text, by preparing comments and suggestions. According to the Strategy for Energy Development, in compliance with the Law on Environment, activities for preparation of an Elaborate for Strategic

Environmental Assessment are ongoing. Strategy determines the long-term goals for development of separate energy activities, for the purpose of ensuring security of electricity supply.

In December 2008, international public call for expression of interest in participation in the pre-qualification procedure for construction of HPP "Cebren" and HPP "Galiste" was published. Construction of both HPPs is envisaged to last 8 years. As for the first pre-qualification phase, there were three companies, meeting the pre-qualification conditions. Deadline for submission of applications is 31st March 2010.

One of the long-term objectives of the Government of the Republic of the Macedonia in the energy sector is to increase the utilization of renewable energy sources in accordance with the available domestic resources, technology development and the economic policy overall. In accordance to that, in December 2009 the Government started a procedure for publishing a 4th international open call for granting a concession for utilization of water for production of electricity through 36 hydroelectric centrals with an installed power of 50 to 5000 kw i.e. total installed power of 250 mw and total annual production of 1200GWh.

According to the commitments of the Government of the Republic of the Macedonia to build a national gas transportation system in the Republic of Macedonia, the Government, through the Ministry of Transport and Communications, ordered the preparation of Feasibility study for a gas system in the Republic of Macedonia, with a project that will represent a certain strategy for development in the field of gasification, that will define the strategic requirements and time phases for implementation of gas pipeline system and will define the priority directions for its fastest implementation.

Besides the technical review, in order to make strategic decisions, give the consent and guidance for fastest implementation of the main gas pipelines, taking into account national policies, the Government of Macedonia established Interministerial Committee (IMC) for monitoring of the realisation and preparation of Feasibility study, which is expected to provide the traces for building national gas pipelines on the territory of the country, under the referent current state of gas pipeline system. It is planned that the Feasibility study will take into consideration all elements that may affect the future development of gas pipeline system in the Republic of Macedonia.

In 2010 and 2012, several specific projects in the field of electricity and gas pipeline sector are planned to be started, which would increase the security of energy supply in the country, as follows: 400 kV interconnection line Bitola (Republic of Macedonia) – Elbasan (Republic of Albania) – Italy and upgrading of the existing 200 kV interconnection line Macedonia – Kosovo at 400 kV voltage level.

In line with Action Plan for realisation of the Programme for Small Hydropower Plants, international public call for water concession for electricity generation from small hydropower plants for around 30-40 locations is envisaged to be announced.

Subsidies for greater utilisation of solar energy

Due to the big interest in using solar energy in households, and at the same time due to the success of the implemented measures for subsidies, Ministry of Economy projected funds in the amount of Denar 9.000.000 in the 2009 budget for further subsidising of the households that would install solar thermal systems in their homes. In the first half of 2009, Ministry of Economy realised the stimulation measure for subsidising the first 500 buyers of solar thermal collector systems, who adequately installed them in their homes. In 2010, measure for subsidising of systems for solar collectors in the household will be implemented again

Project Programme for Energy Efficiency of Buildings

In July 2009, Ministry of Economy concluded Donation Agreement with the Austrian Development Agency, on the basis of which, the funds in the amount of EUR 1.6 million irretrievable financial contribution are from the Republic of Austria, out of which, the Swiss Confederation co-financed the project in the amount of EUR 111 thousand, as well as funds for co-financing the project document in the amount of EUR 115 thousand from the Budget of the Republic of Macedonia.

Programme for Energy Efficiency, the main goal of which is reducing the energy consumption in buildings by 20%- 30%, includes the following components:

Component 1: Strengthening the capacities of the Energy Agency of the Republic of Macedonia;

Component 2: Harmonising the national legislation with the European Energy Performance of Buildings Directive and developing tools necessary for the regulation implementation.

Component 3: Realisation of pilot project for improving the energy efficiency of public sector facility and

Component 4: Including the faculties so as to ensure sustainability of the programme in the long run.

4.5.2. Air transport

Legal Framework. Adoption of the *Draft Law on Amendments and Modifications to the Law on Aviation*, being in final stage, is aimed at improving the quality of the Law on Aviation and harmonising the conditions in terms of the obligations and EU rules and recommendations. In fact, these amendments and modifications are in line with EU Directives 96/67, 94/56, 2003/42 and 2000/79, 95/93, 1008/2008, 2111/2005 and 2150/2005. In addition, the amendments and modifications additionally clarify certain articles and harmonise them with the international regulations and standards, as well as the EU regulations.

In the period 2008-2009, to the end of increasing the volume of air transport, increasing the competitiveness of the international air transport and increasing the economic cooperation, several agreements between the Government of the Republic of Macedonia and the Government of Montenegro, Swiss Federal Council on regular air communication, the Government of the Republic of Turkey were signed and Memorandum of Understanding between the Civil Aviation Agency of the Republic of Macedonia and the Directorate of Civil Aviation of Bosnia and Herzegovina was also signed.

It is also significant that the transformation of the Civil Aviation Agency was completed in June 2009, by registering state-owned Joint Stock Company for carrying out the air navigation service provider activity M-NAV AD Skopje.

In December 2008, full-fledged membership of the Republic of Macedonia in Joint Aviation Authorities was realised, by which the Civil Aviation Agency became officially fully-fledged member of JAA. Thus, the Republic of Macedonia fulfilled one of the most important obligations of the Protocol V of the Multilateral Agreement on the establishment of European Common Aviation Area concluded with the European Union. In addition, new Working Arrangement between the Civil Aviation Agency of the Republic of Macedonia and the European Aviation Safety Agency was signed in July 2009.

Planned activities National Strategy for Aviation Development will continue to be implemented in the next period, the priorities of which are based on the policies and guidelines of the International Civil Aviation Organization (ICAO), and ECAA, as part of the process of accession of the Republic of Macedonia to the European Union. More significant activities are the following: establishment of Committee on Investigation of Accidents and Serious Incidents in Air Traffic, awarding a concession for the airports "Alexander the Great"- Skopje, Airport "St. Paul the Apostle"- Ohrid and construction of new cargo-airport in Stip, participation in defining the attitudes of the Republic of Macedonia in the negotiations for Functional Airspace Blocks for reconfiguring the upper airspace on the basis of flow of transport to the end of improving the infrastructure for services of aviation navigation, protection of the rights of disabled persons and persons with reduced mobility when traveling by plane etc.

4.5.3. Road transport

In order to increase the efficiency of the transport system in the Republic of Macedonia, intensive work has been completed on finalisation of the legal framework, regulating the relations in the field of transport.

Ministry of Transport and Communications acquired new software for electronic distribution of licenses for international transport of goods, thus providing greater transparency in the distribution, as well as corruption elimination.

In line with the provisions of the Law on Public Roads, restructuring of the road sector is ongoing. Agency for State Roads was established instead of the existing Fund for National and Regional Roads and there is ongoing restructuring of PE Makedonija-pat.

Investment for improving the road network of Corridors VIII and X continued with assistance of international financial institutions (EIB, EBRD) and own funds of the Agency for State Roads.

In addition, having into consideration Government's commitment for increasing FDI and improving the living standard, in October 2009 the Government of the Republic of Macedonia has adopted a Decision for starting procedure for granting concession for building, reconstruction, maintenance, toll collection and usage of a part of the public roads in the Republic of Macedonia.

European Commission awarded accreditation for decentralised management of IPA Funds for Regional Development. Within the Regional Development Component, projects for completing the highway Corridor X, improving the railway infrastructure along the Southeast European regional network, as well as projects from completion of the development phase for upgrade of Corridor VIII were programmed.

Programming of priority projects for the period 2010-2011 is ongoing, which will present continuation of the previous for the period 2007-2009. This means continuation of the Operational Programme for Regional Development 2007-2011 with additional priority projects and appropriate financial allocations. Approval of the supplemented Operational Programme for Regional Development 2007-2011 by the European Commission is expected in 2010.

4.5.4. Railway system

Legal framework. In 2008 and 2009, by-laws arising from the Law on Railways and Law on Safety in Railway Traffic were prepared. In the course of 2009, draft texts of the Law on Railway Development, Law on Safety in Railway Traffic, Law on Agency for Regulating the Railway Services Market were prepared, being fully harmonised with the Directives and Regulations of the European Union in the field of railways and they should be adopted in the first half of 2010. In 2010, preparation of new Law on Interoperability, as well as amendments to the adopted rulebooks, which will arise from the new texts of laws are planned.

Railway reform. In the period 2008- September 2009, package of services and tariff code on the track access charge was published by the infrastructure manager. In 2009, Agency for Regulating the Railway Services Market was established. By the end of 2009, adoption of a National Programme for Railway Infrastructure for the period 2010-2014 is expected.

Ministry of Transport and Communications will work on preparation and implementation of the procedure necessary for signing and ratification of the Agreements for control of border crossing in the railway transport between the Republic of Macedonia and the Republic of Serbia, as well as the Republic of Macedonia and Kosovo.

In the period to come, there will be implementation of the projects referring to improvement of the situation from the point of view of safety of Corridor VIII and Corridor X, whereby as for Corridor X, borrowing of credit will be required from international financial institutions for "small repair" of critical road sections during 2010. In addition, the National Transport Company MZ Transport AD will introduce electronic issuance of tickets in the road transport by preparing software application.

4.5.5. Electronic communications

Policy of the Government of the Republic of Macedonia in the electronic communications sector is aimed at supporting the development and the process of liberalisation of the electronic communications, services accessible to everyone, at cost-based prices, mass broadband Internet usage, resulting in digital gap reduction, increased economic development and strengthening of the market model in the Republic of Macedonia as an ultimate goal. Competition development and entry of new operators will establish necessary infrastructure so as to provide smooth, quality, safe and timely delivery of digital contents and services of the information society.

Government of the Republic of Macedonia firmly committed itself to provide conditions for fast growth of the economy, so as to achieve the economy development level as in the new EU Member States and to

include the Republic of Macedonia in the global networked economy within short period of time. In fact, unlike 2006, when only 1% of the households in Macedonia used broadband Internet, this percentage was 33.8% in 2009. Percentage of households using computer constantly increases, so it was 46% in 2008, while this percentage was 54.1% in 2009, 81% out of which had access to Internet.

In 2009, Strategy for Development of Next- Generation Broadband Internet was adopted. The Strategy envisages improvement of the present situation of developing broadband Internet and creation of favourable surrounding for transition to future broadband Internet generation. Additionally, the Strategy will be implemented by creating and adopting new regulation, establishing simple, transparent mutually consistent administrative rules and procedures, strengthening and efficient cooperation between government institutions, regulators and municipalities, pro-active monitoring of implementation, individual/common investment and coordinated building and development of public electronic services and other direct measures for development of broadband Internet (state aid, tax benefit).

To the end of efficient and effective implementing of measures set in the national strategies, as well as overcoming the digital gap, the Government of the Republic of Macedonia founded a National Council for Development of the Information Society, intended for coordination and provision of participation of all information society development actors.

4.5.6. Posts

Policy of the Government of the Republic of Macedonia in the postal services sector and postal traffic is aimed at supporting the process of liberalisation and openness of the post market. Competition development and entry of new postal operators on the postal market will implement the Strategy for Development of Postal Services in the Republic of Macedonia 2008-2010, as well as the Law on Postal Services.

Postal Agency, as an independent regulatory body aimed at regulating and introducing gradual and controlled liberalisation of the postal market, adopted the foreseen acts- individual license, standard license and approval, acts aimed at providing postal services, as well as Methodology for Postal Services Market Analysis. In addition, the Agency prepared information registry, i.e. base for recording the postal service providers, who register as operators on the postal market in the Republic of Macedonia.

Remaining bylaws, arising from the Directive 32002L0039 of the European Parliament and the Council of the European Union will be adopted by the Agency in the period 2010-2012.

Ministry of Transport and Communications, in line with the measures foreseen in the Strategy for Development of Postal Services in the Republic of Macedonia 2008-2010, aimed at modernising and restructuring i.e. economic strengthening of AD Macedonian Post as provider of universal postal service, as well as for the purpose of providing long-term security in the new liberalised and open postal market has already engaged consultant team so as to define the conditions and check the possibilities for sale of part of the shares and attract renowned companies in this area.

4.6. Administrative reform

EU integration means realisation of certain administrative reforms aimed at institutional improvement of the administrative structures and strengthening of the administrative capacities, the ultimate goal of which is creation of professional and motivated state administration focused on the economic growth and the development of the Republic of Macedonia.

4.6.1. Institutional improvement of administrative structures and strengthening the administrative capacities

In the period 2008-2009, series of acts, among which the 2009 Annual Operational Programme of the Government, as well as the Decision on Determining Strategic Priorities of the Government in 2009 were adopted.

In 2009, in line with the EU agenda, Law on Civil Servants was adopted and it will enter into force in February 2010. Law objective is providing contemporary, professional and efficient state administration, aimed at exercising the rights and the liberties of citizens, immuned to political influences. Amendments are focused on five areas such as the scope of state administration, re-defining of the competences and the role of the Civil Servants Agency, employment of civil servants, mobility and promotion of civil servants and introduction of carrier-based system, introducing the possibility for it to be carried out through internal announcement for the first time.

In addition, capacity building continued in the Unit for Public Administration Reform on monitoring the implementation of Strategy on Public Administration Reform. In line with the Methodology for Strategic Planning and preparation of Annual Operational Programme of the Government, ministries and other state administration bodies prepared three-year strategic plans, as part of the fifth strategic planning cycle.

In 2010, the system for horizontal coordination will be continuously upgraded, paying special attention when introducing systems and procedures for vertical coordination. This will mean developing sustainable and stable system for quality training, strengthening the capacities for strategic planning and policy creation, as well as increasing the state administration efficiency through consistent application of the salaries and allowances system for civil servants.

In the period to come, new Strategy on Public Administration Reform is planned to be adopted under IPA 2007 and thus, capacity building will continue in the Unit for Public Administration Reform on monitoring the implementation of the Strategy.

During 2009-2010, implementation of Twinning Project "Capacity Building of the General Secretariat" is planned, to the end of strengthening the Government capacities for strategic planning and monitoring, policy creation and coordination.

4.6.2. Improvement of transparency and accountability of the administration

Law on Government also stimulates the participation of the citizens in the work of the Government. From an institutional point of view, following activities aimed at improving the administration transparency were organised: further advancement of the mechanism Citizen's Log, implementation of the Strategy on Cooperation with the Civil Sector, implementation of the Law on Free Access to Public Information, and there are continuous activities aimed at raising the public awareness of the Ombudsman.

In the period to come, creation of conditions for financial sustainability of the civil sector will also continue and at the same time, activities aimed at philanthropy and promotion of volunteering will be undertaken, thus realising constant development of the civil sector, outside the capital and rural areas.

4.7. Additional reform areas

4.7.1. Trade openness

In the last years, continuous increase of the integration of Republic of Macedonia in the global trade flows and increase of its trade openness were noticed. In fact, starting 2003 onwards, the index of economic openness had increasing trend, but it was terminated in 2009, as a result of the global economic crisis. As a result of the unfavourable global developments, and particularly the deterioration of economic performance of the largest trade partners of the country, the index of economic openness dropped to 83.28% for the period January-September 2009, being by 32.5 p.p. lower than the same period last year.

Liberalisation of foreign trade. Strategic goal of the foreign policy of the Republic of Macedonia for obtaining full-fledged EU membership imposes full integration of the Republic of Macedonia in the EU internal market. Participation of the Republic of Macedonia on this market will contribute to further trade liberalisation, bigger possibilities of the economic operators for their presence on the market of 650 million citizens, as well as possibility for consumers to exercise the right to choice of products on

the basis of quality, regardless of origin. In line with the principle of free movement of goods, the Republic of Macedonia is focused on removing the possible trade and technical barriers, for the purpose of smooth integration in the EU internal market.

Strategy for Implementation of the Legislation for Appropriate Horizontal Organisations in the Field of Free Movement of Goods was prepared, aimed at identifying all further steps and measures that should be undertaken by the Republic of Macedonia for meeting the requirements for equal participation in the EU internal market. Strategy identifies the production sectors, being harmonised at EU level. The goal of the Strategy for Implementation of the Legislation for Appropriate Horizontal Organizations (standardization, accreditation, metrology and market surveillance) in the area of free movement of goods is to establish a framework for future activities in the area of free movement of goods, both in terms of measures to achieve full harmonisation with the *acquis communautaire*, including clear terms, and in respect of measures required to ensure full and proper application of horizontal legislation. In addition to this Strategy, measures having equivalent effect to quantitative restrictions are included in specific Action Plan, pursuant to Articles 28-30 of the Treaty of Establishing the European Community and which may be opposite to the principle of mutual recognition.

Existing system of the Republic of Macedonia was based on mandatory application of standards, mandatory attestation of products from the state bodies and pre-market surveillance.

According to Article 73 of the Stabilization and Association Agreement, Republic of Macedonia is undertaking necessary measures for gradual harmonisation with European law and European procedures for standardization, metrology, accreditation, conformity assessment and market surveillance. Republic of Macedonia achieved high level of transposition of the European technical law into the national legislation, determining, above all, the horizontal legal framework and defining the functions between lawmaker, standardisation, meteorology, accreditation, compliance assessment and market surveillance.

Determination of sectors, for which there is developed network of bodies for market compliance assessment is basis for their defining in the notification procedures in the European Commission, as notification bodies for specific sectors. Notification will be carried out with accession of the Republic of Macedonia to the EU or conclusion of specific compliance assessment protocol, such as Agreement on Conformity Assessment and Acceptance (ACAA). This Agreement will be valid until the accession of the Republic of Macedonia to the EU.

Foreign trade liberalisation will also continue in 2010, by implementing the existing free trade agreements and applying the amendments to the Free Trade Agreements with CEFTA 2006, EFTA, Ukraine and Turkey. Ratification of the amendments to the Additional Protocol to CEFTA 2006 will realise full liberalisation of the trade in agricultural and food products with the Republic of Albania and the Republic of Moldova (except for vine). Ratification of the amendments and modifications to EFTA, by amending the Decisions 1, 2, 3 and 4 will provide extension of economic cooperation and trade exchange with EFTA countries (Switzerland, Norway, Liechtenstein and Island), while ratification of the amendments and modifications to the Free Trade Agreement with Ukraine, will realise increased liberalisation of the trade in agricultural and food products.

Implementation of diagonal cumulation for origin of goods between the Republic of Macedonia, the Republic of Turkey and the EU, creates conditions for increased export of ready-made products with Macedonian preferential origin, through usage and finishing of intermediate materials and raw materials from the EU and the Republic of Turkey.

In addition, it is worth mentioning that the Law on Establishing Agency for Foreign Investments and Export Promotion of the Republic of Macedonia is under preparation, extending the competence of the current AFIM by promoting the export, being under the competence of many institutions so far. Application of this Law will start in January 2011.

Capital flows. Law on Foreign Exchange Operations and SAA between the Republic of Macedonia and the European Union are basis for regulating capital movement and current payments in the Republic of Macedonia. In line with the Agreement, the Law on Foreign Exchange Operations envisages gradual liberalisation of capital movement depending on its maturity and type. Republic of Macedonia is still in

the first phase of the Stabilisation and Association Agreement. Law on Foreign Exchange Operations realised full liberalisation of the transactions envisaged for the first phase (direct investments, commercial credits and financial loans and credits with maturity period longer than 1 year and shorter than 1 year).

To the end of liberalising the investments in real estate and construction land by non-residents, amendment to the Law on Ownership and Other Rights in Rem was made. Amendments from November 2009 enabled the non-residents from the EU countries and OECD to acquire ownership of real estate and construction land, as well as right to long-term lease, under the same conditions as the citizens of the Republic of Macedonia.

Following the expiry of the first phase of SAA, the Law envisages full liberalisation of the securities operations and investing in real estate by residents out of the country. Following the expiry of the second phase of SAA, the Law envisages liberalisation of the deposit operations by residents out of the country.

4.7.2. Foreign direct investments

One of the key goals of the Economic Programme of the Republic of Macedonia is increasing the inflow of foreign investments, aimed at reviving the Macedonian economy, increased economic growth, reducing unemployment and introducing new technology and know-how.

Background. According to NBRM data, cumulative inflow of foreign direct investments (FDIs) was Denar 3.051 billion in the period 1997-2009 (I-VII). This year, as of August inclusive, cumulative amount of foreign capital was EUR 106.6 million, while the share of FDIs was 6.2% in 2008.

Table 4.3. Inflow of FDIs in the Republic of Macedonia and their structural share in GDP (EUR million)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009 (I-VIII)
Total amount	233.3	499.5	100.4	260.7	77.2	344.8	506.0	399.9	106.6
Share of FDIs in GDP	6.0	13.0	2.4	6.0	1.7	6.8	8.8	6.2	-
FDIs per capita	115.2	245.4	49.5	128.3	37.9	169.0	247.5	199.7	-

Source: NBRM

From the point of origin of the investments, in the last years, the largest investors were: the Netherlands, Hungary, Germany, Austria, Switzerland, Slovenia, Germany and Serbia. The largest inflow of FDIs was realised through Brownfield investments (72%), while Greenfield investments, having the biggest economic effects were less present.

Analysed by sectors, the largest inflow of FDIs was in the services sector and it is expected to remain on the top (55.02%), followed by the production (32.31%), than electrification, gasification and water economy, construction, mining, agriculture etc. Special incentives for investing were given in the technological and industrial development zones (TIDZ), pursuant to the Law on TIDZ, providing greater advantages for investors and development of high propulsion and contemporary technologies and new employment.

Legal and institutional framework for FDIs. Constitution of the Republic of Macedonia guarantees national treatment for all investors. In fact, there are no restrictions for entry of foreign capital, except in the trade in narcotics and protection of historical monuments and cultural heritage. Republic of Macedonia with the MIGA membership since 1994 has provided protection of FDIs against political risk. In addition, it has signed Bilateral Agreements on the Mutual Promotion and Protection of Foreign Investments with 31 countries, as well as Agreements for Avoiding Double Taxation with 34 countries. Government of the Republic of Macedonia, despite the improvement of the investment climate aimed at increasing the inflow of FDIs, continuously strengthens the institutional capacity for investments through government bodies. Ministry of Economy is in charge of investment policy, for the purpose of increasing investments, while the Agency for Foreign Investments of the Republic of Macedonia, "Invest Makedonija" is focused on promoting the country as attractive location for investment and as service for investors as well, providing them with all relevant information and services at one place.

In the past period, the Government of the Republic of Macedonia, established institutional architecture for attracting foreign investments by appointing economic promoters in 21 targeted countries, for the purpose of more intensive promotion of Macedonian potentials, opportunities and incentives for investment. In the second phase of this Project, the Government also plans engagement of local economic promoters, and in the third phase of the Project is expected for the Macedonian promoters to be fully replaced with local promoters.

Planned measures and activities Government of the Republic of Macedonia is fully determined to increase the attractiveness of the country for foreign and domestic investors, by improving the business environment and aggressive economic promotion. In fact, implementation of the regulatory reform is planned to continue, so as to reduce the bureaucratic procedures and facilitate the doing business. In addition, the harmonisation of the legislation in the field of both banking system and the construction land will continue. Thus, implementation of Cadastre reforms, as well as amendment to the legislation of foreign legal entities and natural persons provides them with opportunity to buy construction land. In addition, in the field of tax system, gradual reduction of health and social contributions by 1/3 was introduced in the period 2009-2011.

It is worth mentioning that according to the 2010 World Bank Doing Business Report, Republic of Macedonia is ranked 3rd on the list of the best reformers among 183 countries in the world. Thereby, regarding the protection of investors, the Republic of Macedonia advanced by 66 positions, being ranked 20th in the 2010 Report.

Implementation of the Programme for Stimulating Investments in the Republic of Macedonia 2007-2010 is successful. Second monitoring of the measures envisaged in the 2008 Action Plan of the Programme for Stimulating Investments in the Republic of Macedonia 2007-2010 points out that one of the key goals of the Government of the Republic of Macedonia for increasing domestic and foreign investments on the basis of improvement of business and investment climate was successfully realised. Strategic, legal acts and bylaws harmonised with the EU *acquis* are in the process of adoption, and certain measures of organisational, staff and financial nature were undertaken, thus significantly improving the investment climate in the Republic of Macedonia. One of the realised measures of the Programme for Stimulating Investments, which will increase the competitiveness of the Macedonian companies and their value added on the global market, is the establishment and the effective functioning of the National Coordinating Body on Corporate Social Responsibility (CSR). In fact this Body realised the planned activities for 2008 and prepared the National Agenda for CSR for the Republic of Macedonia 2008-2012, which was adopted by the Government, being basis for preparation of the National Strategy for CSR, which is planned in the coming period.

Republic of Macedonia is among the 3 leading countries (after Denmark and Lithuania) in Europe that have adopted national policy for CSR, being leader in the region. Government of the Republic of Macedonia provided financial support for realisation of the activities for CSR in line with the National Agenda for CSR for the Republic of Macedonia 2008-2012, for the first time in 2009.

Economic Programme of the Government anticipates annual cumulative inflow of FDIs in the total amount of over EUR 2 billion in the period 2008-2012, increased rate of share of investment in GDP, increased foreign Greenfield and Brownfield investments, attraction of export oriented investments, improved image of the country as an attractive location for investment and continuous intensive economic promotion of incentives and potentials for investment in the Republic of Macedonia.

4.7.3. Market entry and exit

Market entry. Policy for improving the business climate in the Republic of Macedonia is based on two priorities: Legal framework and institutional implementation.

According to the last amendments to the Companies Law and the Law on One-Stop Shop System (OSSS) in 2008, complete legal harmonisation with the EU *acquis* was carried out, regarding the possibility to accept and distribute financial and business data between public and private sector electronically via OSSS. In addition, phase 2 of the OSSS development, financed under the BERIS Project is envisaged to be realised by the end of 2010. One-Stop Shop System phase 2 includes several projects to further enhance the market entry and exit:

1. Electronic system for registration of companies and other entities;
2. Electronic system for registration of all stages of bankruptcy and liquidation and the blacklist of Directors
3. E-Integration of the Agency for Employment, Pension and Health Fund in the One-Stop Shop System
4. System to save the databases of the Central Register of the Republic of Macedonia
5. Strategy to standardize the electronic exchange of financial and business information and data in the Republic of Macedonia
6. Electronic system for filing documents in the Register of leasing and pledged Register
7. Electronic Register of individuals and entities that have been imposed sanction ban on performing profession, activity or duty and the temporary prohibition of performing certain activity.

According to changes to the Law on one-stop shop system and for keeping trade register and register of other legal entities and Draft Law on amendment of the Law on companies until the end of 2010 is planned to establish new registries as:

1. Register of individuals and legal entities that have been imposed sanction ban on performing profession, activity or duty and the temporary prohibition of performing certain activity.
2. Register of secondary penalties for committing criminal acts of legal entities
3. Register of established claims of creditors in bankruptcy proceedings and
4. Register of persons who can not establish and manage companies in the Republic of Macedonia

Overall activity for realisation of the activities, regarding the establishment of the respective registries is envisaged to be carried out in two phases, such as: conversion phase, which will include all preparatory activities for the transfer of data from written to electronic form and implementation phase. Until the establishment of the electronic solution, the functioning of new registries will be based on submission of court decisions to the Central Registry of the Republic of Macedonia (CRM) and their conversion and transfer of data in temporary base.

Regarding the implementation phase as an integral part of the Project "OSSS phase 2", it is expected that by the end of 2010 all activities for establishment of design and electronic solution for the registries and integration of the separate registries with Central Register through OSSS and on-line communication between all participants in OSSS will be completed. In addition to the electronic registration of companies and integration of databases between PDIFRM, HIF, EARM and CRM, electronic solutions that are expected to become operational are also electronic registration in the registries under pledge and leasing within the CRM.

With regard to the Republic of Macedonia, Doing Business was clearly used for distinguishing the areas from the business climate, among which there are big differences in the level of development and progress. Ministry of Economy, being responsible for three indicators such as starting a business, closing a business and protection of investors, followed the recommendations in the past two years in terms of both the legal regulation and the improvement of the institutional implementation i.e. the one-stop shop system.

Regarding the starting a business indicator, the Republic of Macedonia realised its rating increase as a result of the improvement of the legal framework for registration of business and by implementing several key projects for development of the one-stop shop system.

Market exit So to enable a constant monitoring of whether the companies have opened a bankruptcy procedure at the beginning of 2008 a database for the following bankruptcy-related areas:

1. Ongoing bankruptcy procedures
2. Concluded bankruptcy procedures

3. Bankruptcy procedures, which due to lack of property that would fall into insolvency estate, the bankruptcy procedure is not carried out and it is immediately concluded.

Table 4.4. Condition of bankruptcy procedures

Bankruptcy procedures (June 2009)	Number	Structure%
Ongoing bankruptcy procedures	336	20.82
Concluded bankruptcy procedures	308	19.08
Open and concluded from 1 st January until 30 th June 2009	970	60.10
Total:	1.614	100

Source: Ministry of Economy

Out of total of 1,614 bankruptcy procedures, 60.10% are bankruptcy procedures, where due to non-existence of property that would fall into insolvency estate, the bankruptcy procedure is not carried out and it is concluded.

The implementation of the new Bankruptcy Law from 2006 enabled for 1,076 of of total 1,215 bankruptcy procedures to be concluded, amounting a total of 88.56% as compared to 74.53% in 2008 Average duration of all 1,215 bankruptcy procedures (as of June 2009 inclusive) is 3.5 months whereas the unconcluded 139 bankruptcy procedures have an average duration of 1.36 years. Until June 2009, , 169 bankruptcy procedures are still ongoing in accordance with the Bankruptcy Law from 1997 and have an average duration of 5.39 years However the issue that 28 bankruptcy procedures are still conducted in accordance with the Law on Forced Settlement, Bankruptcy and Liquidation from 1989 is worrisome fact. Average duration of these 28 bankruptcy procedures is 13.99 years, as of June 2009 inclusive and all of them have relatively big insolvent estate.

It is obvious that the new Bankruptcy Law significantly improves the total parameters in the bankruptcy procedure, i.e. it significantly reduces the duration, also positively affecting the percentage of settling the creditors. However, it is worth mentioning that the new Bankruptcy Law is only applied to the newly opened bankruptcy procedures after its entry into force. This leads to the conclusion that the bankruptcy procedures, conducted in accordance he old laws should be accelerated.

Some of the reasons for prolonging the bankruptcy procedure refer to the complexity of procedures, large number of creditors, as well debtors to the debtor, numerous court litigation procedures, mainly referring to determination of property ownership and collection of claims, non-existence of documentation for ownership of property falling into insolvency estate, unsolved property and legal relations, application of the Law on Forced Settlement, Bankruptcy and Liquidation from 1989 (pursuant to this Law, another 28 bankruptcy procedures are conducted), providing unlimited duration of bankruptcy procedure, as well as application of the Bankruptcy Law from 1997, enabling long duration of the bankruptcy procedures (pursuant to this Law another 169 bankruptcy procedures are conducted), unequally distributed bankruptcy procedures, small number of bankruptcy trustees etc.

By the end of 2009 and during 2010, intensive activities for improving the programme and the trainings of candidates for bankruptcy trustee, as well as setup (under the Project "OSSS phase 2") of an electronic solution in CRM for monitoring the bankruptcy in the Republic of Macedonia will be undertaken.

4.7.4. Legal and administrative framework

Regulatory reform

At the end of 2006, following the identification of the regulatory burden as barrier to doing business and obtaining quality public services for citizens, the Government started to implement Regulatory Reforms in two key areas:

- Streamlining the existing regulations through the Regulatory Guillotine and
- Systematic monitoring of new regulations.

Regulatory Guillotine I. List of 2000 regulations (laws and by-laws) were screened and revised, first by government institutions, than by the business community, submitting more than 900 proposals. 3 sets of recommendations were prepared, including amendments or modifications to 545 regulations, 64 out of which were laws and 481 were by-laws. So far, 40 laws and 383 bylaws were implemented.

Furthermore, a set of 50 measures were adopted by the Government in 2008, targeting the ease of doing business in Macedonia. The measures included proposals for streamlining business related regulations and simplification and abolishment of unnecessary formalities and procedures. More specifically the measures were designed to improve business climate in the following areas: starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. As a result, significant improvements were recorded in the ranking of Macedonia in Doing Business 2010 report. Macedonia was ranked as 3rd top reformer among 183 countries and on the overall "Ease of Doing Business" rank was ranked on 32nd place.

Regulatory Guillotine II. As a result of the successful reforms in 2007 and 2008, the Government decided to continue with the second phase of the Regulatory Guillotine Project. In April 2009, new measures aimed at further simplification of the procedures for trading across borders were proposed. In fact, additional 50 measures were designed to improve and group the work of border inspections and ensure their 24 hour presence on customs terminals, simplify administrative procedures, build capacities for risk based controls, reduce and eliminate unnecessary paperwork, decrease fees and tariffs, building electronic interoperability between border posts and central customs office and other measures that will speed up the movement of goods across borders.

Regulatory Guillotine III

In order to improve the business environment and to simplify the procedures for doing business, the Government started to implement a third phase of the Regulatory Guillotine project. Aiming to improve the dialog with the business community the government has approached 210 small, medium and large companies as well as to all Chambers of Commerce in order for them to point out and suggest any new or old unsolved problems related to bureaucratic and administrative barriers and positive regulations that create serious difficulties in the operation and improvement of business climate in Republic of Macedonia.

Regulatory Impact Assessment

Legal framework of the Regulatory Impact Assessment (RIA) was adopted in February and March 2008 through: Rules of Procedure for Amendments and Modifications to the Rules of Procedure of the Government of the Republic of Macedonia (Official Gazette No. 29/2008), Regulation Impact Assessment Methodology (Official Gazette No. 66/2009) and Decision on Format and Contents of the Regulatory Impact Assessment Forms (Official Gazette No. 66/2009).

Implementation of RIA Methodology will include two phases, initial RIA and full RIA, in line with the best EU practice. Programmes for strengthening the capacity and for training of the administration were realised during 2008 and continued to be realised in 2009 and 2010 as well. Starting from January 2009 the Regulatory Impact Assessment is obligatory for all draft laws which are part of the Annual Work Program of the Government of the Republic of Macedonia, except for the laws which are past by the Government through immediate procedure.

National Electronic Registry (ENER)

ENER is an electronic system, which, besides the existing enactments, contains the draft laws of the Ministries which are in the phase of preparation. ENER is very functional and enables the interested parties to submit electronically their comments and proposals, directly to the authorized institutions. By now more than 1200 existing enactments and more than 20 draft laws which are available for public comments, have been entered in the ENER.

Judicial system reforms

Background In the past period, the Republic of Macedonia put special accent on the judiciary. In this period, the competent institutions particularly focused their activities on implementation of the adopted laws. Judiciary reforms are aimed at efficient exercising and protection of rights and interests of citizens by: strengthening the court independence and impartiality, increasing the efficiency of judiciary and professionalising the judiciary.

So far, within the Judicial Reform Strategy, new 14 laws and 15 amendments and modifications to reform laws, 111 bylaws and decisions for their implementation were adopted and total of 9 new institutions were established. Academy for Training of Judges and Public Prosecutors, Court Council of the Republic of Macedonia, Administrative Court, Appellate Court Gostivar, Court Unit For the Fight against Organised Crime and Corruption for the whole territory of the Republic of Macedonia in the First-instance Court - Skopje 1 – Skopje, Council of Public Prosecutors, Primary Public Prosecution Office for Pursuit of Organised Crime and Corruption, High Public Prosecution Office Gostivar and Agency for Managing Confiscated Property. In addition, Unit for Protection of Right to Trial within reasonable deadline was established within the Supreme Court of the Republic of Macedonia. Overall, further progress has been achieved in implementing the reform of the judiciary, which is a key priority of the Accession Partnership.

Judiciary reforms have already shown noticeable results regarding the acceleration of court procedures and improvement of the debtor-creditor relations, as well as the improvement of the confidence in the judiciary. Performance indicator of the reform is the results obtained in the surveys for measuring the satisfaction of citizens from the operations of courts. In fact, in the period March-April 2009, the investigations in the last survey showed increase of the level of satisfaction of citizens from the operations of courts by 82.18 %.

Effects and results of the implementation of court reforms showed that, compared to past years, showing continuous increase of the number of newly received court cases and the number of unsolved cases, specific results have been registered for the first time in 2009, those being the following:

- Inflow of new cases at the end of the first half of 2009 decreased by 34.3% compared to 2006
- Total scope of work reduced by 27%;
- Number of unsolved cases reduced by 29%.

Legal framework. In line with abovementioned statistical data, the implementation of the *Law on Administrative Disputes* adopted in June 2006 contributed to improvement of the situation related to administrative disputes, thus the inflow of received cases was successfully overcome, and the number of backlogs decreased.

To the end of transferring of old executive cases which are still under the competence of the first-instance courts to the enforcement agents, a Law on Amendments and Modifications to the *Execution Law* was adopted, envisaging for the initiated execution procedures until the day of the entry into force of this Law to be carried out pursuant to the Law on Executive Procedure, by July 2010 at the latest. At the same time, it is envisaged for notaries public to adopt decisions, allowing execution on the basis of credible documents, upon request by creditors, thus unburdening the courts from the filed charges with proposals for issuance of payment orders on the basis of credible documents. Thus, the courts will reach decisions only when there is objection against the decision adopted by the notary public, under procedure with reference to the objection and they will reach decisions pursuant to the provisions of the Law on Legal Procedure for acting upon objection against payment order.

To the end of more efficient settlement of disputes with decisions of the *Mediation Law*, the alternative, out of court settlement of disputes was arranged, unburdening the courts from significant number of cases and providing faster and more economic access of citizens to justice and efficient alternative settlement of disputes. Statistical data point out to conclusion that, the mediation application gradually

increases, being alternative manner of solving the disputes, contributing to reduction of cases in the total results of the operations of courts in the Republic of Macedonia.

At the direction of meeting the standards for the right to *trial within a reasonable period of time*, in line with the European Convention for Human Rights and the reduction of the number of applications in front of the European Court, Unit for Acting Upon Cases for Trial within a Reasonable Period of Time was established in 2009, in which 14 judges, solving the requests for protection of the right to trial within a reasonable period of time on ongoing basis were deployed. For the purpose of creating efficient system for executing the judgments of the European Court of Human Rights, and to the end of organisational and staff strengthening of the body that will represent the Republic of Macedonia in front of the European Court of Human Rights, Law on Execution of European Court of Human Rights Judgments and Law on Representing the Republic of Macedonia in front of the European Court of Human Rights were adopted. These laws envisaged creation of special system for execution of the judgments of the European Court of Human Rights.

By adopting the *Law on Contracts relations* in 2008, as for the Macedonian contracts relations law, the system of contractual and default interests, the last ones in line with the decisions of the Directive 2000/35/EC for fight against late payments in trade transactions was reformed. The Directive was implemented only in terms of the claims, expressed in domestic currency, while as for the claims in foreign currency, imposition of obligation for paying domicile default interest rate, i.e. default interest rate due to delay in the payment of pecuniary liability in the currency's country of origin, was adopted as a solution, but its application was delayed. In 2009, the *Law on Amendments and Modifications to the Law on Contracts relations* was adopted, starting to apply in 2010. Taking into account that such provisions are hardly applicable, preparation of *Law on Amendments and Modifications to the Law on Contracts relations* was started and it should be adopted by the end of 2009.

For the purpose of establishing and developing contemporary and automated judiciary in the Republic of Macedonia based on ICT solutions and systems in line with the European and international standards, *ICT Judiciary Strategy 2007-2010 of the Republic of Macedonia* is implemented. In line with the Strategy, new Automated Court Case Management Information System (ACCMIS) was introduced in all courts, providing records and work with court cases and connection of foreign input documents with the appropriate court cases. It is envisaged for ACCMIS to function in all courts in the Republic of Macedonia starting January 2010.

To the end of realising the recommendations for strengthening the legal aid, mainly in the field of civil law, *Draft Law on Free Legal Aid* was prepared, envisaging equal access of all citizens to the institutions of the system by getting familiar, realising and providing effective legal aid. At the same time, the adoption of the law will both complete the legal aid matter and enable equal access of citizens to the institutions of the system.

Planned reform activities in judicial system. In the coming period, already commenced reform activities will continue. In fact, in 2010, Project under IPA 2007 for analysis of the implementation of the Judicial Reform Strategy from 2004 in the Republic of Macedonia will be implemented and on the basis of the obtained results, priorities and guidelines for further advancement of judicial system based on the international and the European standards will be determined.

Furthermore, the focus will be on implementing and applying the new Law on Courts and implementing the Law on Court Service.

Administrative legislation reform is also significant activity that will be realised in the period to come. Therefore, revision of the existing framework in this area and particularly the part regulating the administrative disputes - related matter is planned. On the basis of the analysis of the implementation of the Law on Administrative Disputes, Ministry of Justice prepared *Draft Law on Amendments and Modifications to the Law on Administrative Disputes* to ensure constitutional guarantee of the right to complaint against certain acts adopted under first instance trial procedure, administrative body or organisation or other institutions, carrying out public authorisations. In addition, preparation of *Draft Law on Amendments and Modifications to the Law on General Administrative Procedure* is planned. The implementation of IPA Project Support for better, more efficient and more contemporary functioning of

the Administrative Court is planned so to contribute for more efficient settlement of administrative disputes, improvement of human resource capacities within the Administrative Court and their training, improvement in the field of management of cases and their records, as well as improvement of the computer system.

For the purpose of removing the problems and providing timely execution of court cases, activities for implementation of the amendments and modifications to the Execution Law 2009 and transferring all executive cases from courts to enforcement agents will be undertaken, as of July 2010 inclusive. In addition, *Draft Law on Amendments and Modifications to the Execution Law* will be prepared, in the field referring to surveillance over the operations of enforcement agents, disciplinary responsibility and appointment of enforcement agent in case of termination of the already appointed enforcement agent.

On the basis of the conclusions of the held *National Conference* for practical application of the Law on Misdemeanours and the opinion submitted by the misdemeanour bodies, some deficiencies were determined, due to which, *Amendments and Modifications to the Law on Misdemeanours* will be started.

Based on the conclusions of the National Conference held on the practical application of the Law on misdemeanors and the opinion submitted by the authorities are determined certain shortcomings due to be available to the Amendments to the Law on misdemeanors.

To the end of providing legal solutions for faster and more efficient litigation procedure, *amendments and modifications to the Litigation Procedure Law* will be prepared and additional activities for ensuring smooth implementation of the new provisions of the law will be undertaken by the end of the second quarter of 2010.

For the purpose of meeting the standards for right to trial within a reasonable period of time, activities for timely and full implementation of the Law on Execution of European Court of Human Rights Judgments and Law on Representing the Republic of Macedonia in front of the European Court of Human Rights will be undertaken. In line with these laws, creation of special system for execution of the European Court of Human Rights judgments, as well as establishment of Bureau for Representing the Republic of Macedonia in front of the European Court of Human Rights, within the Ministry of Justice will be undertaken. Final outcome, which will be achieved with the implementation of these laws, is the adoption of final resolution by of the Council of Europe Committee of Ministries for closing the case against Macedonia.

In 2010, in terms of the international principles for provision of equal access to justice, activities for appropriate and timely implementation of the *Law on Free Legal Aid* are planned, and bylaws will be prepared within three months from the law adoption.

In 2010, IPA Project for Further Strengthening of the Judiciary will be implemented, which will include activities for further implementation of measures for independent and efficient judiciary, by strengthening the institutional capacities of the Academy for Training of Judges and Public Prosecutors and the national capacities for full implementation of the juvenile justice system reform.

On medium term, special attention will be also paid on adoption of the *Law on Criminal Procedure* and preparations for its implementation in practice.

In 2010, implementation of IPA Project that will support the implementation of the penal law reform will be implemented, putting special accent on the implementation of the new Law on Criminal Procedure through technical assistance for the public prosecution, in line with the new competences in the previous procedure and provision of part of the equipment for the investigative centers within the public prosecution offices.

Codification of civil law is long-lasting process carried out in two phases, whereby, as for the first phase, analysis of the legal inconsistencies and advancement of the civil legislation in line with the international standards is made, and after the preparation of the mentioned analyses, full codification of all regulations in the field of civil law will be commenced, systematically starting with codification of civil legislation in certain areas (urbanism, agriculture, etc.).

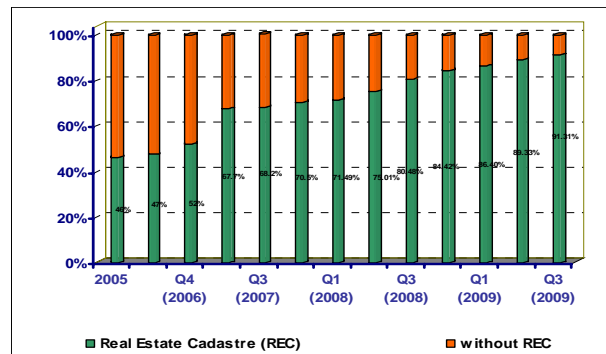
Property rights protection

Establishing Real Estate Cadastre

As of the end of 2009, real estate survey of the Real Estate Cadastre Agency (RECA) covers 96% of the territory of the Republic of Macedonia.

Chart shows the dynamic of real estate coverage for the period 2005 - September 2009.

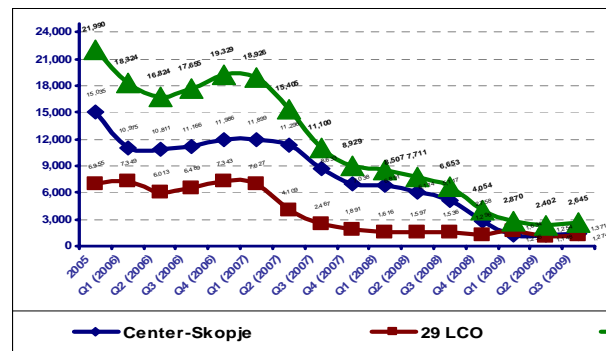
Chart 4.5. Percentage of cadastre municipalities with completed Real estate cadastre



Source: Real Estate Cadastre Agency

In the past two years, the number of unsolved cases drastically reduced. Such trend was noticeable despite the increased number of newly received cases in the last two years. This was a result of the increased percentage of established real estate cadastre. By the end of December 2008, number of unsolved cases decreased by 55% compared to 2007.

Chart 4.6. Number of unsolved cases (backlogs)



Source: Real Estate Cadastre Agency

Legal framework. In March 2008, the new Real Estate Cadastre Law was adopted, by which the so-far Authority for Geodetic Works was transformed into Real Estate Cadastre Agency (RECA), as its legal successor. Main novelties arising from the Law on Real Estate Cadastre are the following:

- Shortened manners of establishing and maintaining RECA without both hearing clients and preparing agreed minutes;
- Short deadlines for registration in the maintenance of cadastre (15 days for first registration of right to ownership and 1-3 days for registration of changes);
- Short deadlines for issuance of Geodetic Cadastre Information System data and
- Introduction of pre-registration and issuance of list for pre-registration of building under construction phase

Planned activities for the period 2010-2012 are the following:

- *Operationalisation of GPS reference stations, covering the whole territory of the Republic of Macedonia.* Establishment of active GNSS network on the whole territory of the Republic of Macedonia was completed in August 2009 and the system is currently under test period regarding its operations. By the end of 2010, it is expected for the system to be put to commercial use;
- *Development of NISD (National Infrastructure of Spatial Data).* Realisation of this activity will start by preparing NISD Development Strategy, within which, the following activities are planned: representation of the European directives and technical standards, analysis of the

existing situation of the geospatial data in the Republic of Macedonia, identification and categorisation of data that would be part of NISD and designing NISD at national level and

- *Development of data and standards model for NISD in RECA.* Development of the spatial data model for RECA is aimed at defining the manner of organising the spatial data in RECA, as part of NISD and defining the standards for geospatial data in line with INSPIRE directive no. 1205/2008).

Digital cadastral plans for the territory of the Republic of Macedonia

NISD - Government Geoportal. Geoportal, i.e. web portal will be used for access to geospatial data, as well as to the services related to spatial data via Internet.

WEBGIS. WEBGIS will enable availability for all users of geospatial data from RECA and other cadastral data from RECA, via Internet, with a possibility for e-shopping.

Strategy for Intellectual Property 2009-2012

Rights to intellectual property are particularly significant in a contemporary society. Thus, the Strategy for Intellectual Property is short-term priority of the Accession Partnership, including short-term goals aimed at creating a level of protection of rights to intellectual property and measures for efficient and effective exercising of rights appropriate to those in the European Union.

Increase of the level of efficiency and effectiveness of the protection and the implementation of the rights to intellectual property in the Republic of Macedonia, in line with the EU standards and rules are defined as strategic goal, and the strategic goals include the following: Strengthening the legal framework in the field of right to intellectual property, strengthening the implementation of the protection of rights to intellectual property, advancing the capacities of the individual holders of rights to intellectual property and copyrights and related rights, promoting the rights to protection of the implementation of rights to intellectual property of the business community and strengthening the public awareness of the intellectual property-related gains.

Having in mind the implementation of the set measures and activities, being an integral part of the Strategy, it is expected for the Republic of Macedonia to become society based on knowledge, increase of foreign direct investments, keeping and attraction of talents, advancement of the development of small- and medium-sized enterprises, protection of the intellectual property as internal market mechanism and fulfillment of the obligations of the Accession Partnership. Participation of the business community in the implementation of rights to intellectual property is carried out by building knowledge, skills and awareness of the business community of the protection of rights to intellectual property and the economic gains from the rights to intellectual property, as well as demonstration of the observance of intellectual property rights.

Intellectual property is of special importance for the EU internal market as well, taking into account that the protection of intellectual property not only promotes the creativity and innovations, but is also of crucial importance for job creation and advancement of competitiveness of goods and services.

4.7.5. Obstacles to trade in goods and services and cross-border investments

Foreign trade facilitation In November 2008, within the single window system for import and export (Single Window) and control in one stop (One Stop Shop) the first phase ended, with the start of the operational work of the Single Window System for Issuance of Licenses for Import/Export and Transit of Goods and Tariff Quota (EXIM). It includes the procedures for applying and issuing 66 different approvals and licenses, being part of the cross-border flow of goods, from 15 government institutions. Activities of the second phase of the Project are underway, envisaging advancement of the technical and functional characteristics of the system, introduction of additional electronic services in the field of transport licenses and cross-border flow of goods, as well as achievement of greater sophistication and interoperability with other systems, being developed by government institutions thereof.

As for the Customs Administration, Customs Declaration Processing System (CDPS) is under implementation, which should replace the existing Macedonian customs information system MAKCIS and modernise and facilitate the customs procedure. It should create conditions for introduction of

electronic declaration for operation of economic operators and implementation of customs procedure in paperless surrounding. New customs system, CDPS should provide conditions for exchange of data with other systems. Interoperability with EXIM, Information System for Integrated Border Management (ISIGU) and other systems of government institutions is envisaged therein. At the same time, new CDPS provides the necessary conditions at national level for interconnectivity and interoperability with the EU customs systems.

As for the Customs Administration, regarding the activities for trade facilitation, the Risk Assessment for Customs in Western Balkans (RACWEB) is ongoing. Goal of the project is increasing efficiency and transparency when identifying risks in customs procedures, by defining and adopting new techniques and development of advanced web-based information services, in the EU customs administrations and the Western Balkan countries.

At the same time, the Customs Administration undertakes intensive activities for promoting the possibilities for usage of simplified customs procedures.

Customs Administration will continue with the reforms and the modernisation in line with the Strategic Plan and NPAA.

Development Strategy 2008-2010 is under implementation, through the five strategic goals: Harmonisation with the EU acquis, efficient collection of import duties and implementation of trade policy measures, protection of citizens and fight against organised crime, effective application of information and communication system for cooperation and the modernisation of customs services and strengthening of cooperation with other institutions.

Thereby, in the coming period, activities will be particularly intensified for the following:

- Establishment of new IT system that will be interoperable with the EU IT systems (in line with the strategic plan of CARM, this activity will last during the period 2010-2012);
- Promotion of the authorised economic operator concept and simplified customs procedures;
- Full implementation of one-stop shop system for import and export control during single representation;
- Full functionality of customs laboratory;
- Introduction of national integrated customs and statistical nomenclature TARIM, within the new IT system (during 2010);
- Strengthening of customs surveillance mechanisms;
- Development and improvement of methods for risk analysis and selectivity of illegal trade.
- Advancement of cooperation and exchange of data with domestic and foreign institutions, as well as with the business community;
- Undertaking of excise goods management on the whole territory of the Republic of Macedonia as of 1st January 2010 and
- Procurement of mobile laboratory for the Unit for Operational Works.

5. MATRICES OF POLICY COMMITMENTS

Matrix of planned reforms		
Objective	Policy measure	Deadline
Industrial policy		

Improving competitiveness of the Macedonian industry	the	Implementing the Strategy for Industrial Policy of the Republic of Macedonia (2009-2020)	2010-2012
		National Strategy for Restructuring of the Steel Industry	2010-2012
		Implementing the Strategy for development of textile industry and Action Plan for revitalisation of the textile industry.	2010-2012
Support for the development of entrepreneurship and small- and medium-sized enterprises			
Straightening the SMEs institutional infrastructure		Observatory for SMEs – monitoring and analysis of statistical data for SMEs and preparation of Report	2010
		Organisation of regional forums for SMEs	2010
		Maintenance of web portal for SMEs	2010
		Co-financing the European Information and Innovation Centre in Macedonia (EIICM)- Enterprise Europe Network	2010
		Info Pult Project in cooperation with regional centers for business support	2010
Improving access to financing		Inter-ministerial cooperation for realisation of the Program for SMEs and promotion of the new EC document - Small Business Act	2010
		Improving access to finance for SMEs through the implementation of the 4 Government programmes for direct credit support to micro and SMEs (MBDP)	2010
		Organising information sessions on the availability of financial instruments for SMEs	2010
		Strengthening the capacities of newly established business centres	2010
Improving competitiveness and innovation of SME's	the	Co-financing the projects of non-financial nature for support to SM s	2010
	and	Preparing new four-year programme to support to entrepreneurship, competitiveness and innovation of SMEs in the Republic of Macedonia, in line with the principles of the Small Business Act	2010
		Subsidising projects for support and promotion of handicrafts	2010

	Preparing national strategy and action plan for development of handicrafts in the Republic of Macedonia	2010
	Organising European SME week, the EU Day of the Entrepreneur, Global Entrepreneurship Week and Day of Handicrafts in the Republic of Macedonia	2010
	Preparing Innovation Matrix for the Republic of Macedonia	2010
	-Human Resources Development -Voucher-consultancy system -Entrepreneurial awards -Entrepreneurial education -Publishing leaflets for SMEs -Lifetime Learning - Entrepreneurship -Promotional activities (fairs, workshops, business partnerships) - European week of entrepreneurs	2010
	Raising the awareness of the Information Communication Technology	2010
	Campaign for defining the needs of SMEs for implementation of standards and product quality in line with the legal obligations	2010
	General training of SMEs and associations within the Chambers of Commerce for protection of intellectual property rights	2010
	Specialised training for creation and use of certification marks and geographical names for small- and medium-sized enterprises and agricultural associations	2010
	-Co-financing other donor projects -Improving productivity of small- and medium-sized enterprises with support from JICA - Co-financing other donor projects	2010
	Organising trainings for consultants	2010
	Establishing national accreditation system for consultants	2010
	Training for SMEs	2010
	Organising local seminars for innovations and SMEs	2010

	Preparing WEB site for the regional centres	2010
	Co-financing projects within the activities of primary and secondary schools for promotion of the entrepreneurship	2010
Improving the investment climate in the Republic of Macedonia	Realising the Investment Promotion Programme in the Republic of Macedonia (2007-2010)	2010
	Realising the National Agenda for CSR for the Republic of Macedonia (2008-2012)	2010-2012
	Realising the Programme for Improving the Competitiveness of Macedonian Products	2010-2012
Internal market - free movement of goods		
Strengthening the intellectual property rights of the individual owners and the business community	Preparing and adopting comprehensive operational programme for fight against piracy and counterfeiting	2010
	Improving the efficiency and the effectiveness of judicial protection of intellectual property rights of perpetrators of crimes	2010-2012
	Improving the efficiency and the effectiveness of judicial protection of intellectual property rights at borders (customs measures) at import by natural persons and legal entities	2010-2012
	Supporting associations for collective exercising of copyright and related rights	2010-2012
	Building knowledge, skills and awareness of the individual owners and the business community in terms of implementing the intellectual property rights and economic benefits therefrom	2010-2012
	Manifestations for respecting the intellectual property rights	2010-2012
	Improving access to information on intellectual property rights through the web pages	2010-2012
	Realising the Intellectual Property Strategy	2010-2012
Building quality-based infrastructure	Supporting the business community about the procedures for standardisation, accreditation and metrology	2010-2012

	Realising the Strategy for implementing the legislation for the horizontal organisations (standardisation, accreditation, metrology and market surveillance) in the area of free movement of goods	2010-2011
	Authorising legal entities (bodies) to perform conformity assessment for a given range	2010-2012
	Accrediting legal entities (bodies) to perform conformity assessment of products placed on the market	2010-2011
	Recognising Macedonian products and Macedonian bodies on the EU internal market within ACCA	2010-2012
Tourism		
Republic of Macedonia – Recognisable tourist destination	Promotional activities of the international tourist fairs (Utreht, Ohrid, Ljubljana, Sofia, Belgrade, Berlin, Moscow, Cologne, Kiev and London)	2010
	Implementing the National Tourism Development Strategy 2009-2013	Continuous
	Starting with full functioning of the Agency for Promotion and Support of Tourism in the Republic of Macedonia as an independent institution	2010
Increasing and improving the standards and the quality of the tourist infrastructure and services	Categorisation and revision of the categorisation of the accommodation capacities according to the existing regulation	2010
	Categorisation of the private accommodation capacities by the local government	2010
	Giving state land for investments through international bids	2010
New tourism products	Analysis, status, opportunities and development of the winter centres in Macedonia	2010
	Subsidising tourism events	2010
	Developing new types of alternative tourism (developing transit tourism)	2010
Agriculture		

Law on Amendments and Modifications to the Law on Fisheries and Aquaculture	Additional editing of legal provisions covering the field of supervision, penal provisions, settlement and mediation and planning of measures, as well as using funds intended for promotion of fisheries and aquaculture.	2010
Law on Quality of Agricultural Products	Editing legal provisions of WMO for fruit, vegetables, cereal crops, poultry meat and eggs, beef, pork, mutton and goat meat, as well as products with protected designation of origin, geographical indication and traditional specialties.	2010
Common Main Livestock Breeding Programme for a period of 10 years	Common Main Livestock Breeding Programme regulates the following:	2010
	- breeding purposes;	
	- directions for breeding certain species, breeds, hybrids and other kinds of livestock,	
	- breeding methods and way of realisation;	
	- manner of publication and availability of results and	
- means of continuous implementation of the program.		
Programme for Conservation of Livestock Biodiversity for a period of 7 years	Measures under the Programme for Livestock Biodiversity are:	2010
	- conservation of all autochthonous breeds/lines of cattle bred in the Republic of Macedonia, with special accent on autochthonous breeds/lines in autochthonous environment;	
	conservation of livestock breeds out of the environment, in which they were bred (ex situ conservation), i.e. in the environment, in which they were bred (in situ conservation) for each breed/line of livestock;	
	establishing and functioning of gene banks in livestock;	
fulfilling the determined international practice;		

	<ul style="list-style-type: none"> - education and training in the field of conservation of livestock biodiversity; 	
	<ul style="list-style-type: none"> - raising public awareness of the importance of conservation of livestock biodiversity and 	
	<ul style="list-style-type: none"> - connecting with other programmes in the field of agriculture. 	
All bylaws arising from the Law on Livestock Breeding	Adoption of the bylaws will provide quality implementation of the Law on Livestock Breeding, and thus promotion of livestock production as a whole.	2010
Programme for Promotion of Fisheries and Aquaculture in the Republic of Macedonia for a period of 12 years.	Programme for Promotion of Fisheries and Aquaculture in the for a period of 12 years will contribute to improving the identified areas	2010
Assistance and support of the Government of Macedonia, when setting the major development directions for comprehensive rural development and development of the real estate market	Macedonian - Dutch Project for Land Consolidation - EMERALD and STIMERALD	2009/2011
Programme for Financial Support to Agriculture 2010	<p>The programme will cover measures with planned financial support for:</p> <ul style="list-style-type: none"> - plant production; - livestock production; -for introducing safety standards in agricultural production and quality control; - for organic agricultural production and - for general and special measures for agricultural development. 	2010
Programme with measures for promotion of the development of fisheries and aquaculture in 2010	The programme will cover the measures with planned financial support for protection and development of aquatic flora and fauna, financial support to aquaculture and fisheries, and special measures for implementation of the activities of the Law on Fisheries and Aquaculture.	2010

Orientation plan for carrying out autumn and spring sowing in the 2010/2011-production year.	Preparing orientation plan for carrying out autumn and spring sowing in the 2010/2011-production year.	2010
Fishing grounds for fishing areas, fishing zones and recreational zones	In 2010, procedure for selection of the most favourable bidder for preparation of grounds for fishing waters, not covered in 2009, will be implemented. It is expected for them to be prepared and adopted by the end of the year.	2010
Programme for Financial Support to Rural Development 2010	Additional editing of the legal provisions covering the field of rural development	2010
Amending and modifying the Decree on Implementation of Rural Policy Development	Additional editing of the legal provisions covering the field of rural development	2010
Amendment to bylaws for implementation of IPARD Programme	Additional editing of the legal provisions covering the field of rural development	2010
Preparing Agro-Ecological Programme	Additional editing of the legal provisions covering the field of rural development	2010
Establishing pilot rural network in the Republic of Macedonia.	Additional editing of the legal provisions covering the field of rural development	2010
Decree on types of activities that can be carried out as additional activities of family agricultural enterprises and their volume	Additional editing of the legal provisions covering the field of rural development	2010
Monitoring harmful organisms	Preparing monitoring programmes for harmful organisms and their implementation	2010/2011
Introducing the register of producers, manufacturers, importers and distributors of plants, plant products and other items and facilities	Keeping records, way of implementing checks of health of plants by natural persons and legal entities entered in the register, as well as the contents and the manner of reporting data	2010/2011
Introducing plant passports	Establishing full control over the health of plants in our country, and the entry of the Republic of Macedonia in the EU and export of plants in the EU Member States with which document – plant passport, health correctness of plants will be guaranteed	2011/2012

Registration and pre-registration of the active substance and products for plant protection	Professional training of staff who will conduct the registration and registration of the active substance and products for plant protection	2010/2011
Monitoring products for plant protection	Preparing Monitoring Programmes for products for plant protection and their implementation	2011/2012
Preparing and introducing registers of producers of rubbish, registers for placement on wholesale and retail market, stipulating the form, the contents and the manner of keeping registries of rubbish on the territory of The Republic of Macedonia	Establishing registers and their regular updating	2010/2012
Introducing the European Catalogue of Agricultural Plant Varieties	Changing the range of varieties of seed and seedling material in the Republic of Macedonia intended for export of agricultural plants in EU countries.	2010
Establishing National gene bank	Preserving varieties of seeds and seedling material, as the wealth of genetic potential for creating new varieties in the Republic of Macedonia	2010/2011
Amendments and modifications to the Law on Seed and Seedling material of Agricultural Plants	Measures are undertaken for successful implementation of the planned activities by the Office and for making amendments to the recommendations of the European Commission.	2010
Diagnosing and determining harmful organisms, biological testing, examination of physical-chemical properties of products for plant protection, analysis of the active matter, analysis of seedling material	- Control and surveillance of economic and quarantine harmful diseases; control and surveillance of economic and quarantine harmful organisms and-control and supervision of the quality properties of seed material	Continuous

Coordinating and harmonising activities related to technical assistance provided by multilateral and bilateral donor community	Greater harmonisation of the needs for technical assistance, more effective coordination of ongoing project activities, in particular the identification of priority activities in the field of agriculture, rural development, food safety and veterinary and phytosanitary policy	Continuous
Document entitled "Priorities for donor assistance in the Sector Agriculture and Rural Development"	Introducing "Programme Access"	2010/2011
Strengthening state veterinary service in line with the relevant EU standards	Further harmonisation of national legislation with the relevant EU acquis	2010
	Classification of facilities according to fulfilment of the conditions and determination of time framework for their adjustment	2009-2010
	Strengthening the inspection services in respect of performing official controls in the chain of food of animal origin in line with EU standards (IPA component 2)	2010-2011
	Establishing system for pigs (IPA component 5): procuring ear stamps and software for labelling pigs	2010
	Establishing system for pets (dogs and cats) and bees	2010
	Routine labelling, maintaining the system at the central level	2010-2012
Completing the legal framework in the field of hunting	Adopting all bylaws arising from the Law on Hunting	2010
Completing the legal framework in the field of forestry	Adopting all bylaws resulting from the Law on Forests	2011
Ensuring sustainable development of hunting	Adopting Annual Programme for Promotion and Development of Hunting in the Republic of Macedonia	2010

Ensuring sustainable development of forestry	-Adopting Annual Programme for Expanded Reproduction of Forests in 2010 and	2010
	-Preparing information on the health condition of forests in The Republic of Macedonia in 2009 with a proposal of measures	
Banking sector		
Completing the regulatory framework referring to non-banking financial institutions	Preparing Law on Financial Companies	2010
Improving the business climate, protecting deposits of natural and legal persons and harmonising the national legislation with the EU acquis	Preparing Law on Amendments and Modifications to the Law on Deposit Insurance Fund.	2010
Providing an opportunity for distance provision of financial services, protecting consumers and harmonising the national legislation with the EU acquis	Preparing Law on Distance Sale of Financial Services	2010
Harmonisation with the EU acquis	Preparing Law on Financial Conglomerates	2011
Further harmonization with the EU acquis	Preparing Law on Amendments and Modifications to the Banking Law	2012
Strengthening the banking regulation and its application	Applying the regulation for the capital necessary to cover credit and operational risk, prepared on the basis of simple approaches of Basel 2	2012
Strengthening the banking regulation	Preparing regulation for determination of the required capital for covering credit and operational risk, based on the advanced approaches of Basel 2	2012
Capital Market		
Harmonisation with the EU acquis	Law on Amendments and Modifications to the Securities Law	2010

Labour market reforms		
Active employment measures (Operational Plan for Active Employment Measures):	Operational Plan for 2010 (Programmes and measures will be defined in the process of its preparation, and it should be adopted by the Government of the Republic of Macedonia)	2010- 2011
	Developing capacities of MLSP and other institutions on the labour market for long-term planning of labour market	2010- 2011
	National Employment Strategy 2011-2015	2011
	National Employment Action Plan 2011-2012	2011
Improving administrative capacity in MLSP and EARM	Trainings for employees in MLSP and EARM related to policy, network and operative structure, as well as practice work on EURES (European Employment Services) and trainings for functioning and use of funds of the European Social Fund.	Continuous
Labour legislation reforms	Amendments to the Law on Labour Relations	2009
	Amendments to the Law on Labour Relations, Amendments to the Law on Employment and Insurance in Case of Unemployment, Amendments to the Law on Temporary Employment Agencies.	2010- 2011
	Trainings for harmonisation of the national labour legislation with the EU acquis	2010- 2011
Decreasing the tax burden of employees in the Republic of Macedonia	Social Contribution Reform	2011
Education		
Acquiring adequate level of education for all adult groups	Vocational training for adults, who have not finished the first level of professional qualifications	2012
	Qualifications, trainings and retraining of employed and adult persons	2012
	Acquiring literacy and first level of qualifications for persons in custody in the penalty- correctional institutions in Republic of Macedonia	2011
Adjusting qualification profile of labour force with the enterprises needs	Analysing the labour market needs	2012 Continuous
	Creating vocational standards, teaching plans and exam programmes in the VET center according to the labour market needs	2012

Public administration reform		
Institutional improvement of administrative structures and strengthening of administrative capacities		
Updating the Strategy for Public Administration Reform	Training of civil servants involved in the process of public administration reform	Continuous
	Building capacities of the Unit for Public Administration Reform for monitoring the implementation of the Strategy	Continuous
Adopting new Strategy for the Public Administration Reform, envisaged under IPA 2007	Consulting the public through public debates on the Draft Strategy	2009-2010
	Defining priorities based on previously carried out consultations with the public through public debates on the Draft Strategy	2009-2010
	Adopting new Strategy for the Public Administration Reform, provided under IPA 2007	2010
Regulatory Reform (Improving the quality of regulation)	Carrying out Regulatory Impact Assessment	2010-2012
Developing sustainable and stable quality system training	Preparing training and professionalisation of civil servants at central level	Continuous
	Providing systematic and quality during the training	2010
	Ensuring sustainability and stability of the system and carrying out trainings	2010
	Providing quality of trainings	2010
Capacity building for Strategic Planning and Policy Making	Training for strategic planning and policy making	2010-2012
	Implementing Twinning-, capacity building of the General Secretariat (Department of Strategy, Planning and Sector Monitoring and analysis of policies and coordination) for strengthening the capacities of the Government for strategic planning and monitoring and policy making and coordination"	2009-2010

Increasing the efficiency of public administration	Consistent application of the salaries and allowances system for state employees	Continuous
Improving transparency and accountability of the administration		
Improving cooperation of state bodies with the Ombudsman	Reports by the administrative bodies to the Government regarding the recommendations of the Ombudsman at quarterly level	Continuous
Implementing the Law on Free Access to Public Information	Submitting Annual Report by the Commission for Protection of the Right to Free Access to Public Information	Continuous
Improving web portal services (www.uslugi.gov.mk)	Developing comprehensive catalogue of all government agencies with crucial information about their responsibilities, its connection with the portal services and its distribution to the business community, local authorities, non-governmental organisation and media	These activities are ongoing
	Introducing new institutions to the Portal	Continuous
Implementing the Citizen's log mechanism	Submitting quarterly reports on the performance obtained by filling in the forms for assessing the services by users	Continuous
Implementing the Strategy for Cooperation between Government and Civil Sector	Amending and modifying the Law on Associations of Citizens and Foundations and adopting bylaws	2010
	Providing functional network for communication and coordination of activities related to the development of civil society	2010-2012
	Promoting effective cooperation with the civil sector	2010-2012
	Including the civil sector in setting policy and legislation related to the EU integration	2010-2012
	Creating favourable tax and fiscal support framework	2010-2012
	Promoting philanthropy and Promoting volunteering	2010-2012

Capacity building for cooperation with NGOs	Training for staff in the Unit for Cooperation with NGOs and ministries	2010-2012
Continuous development of civil sector	Encouraging the development of civil sector, particularly outside the capital city and rural areas	2010-2012
Judicial reforms		
Implementing the reform laws aimed at strengthening the independence and efficiency of the judiciary, as well as strengthening the overall capacity of the judicial system.	Analysis of the implementation of the Strategy for reform of the judicial system in Macedonia by 2004	2010
	Implementing the reform laws: the Law on Courts, the Law on Court Council, the Academy for Judges and Prosecutors, the Law on Court Budget and Law on Salaries for the Members of the Court Council	2010
	Continuous quantitative and qualitative assessment of the work of judges through the application of the Rules of Procedure and criteria for monitoring and evaluating the work of judges	2010
	Implementing the Law on Court Service	2010
	Implementing the Programme for planning and management of budget funds, according to which, during the preparation of the 2010 national budget appropriations for the judiciary should be increased and they should be appropriate to the percentage, which is determined as fixed percentage of GDP	2010
	Establishing Public Relations Office within the Court Council of the Republic of Macedonia	2010

	Publishing decisions from the council sessions on the Internet site of the Court Council of the Republic of Macedonia	2010
	Setting banner for measuring the confidence in the judiciary on the website of the Court Council of the Republic of Macedonia	2010
	Analysis of the implementation of the Law on Administrative Disputes and preparation of Draft Law on Amendments and Modifications to the Law on Administrative Disputes in order to ensure the constitutional guarantee of the right to appeal against individual acts adopted under first instance procedure in front of court, administrative body or organisation or other institutions performing public authorisations	2010
	Preparing Draft Law on Amendments and Modifications to the Law on General Administrative Procedure	2010
	Promoting the Law on Amendments and Modifications to the Mediation Law adopted in September 2009, which expanded the area of application of mediation in family and criminal litigations and enabled for the court, during the first instance procedure to advise clients to solve the dispute through mediation	2010
	Promoting and disseminating the Manual for recognition of disputes that can be resolved through mediation primarily intended for judges	2010
	Training of mediators	2010
	Amendments and Modifications to the Law	2010

	on Misdemeanours	
	Amendments and Modifications the Law of Litigation Procedure	2010
Meeting the standards of the right to trial within a reasonable time	Full implementation of the Law on Execution of the Judgments of the European Court of Human Rights Law and Advocacy of the Republic of Macedonia in front of the European Court of Human Rights	2010-2011
	Establishing Bureau for Representing the Republic of Macedonia in front of the European Court of Human Rights	2010
Providing equal access to justice	Adopting Law on Free Legal Aid	2009
	Training for implementation of the Law on Free Legal Aid	2010
Implementing the reform of criminal law	Adopting the Law on Criminal Procedure	2010
	Implementing the Action Plan for implementation of the Law on Criminal Procedure	2010-2012
	Implementing amendments and modifications to the Criminal Code	2010
Improving the court infrastructure	Building new court facility in Skopje	2010-2011
	Reconstructing and modernising the courts	2010-2011
Establishing efficient and functional IT system in the judicial institutions.	Introducing Automated Court Cases Management Information System (ACCMIS)	2010
	Amendments and Modifications to the Court Rules of Procedure	2010
	Procuring IT equipment for the judicial institutions	continuous

Improving the execution of court cases and establishing efficient system for delivery of the court summons.	Implementing amendments and modifications to the Execution Law dated 30/06/2009	2010
	Transfer of all executive cases from courts to the enforcement agents as of 01/06/2010 inclusive	2010
	Continuous appointment of enforcement agents at the vacant enforcement agents positions	2010
	Preparing the Law on Amendments and Modifications to the Execution Law	2010
Codification of civil right	Analysis of legal inconsistencies and advancing the civil legislation to the end of ensuring legal security of citizens	2010-2012
	Establishing expert-working group	2010
	Preparing General Register (lex generalis) and special (lex speciales) civil area-related laws	2010-2011
	Analysis of the conformity of the specific laws with the General Law on Ownership and other Rights in Rem aimed at, amendments, modifications and adoption of new laws	2010-2012
	Approximation of the Law on Ownership and other real rights	2010-2012
	Starting with the codification of civil legislation in certain areas (urbanism, agriculture, etc.)	2012

Improving the conditions in penalty -correctional institutions and providing more effective execution of sanctions in line with the international standards	Reconstructing penalty -correctional and educational-correctional institutions in Macedonia	2010-2012
	Action Programme of the Republic of Macedonia for the implementation of penitentiary system reform	2009-2014
Public procurement		
Strengthening the legal framework for public procurement	Adopting the Strategy for Development of the Public Procurement System	2010
	Introducing new procedures and methods for awarding public procurement contracts	2012
	Full transposition of the European regulation on public procurement	2012
Strengthening the administrative capacity	Expanding the network of trainers for public procurement	2013
	Organising trainings for public procurement and ESPP	Continuous
Cadastral reforms		
Availability of geospatial data and construction of geoinformational structure in line with the INSPIRE Directive	Operationalising GPS reference stations covering the whole territory of the Republic of Macedonia	2010
	Developing NISD (National Infrastructure for Spatial Data)	2011/2012
	Digitalising cadastral plans on the territory of the Republic of Macedonia	2012
	Establishing Government NSDI Geoportal	2012
	WEBGIS enabling availability of all geospatial data and other cadastral data via Internet for all users with the opportunity for e- shopping.	2012
Energy		
Improving the energy Infrastructure	Strategy for Development of Energy	2009

	HPP "Chebren" и HPP "Galiste"	2011
	HPP „Boshkov most“	2011
	Combined gas power plant "Energetika"	2011
	12 hydropower plants along Vardar river	2011
	Preparing Feasibility Study for Gas Pipeline System in Republic of Macedonia, design project	2010
	40 small hydropower plants	2011
	400 kV interconnection Shtip (Republic of Macedonia) - Nish (Republic of Serbia)	2010
Road Transport		
Improving the road infrastructure	Signing EU Westerns Balkan Treaty	2010
	SEETO-implementation of the multi-annual plan	2009-2013
	Constructing highway Kumanovo - Tabanovce	2010
	Strengthening bridges and rehabilitating part of E-75	2010
	Rehabilitating local and regional roads, which is loan from the World Bank amounting to EUR 70 million	2009-2013
	Government of the Republic of Macedonia to choose model for giving the roads under concession	2010
	Collecting bids for concessionaire for awarding a concession for modernisation and management of new system of collection of tolls at the 5 existing 5 toll stations in Macedonia	2010
	Constructing highway Demir Kapija - Smokvica	2014

	Preparing Feasibility Study, Cost-Benefit Analysis and Environmental Impact Assessment Study for upgrading at the level of highway on the road section of Corridor VIII Romanovce-Deve Bair and Gostivar-Kafasan	2012
	Technical assistance for preparation of Sectoral Feasibility Study and Cost-Benefit Analysis for development of strategic multi-modal transport nodes at national level	2012
	Updating the National Transport Strategy	2009, 2010
Railway transport		
Modernising and reconstructing the railway infrastructure and introducing system for facilitating trade and transport at border crossings	Adopting the Railway Development Law, Railway Safety Law and Law on Agency for regulating the market for railway services, completely harmonised with EU directives in the field of railways	2010
	Adopting bylaws arising from laws	2010
	Preparing new Law on Interoperability	2010
	Agreement for Control Cross Border Railway Transport between the Republic of Macedonia and Serbia, as well as the Republic of Macedonia and Kosovo	2010-2011
	South-East Europe Core Regional Transport Network Development Plan	2008-2012
	Modernising the telecommunications system along railway Corridor X and harmonisation of data on goods that need to be entered in the software used by railways and Customs	2010 and continuous
	Electronic issuance of tickets in passenger traffic	2010
	Purchasing 36 plateau wagons for cargo transportation	2010
	Funding the PE for railway infrastructure from the Budget of The Republic of	National Programme for Railway Infrastructure Investment

Macedonia	Preparing Annual Plan for Construction, Reconstruction, Modernisation, Overhaul and Maintenance of Railway Infrastructure for the current year and Report on the Implementation of the Annual Programme for Railway Infrastructure for the previous year.	2010 and continuous
	Technical documentation for reconstruction of section Kumanovo-Deljadrovce for speed of 120km/h: - Preparing Feasibility Study, Design Project, Cost-Benefit Analysis, Environmental Impact Assessment Study and Main Project	2012
	Technical documentation for dislocation of railway line Veles-Nogaevci speed of 120km/h: - Preparing Feasibility Study, Design Project, Cost-Benefit Analysis and Environmental Impact Assessment Study	2012
Air Transport		
Improving the infrastructure	- Constructing, reconstructing and using the airport "Alexander the Great" Skopje, Airport "St. Paul the Apostle"- Ohrid;	2010-2012
	- Constructing new cargo airport in Stip	Construction of the cargo-airport in Stip is postponed for a specified period of time
	- Defining the positions of the Republic of Macedonia during the negotiations for Functional Airspace Blocks (FAB) for reconfiguring the upper airspace on the basis of the flow of traffic, in order to improve the infrastructure for air navigation services	2010-2012
Electronic Communications		

Completing the legal framework in the field of electronic communications and broadcasting in order to implement the new package of directives from these areas	Amendments and modifications to the Law on Electronic Communications	2010
	Amendments and modifications to the Law on broadcasting activities	2010
Post Office		
Implementing Strategy for Development of Postal Services in the Republic of Macedonia 2008-2010, as well as the Law on Postal Services	<ul style="list-style-type: none"> - Modernising and restructuring, economic strengthening of AD Makedonska posta; - Engaging consultancy team that will define the conditions and opportunities for sale of part of shares; - Adopting general acts for providing postal services (individual permit, standard permit and approval); - Creating database of providers of postal services - Methodology for analysis of the postal services market 	2010

Structural reform agenda and achievements			
Major measures foreseen in the last year's PEP 2009	Adopted (Y/N)	Date	Comments
Privatisation			
Completing the privatisation process	Yes	2008	Realised
Strategies and policies in the industry - Improving the competitiveness of the Macedonian industry and increasing of industrial production			
Strategy for Development of Textile Industry	Yes	2007	Realised. The Strategy was adopted by the Government in 2007
Action Pan	No		Under realisation
Publishing Bulletin for steel industry	Yes	2008	Realised
Study for measuring indicators of competitiveness -defining set of indicators that will enable international comparability of the Macedonian industry	Yes	2009	Realised
Green Book of the competitiveness of the Macedonian industry, as basis for developing strategy for industrial policy	Yes	2009	Realised

Strategy for Industrial Policy of the Republic of Macedonia 2009-2020, its implementation will identify and propose measures and instruments that should be implemented for increasing the competitiveness of the economy	Yes	2009	Realised
Internationalisation - creating better information base for export opportunities and improving the promotion of the Macedonian companies on foreign markets	No		Unrealised since funds were not provided for this Project
Clustering - creating new association of clusters for increasing the competitiveness of production in industrial sectors	No		Under realisation Status: programme for support of the clusters for a period of 4 years, which will be adopted by the Government by March 2009 at the latest. Government's One-year Programme for support of the clusters for 2009 was prepared and submitted.
Small- and medium- sized enterprises			
New business centres	Yes	2009	Continuously implemented. Trainings for strengthening of the institutional capacity of the newly established 12 business centres in 2008 are organised
Increasing the level and standards of training and trainers- HRDF	Yes	2009	Continuously implemented. HRDF continued to function as project of APERM
Strengthening public-private dialogue (Forum)	Yes	2009	Realised During 2009, forum at national level and several meetings with representatives of the associations and the Chambers, as well as direct meetings with businessmen were realised
Strengthening the capacity of the Observatory	No		Continuously implemented. Annual report on SMEs is prepared by an external contractor appointed by collecting the most favourable bid.
European Information and Innovation Centre in Macedonia (EIICM) – Enterprise Europe Network	Yes	2009	Continuously implemented through co-financing of programme activities of EIICM.
Raising awareness of the importance of the Charter for Small Enterprises	Yes	2009	Realised. National Self-Evaluation Progress Report with respect to the Charter for Small Enterprises was

			prepared and submitted to the EC
Strengthening the Guarantee Fund and the issuance of guarantees	No		Under realisation. Status: Due to weak interest in guarantees, with the latest amendments to the Law on MBDP, conversion of these funds in the capital of the bank was carried out (additional capitalisation). The funds will be used to implement other credit programmes, for which, there is interest at the moment.
Establishing private Credit Bureau	Yes	2009	Realised
Incubators, clusters, innovative projects, promotion support	Yes	2009	Realised
Straightening the voucher system	Yes	2009	Realised
Co-financing the Human Resource Development Fund	Yes	2009	Realised
INFO PULT	Yes	2009	Realised
Voucher counselling system	Yes	2009	Realised
Entrepreneurial Awards	Yes	2009	Realisation of the measure is ongoing, whereby the co-financing of programmes is reduced due to reduction of funds from the annual programme
Entrepreneurial education	Yes	2009	Realised
European Day of the Entrepreneur	Yes	2009	Realised
Raising awareness of ICT	Yes	2009	Realised
International scientific cooperation	No		Unrealised Due to lack of funds, the measure was not realised
Raising awareness of intellectual property	No		Unrealised Due to lack of funds, the measure was not realised
Lifelong learning	Yes	2009	Realised
Publishing brochures for SMEs	Yes	2009	Realised
Promotional activities	Yes	2009	Realised
Co-financing other donor projects	Yes	2009	Realised

Co-financing the costs for implementing analysis of trainings in 500 companies	No		Realisation is ongoing
Entrepreneurial Zones – preparation of projects	No		Unrealised
Postgraduate studies - Entrepreneurship, Co-financing of postgraduate studies for entrepreneurship of target group in the sector SMEs	No		Unrealised
Self-employment with crediting	Yes	2009	Realised
Self-employment with grant	Yes	2009	Realised
Tourism			
National Tourism Development Strategy	No		Unrealised. It is under realisation. The strategy is prepared, but there are still ongoing activities aimed at improving its quality
Agriculture			
Law on Agriculture and Rural Development	Yes	2008	
Wine Law	No	Dec./2009	Wine Law is currently under preparation and it is harmonised with the EU directives
Law on Organic Agricultural Production	Yes	2009	Law on Organic Agricultural Production, national legislation approaches to the EU acquis. The new Law on Organic Agricultural Production more precisely regulates the provisions for organic production, and the system for professional control and supervision of organic production.
Rulebook on Amendments and Modifications to the Rulebook on the Form and the Contents and the Manner of Filing Applications for Registration of Wine Manufacturers	Yes	2009	This Rulebook regulates the rules for registration of wine cellars in the register of wine manufacturers.
Rulebook on Amendments and Modifications to the Rulebook on the Contents and the Form of the Accompanying Document for Grape and Wine Products and the Contents and the Format of Input and Output Registers for Grape and Wine Products	Yes	2009	This Rulebook regulates the accompanying document for export of wine and wine products in the European Union.

Rulebook on Allowed Fishing Tools	Yes	2009	This Rulebook prescribes the allowed fishing tools for conducting economic, recreational, ameliorative and selective fishing
Rulebook on how to mark the belt around fish ponds, in which fishing is prohibited	Yes	2009	This Rulebook prescribes the manner of marking the zone around the fishpond
Rulebook on the Fish Size, under which Fishing is forbidden	No	2010	Obligation will arise from the adoption of the Law Amendments and Modifications to the Law on Fisheries and Aquaculture
National Strategy for Vine-Growing and Wine Production	No	2010	Preparing the Strategy for Vine-Growing and Wine Production, in the preparation phase
Fishing grounds for fishing areas, fishing zones and recreational zones	Yes	2009	Carried out selection of the most favourable bidder for preparation of fishing grounds for fishing areas in Macedonia with the determination of recreational areas within the areas
Action Plan for Allocation of Agricultural State-Owned Land for Giving under Lease for 2008 and 2009	Yes	2008-2009	Total of 23 public announcements for putting state-owned agricultural land to lease, with a total of 1885 Lease Agreements, according to public announcement
Decree on Criteria for Determining Areas with Limited Opportunities for Agricultural Activities	Yes	2009	This Decree implements coherent rural development policy
Decree on Amendments and Modifications to the Decree on Implementation of Rural Development Policy	Yes	2009	This Decree implements coherent rural development policy
Programme for Financial Support for Rural Development 2009	Yes	2009	This Programme implements coherent rural development policy
Programme for Amendments and Modifications to the Programme for Financial Support to Rural Development for 2009	Yes	2009	This Programme implements coherent rural development policy
Memorandum of Cooperation between IPARD Managing Authority and the European Union Department	Yes	2009	Programme for Agriculture and Rural Development financed from EU Pre-Accession Funds for rural development 2007-2013

			(IPARD Programme)
Phytopsanitary Office accepted, i.e. implemented Annex 1 List of active substances approved for use in products, applied to protect the plants within the EU with defined conditions for decision on usage published in line with Annex 1 of Directive 91/414 EC.	Yes	2009	They are withdrawn from circulation and usage of products for plant protection in the Republic of Macedonia, which contain one or more active substances, not being included in the List Annex 1
Some of the bylaws of the Law on Rubbish were adopted	Yes	2009	Implementing part of the Law on Rubbish
One-stop shop system - exim for issuance of approvals for import of products for plant protection was introduced	Yes	2009	Simpler and faster issuance of approvals for import of products for plant protection
Implementing the activities of the Programme for Health Protection of Animals: -introducing module for vaccination against brucellosis in sheep and goats	Yes	2008	
Implementing the activities of the Programme for Health Protection of Animals: -adoption of the Programme for Protection and Prevention against Especially Dangerous Infectious Diseases in the Republic of Macedonia	No		Adoption is expected by the end of 2009
Upgrading and maintaining the system for identification and registration of animals: -information campaign conducted by the interested parties (farmers, livestock markets and slaughterhouses) for the usage and importance of the system for identification and registration of animals	Yes	2009	
Upgrading and maintaining the system for identification and registration of animals: -carried out procurement of necessary equipment and materials for identification and registration of small ruminants	Yes	2008-2009	
Upgrading and maintaining the system for identification and registration of animals: -prepared Plan and Strategy for implementing the system for identification and registration of pets (dogs and cats) and bees	No	2009	It is expected by the end of 2009
Integrated Border Management: -establishing national system for integrated border management	Yes	2008	

Integrated Border Management: -carried out consultation with foreign experts (EU expert mission) for the effective implementation of the system of reduced checks by veterinary services at border crossings of the Republic of Macedonia	Yes	2009	
Bylaw of the Law on Seed and Seedlings of Agricultural Plants was adopted	Yes	2008	Financial resources from the Programme for Seed and Seedling Material 2008 were provided
National Variety List of Agricultural Plants of the Republic of Macedonia was prepared and published	Yes	2008/2009	The list includes all varieties allowed for import in the Republic of Macedonia
Law on Selection Rights was adopted	Yes	2009	Having in mind this Law, the Republic of Macedonia will become full-fledged member of the UPOV Convention.
One-stop shop system - exim for issuing approvals for import of seed and seedling materials of agricultural plants was introduced.	Yes	2009	Simpler and faster issuance of approvals for import of seed and seedling material
Bylaws of the Law on Reproductive Material from Forest Tree Species	Yes	2008	
Law on Hunting	Yes	2009	
Forest Law	Yes	2009	
Programme for Expanded Reproduction of Forests in 2009	Yes	2009	
Information on the health condition of forests in the Republic of Macedonia for 2008 with draft measures	Yes	2009	Adopted by the Government of the Republic of Macedonia
Banking system			
Analysis of the method, according to which ratings of the rating agencies for determination of the capital adequacy are used	Yes	2009	The activity is ongoing and it will be implemented by the end of 2009.
Decision for introduction and application of the programmes for preventing money laundering of banks	Yes	2009	Realised
Insurance sector			

Establishing Insurance Supervision Agency	Yes	2009	
Labour market			
Active employment policies and measures for 2009	Realisation is ongoing		All activities should be completed by the end of calendar 2009
Labour Legislation Reform	Partially		Activities continue during the coming years
Improving the administrative capacity in MLSP and EARM	Yes	Continuous	
Social Contribution Reform	Yes	2009	In 2009, the social insurance contribution rates were reduced, and the reduction will continue in 2010 and 2011 as well
Introducing the "gross wage" concept	Yes	2009	The reform was carried out very successfully and contributed to reduction of the unemployment rate, growth of employment rate and reduction of tax burden on wages of employees
Education			
Acquiring adequate level of education for all adult groups: - Establishing Centre for Adult Education	Yes	2008	Decision for establishing the Centre was adopted in November 2008
Acquiring adequate level of education for all adult groups: - Vocational training for adults who have not finished the first level of professional qualifications	No		This activity is not initiated due to delayed establishment of the Council for Adult Education
Acquiring adequate level of education for all adult groups: - Qualifications, trainings and re-trainings for employed persons and adult persons	No		This activity is not initiated due to delayed establishment of the Council for Adult Education

Acquiring adequate level of education for all adult groups: - Acquiring Literacy and training for first level of qualifications for persons in custody in the penalty-correctional institutions in Republic of Macedonia	Partially		The realisation of this activity started in the penalty-correctional institutions in Ohrid. It is expected to be finalised as of 2011 inclusive
Decreasing the unemployed rate, through trainings and specialisation in line with the labour market needs: - Analysing the labour market needs	Partially		It is expected to be completed by the end of 2009, within NPAA AP, the deadline is 1 st December 2009
Decreasing the unemployment, through trainings and specialisation in line with the labour market needs: - Creating vocational standards, teaching plans and exam programmes in the VET center in line with the labour market needs	Yes	2009	Vocational standards and teaching plans are prepared only for deficient occupations
Decreasing the unemployment, through trainings and specialisation, in line with the labour market needs: - Training for acquiring appropriate qualifications	Yes	2009	
Public administration reform			
Training of civil servants involved in the public administration reform process	Yes	Continuous	
Capacity building of the Department for Public Administration Reform for monitoring the implementation of the Strategy of Public Administration Reform	Yes	Continuous	
Public debate about the contents of the Strategy of Public Administration Reform	Yes	2009	
Preparing programme for training and specialisation of civil servants at central level	Yes	Continuous	
Providing systematicism and quality during the training	Yes	2009	
Ensuring sustainability and stability of the system and carrying out trainings	Yes	2009	
Providing quality training	Yes	2009	
Training on strategic planning and policy making	Yes	Continuous	
Amendments and modifications to the Law on Civil Servants	Yes	2009	
Consistent application of the salary and allowance system for civil servants	Yes	Continuous	

Reports by the administrative bodies to the Government concerning the recommendations of the Ombudsman at quarterly level	Yes	Continuous	
Submitting Annual Report for the Protection of the Right to Free Access to Public Information by the Commission	Yes	Continuous	
Developing comprehensive catalogue of all government agencies with crucial information about their responsibilities, its connection with the Services Portal and its distribution to the business community, local authorities, non-governmental organisations and media		Continuous	These activities are ongoing
Introducing new institutions to the Portal	Yes	Continuous	
Submitting quarterly reports on the results obtained by filling in the forms for assessment of the services by users in connection with the implementation of the Citizens' log	Yes	Continuous	
New Law on Associations of Citizens and Foundations and adopting bylaws			These activities are ongoing
Providing functional network for communication and coordination of activities related to the civil sector development	Yes	Continuous	
Promoting effective cooperation with the civil sector	Yes	Continuous	
Involving the civil sector in setting the policy and the legislation related to EU integration	Yes	Continuous	
Creating favourable tax and fiscal support framework	Yes	Continuous	
Promoting philanthropy and promoting volunteerism	Yes	Continuous	These activities are ongoing
Trainings of staff in the Unit for Cooperation with NGOs and Ministries	Yes	Continuous	
Encouraging the development of the civil sector, particularly outside the capital city and rural areas	Yes	Continuous	
Preparing training plan for improving the principle of adequate and equal representation of communities not being majority	Yes	Continuous	
Implementing Regulatory Impact Assessment	Yes	Continuous	

Judiciary			
Implementing and applying the new Law on Courts	Yes	2008	
Training of Judges and Prosecutors	Yes	2008	
Strengthening the mechanisms for planning and managing the judicial budget	Yes	2008	
Improving the system for executing the court decisions	Yes	2008	
Implementing the Mediation Law	Yes	2008	
Operationalising the constitutional provision and the provisions in the Law on Misdemeanours	Yes	2008	
Implementing the changed concept of court protection against administrative acts	Yes	2008	
Implementing constitutional amendments to the Public Prosecution and strengthening the authorisations	Yes	2008	
Improving the penal legislation system	Yes	2008	
Improving the system for free legal aid	Yes	2008	
Establishing an effective information technology in the judicial institutions	Ongoing	2008	
Energy			
Implementing the Treaty establishing the Energy Community	Yes	2008	Realised
Road Transport			
Establishing the Agency for State Roads	Yes	2008	
Introducing electronic system of allocating licenses for international transport of goods	Yes	2008	
New software for electronic distribution of licenses for international transport of goods	Yes	2008	

National Road Safety Strategy for 2009-2014	Yes	2008	
Law on Transport of Dangerous Goods in the Road and Railway Traffic	Yes	2008	
Skopje Bypass, part of Corridor VIII	Yes	2008/2009	The first phase was completed in 2008, while the second phase ended in July 2009
Railway transport			
Liberalising the railway market	Yes	2008	
Study for determining the fee for access to railway infrastructure	Yes	2008	
Study for services of public interest in passenger railway transport	Yes	2008	
Agency for regulating the market for railway services	Yes	2008	
Air Transport			
Constructing, reconstructing and using the airport "Alexander the Great" Skopje Airport "St. Paul the Apostle"- Ohrid	No	2010-2011	Pursuant to Annex no. 2 dated 31.08.2009 for the extension of the deadline for entry into force of the Concession Agreement for development, financing, utilisation and maintenance of airports "Alexander the Great" Skopje, "St. Paul the Apostle"- Ohrid" and the new cargo airport in Stip, it will enter into force within 522 days from the signing (of the Agreement 01/03/2010).
Constructing new cargo-airport in Stip	No	2010-2012	Construction of the cargo-airport in Stip is postponed for a specified period of time

Draft Law on Amendments and Modifications to the Law on Aviation	No	2010	In the period 11-15.01.2010 in Skopje was realized TAIEX Procedures mission to finalize the amendments to the Law on Aviation after that, the law proposal will be submitted for adoption to the Government of the Republic of Macedonia
Transforming the Civil Aviation Agency	Yes	2009	
Full-fledged membership of Macedonia in the Joint Aviation Authorities	Yes	2008	
Electronic Communications			
Amendments to the Law on Electronic Communications	Yes	2008	The amendments envisage termination of the validity of the existing Concession Agreements, additional regulation of the legislation in the area of number portability, and the right of the Electronic Communications to reach second instance decision in the appeals procedure was abolished, i.e. right to judicial protection against the decision of Director of the Agency for Electronic Communications was introduced.
Amendments to the Law on Broadcasting Activities	Yes	2008	The amendments envisage reduction of the broadcasting fee of 37% thus increase of its collection is excepted, possibility for the area related to possible bankruptcy and liquidation under the law of the public broadcasting company to be regulated was introduced and opportunity for additional funding of public service with funds from the

			Budget of The Republic of Macedonia was introduced in order to create an efficient and functional public service broadcasting
National Strategy for Development of Electronic Communications with Information Technologies	Yes	2008	Adopted. Measures, to be implemented during 2008-2012 arise from the Strategy
Action Plan for implementing the National Strategy for Development of Electronic Communications with Information Technologies	Yes	2008	
Establishing National Information Society Council	Yes	2008	National Information Society Council will monitor the implementation of the Action Plan of the National Strategy Development of Electronic Communications with Information Technologies.
Amendments and modifications to the Law on the establishment of the PE Macedonian Radio diffusion (also envisaging the construction of the DVB-T multiplex for the needs of the public service programmes)	Yes	2009	
Developing Strategy for Development of Next Generation of Broadband Internet in the Republic of Macedonia	Yes	2009	
Post office			
Law on Postal Services	Yes	2008	
New employment in the Department of Communications, Department for postal traffic	No		Projected employment is envisaged to be realised in 2009
Establishing independent regulatory body for postal services, Postal Agency	Yes	2008	Postal Agency launched in June 2008

ANNEX 2: TABLES TO BE CONTAINED IN THE PRE-ACCESSION ECONOMIC PROGRAMMES AND THEIR UPDATES

Table 1a: Macroeconomic prospects

	ESA Code	Year 2008	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
		Level (€)	Rate of change				
1. Real GDP at market prices	B1*g	6061	4,8	-0,6	2,0	3,5	5,0
2. GDP at market prices	B1*g	6504	12,5	-0,5	4,0	5,6	7,6
Components of real GDP							
3. Private consumption expenditure	P3	4768	6,9	0,3	2,7	4,0	6,0
Government consumption expenditure	P3	1111	9,7	0,9	2,0	3,0	4,0
5. Gross fixed capital formation	P51	1350	15,6	-7,0	8,0	15,0	15,9
Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	307	4,9	4,1	5,1	4,0	4,0
7. Exports of goods and services	P6	2957	-4,3	-25,0	8,0	13,8	13,0
8. Imports of goods and services	P7	4423	5,8	-17,9	8,5	14,0	15,0
Contribution to real GDP growth							
9. Final domestic demand		7228	10,0	-1,5	4,7	8,0	10,3
Change in inventories and net acquisition of valuables	P52+P53	307	1,3	0,0	0,0	0,0	0,0
11. External balance of goods/services	B11	-1465	-6,5	0,9	-2,7	-4,5	-5,4

Table 1b: Price developments

Percentage changes, annual averages unless otherwise indicated	ESA Code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
1. GDP deflator		7.3	0.1	2.0	2.0	2.5
2. Private consumption deflator		9.9	-3.0	3.0	3.2	3.5
3. HICP		n.a	n.a	n.a	n.a	n.a
4. National CPI change		8.3	-0.8	2.0	2.0	2.5
5. Public consumption deflator		9.5	14.0	1.6	1.7	2.2
6. Investment deflator		4.5	-4.8	-1.0	1.6	2.0
7. Export price deflator (goods & services)		16.0	-5.0	2.2	2.2	2.5
8. Import price deflator (goods & services)		15.6	-4.8	2.2	3.3	3.5

Table 1c: Labour markets developments

	ESA Code	Year 2008	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
		Level	Rate of change				
1. Population (thousands)			2,048.4	2,052.5	2,056.6	2,060.7	2,064.8
2. Population (growth rate in %)			0.2	0.2	0.2	0.2	0.2
3. Working-age population (persons) ¹⁴			1,633,341	1,636,739	1,642,475	1,648,320	1,658,798
4. Participation rate			56.3	56.7	57.1	57.4	58.0
5. Employment, persons ¹⁵			609,015	630,045	648,947	668,415	695,151
6. Employment, hours worked ¹⁶			n.a	n.a	n.a	n.a	n.a
7. Employment (growth rate in %)			3.2	3.5	3.0	3.0	4.0
8. Public sector employment (persons)			108,857	112,122	n.a	n.a	n.a
9. Public sector employment (growth in %)			-2.1	3.0	n.a	n.a	n.a
10. Unemployment rate ¹⁷			33.8	32.1	30.8	29.4	27.8
11. Labour productivity, persons ¹⁸			1.6	-4.0	-1.0	0.5	1.0
12. Labour productivity, hours worked ¹⁹			n.a	n.a	n.a	n.a	n.a
13. Compensation of employees	D1	26,228*	13.8**	0.5	-2.0	7.1	8.0

* gross wage per employee

** due to "Gross wage" reform

¹⁴ Age group of 15-64 years

¹⁵ Occupied population, domestic concept national accounts definition

¹⁶ National accounts definition

¹⁷ Harmonised definition

¹⁸ Real GDP per person employed

¹⁹ Real GDP per hour worked

Table 1d: Sectoral balances

Percentages of GDP	ESA code	Year 2008	Year 2009f	Year 2010f	Year 2011	Year 2012
1. Net lending/borrowing vis-à-vis the rest of the world ²⁰	B.9	1.0	2.2	-0.8	optional	Optional
of which:						
- Balance of goods and services		-26.9	-23.1	-25.0		
- Balance of primary incomes and transfers		13.7	15.1	15.6		
- Capital and financial account ²¹		12.3	7.3	10.2		
2. Net lending/borrowing of the private sector ²²	B.9/ EDF B.9	12.7	12.6			
3. Net lending/borrowing of general government ²³		-1.0	-2.8	-2.5		
4. Statistical discrepancy		optional	Optional	optional	optional	
AP: we believe that the discrepancy in the data in this table is a result of the time inconsistency.						

²⁰ Financing of the Balance of payments.

²¹ Capital and financial account without official foreign reserves.

²² Private net external debt, including public enterprises. Last available data as of 30.06.2009.

²³ Central government fiscal balance.

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	398,491	396,496	412,515	435,492	468,698
Investment ratio (% of GDP)		26.7	23.8	24.2	26.6	29.2
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		7.0	2.3	2.4	2.8	2.9
2. Industry (excluding construction)		4.7	-8.0	2.4	5.6	7.3
3. Construction		13.5	3.7	2.3	6.6	10.2
4. Services		4.1	0.3	1.5	2.6	4.7

Table 1f: External sector developments

Euro mill. unless otherwise indicated	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
1. Current account balance (% of GDP)	-13.1	-8.0	-9.4		
2. Export of goods	2684.2	1960.8	2152.0		
3. Import of goods	-4434.9	-3447.3	-3788.9		
4. Trade balance	-1750.7	-1486.5	-1636.8		
5. Export of services	686.3	557.8	589.4		
6. Import of services	681.9	546.8	588.7		
7. Service balance	4.3	11.0	0.7		
8. Net interest payments from abroad	-46.3	-82.6	-65.8		
9. Other net factor income from abroad	-44.7	-9.2	-19.6		
10. Current transfers	984.0	1057.4	1105.3		
11. Of which from EU					
12. Current account balance	-853.3	-509.9	-616.3		
13. Foreign direct investment	409.4	150.1	266.5		

14. Foreign reserves	51.6	49.4	-50.5		
15. Foreign debt	3318.4	3450.6			
16. <i>Of which:</i> public	1097.3	1097.0			
17. <i>O/w:</i> foreign currency denominated					
18. <i>O/w:</i> repayments due	35.8	24.5			
19. Exchange rate vis-à-vis EUR (end-year)	61.4	61.17			
20. Exchange rate vis-à-vis EUR (annual average)	61.27	61.30	61.3		
21. Net foreign saving (lines 21-25: percentages of GDP)					
22. Domestic private saving	11.3	12.6			
23. Domestic private investment	23.5	23.7			
24. Domestic public saving	4.1	0.4			
25. Domestic public investment	5.0	3.3			

Table 2: General government budgetary prospects

	ESA code	Year 2008	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
		Level	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-3,804	-1.0	-2.8	-2.5	-2.5	-2.0
2. Central government	S1311	-3,804	-1.0	-2.8	-2.5	-2.5	-2.0
3. State government	S1312	-2,149	-0.6	-2.5	-2.2	-2.1	-1.5
4. Local government	S1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S1314	-1,655	-0.4	-0.3	-0.3	-0.4	-0.5
AP: the budget methodology used is GFS, under which line 2 is a sum of line 3 and 5.							
General government (S13)							
6. Total revenue	TR	143,719	37.7	34.1	36.7	35.6	34.3
7. Total expenditure ²⁴	TE	145,053	38.1	36.9	39.2	38.1	36.4
8. Net borrowing/lending	EDP.B9	-3,804	-1.5	-2.8	-2.5	-2.5	-2.0
9. Interest expenditure	EDP.D41 incl. FISIM	2,647	0.7	0.6	0.9	0.9	1.0
p.m. 9a. FISIM							
10. Primary balance ²⁵		-1,157	-0.3	-2.2	-1.6	-1.6	-1.0
Components of revenues							
11. Total taxes (11 = 11a+11b+11c)		76.853	20.2	18.7	18.8	18.5	18.4
11a. Taxes on production and imports	D2	29.130	7.6	6.4	6.4	6.1	6.1
11b. Current taxes on income and wealth	D5	44.868	11.8	11.4	11.5	11.5	11.5
11c. Capital taxes	D91	2.855	0.8	0.9	0.9	0.9	0.8
12. Social contributions	D61	38.252	10.0	9.8	9.9	9.3	8.7
13. Property income	D4	1.389	0.4	0.4	0.9	0.7	0.5
14. Other (14 = 15-(11+12+13))		27.225	7.1	5.2	7.1	7.1	6.7
15 = 6. Total revenue	TR	143.719	37.7	34.1	36.7	35.6	34.3

²⁴ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

²⁵ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

p.m.: Tax burden (D2+D5+D61+D91-D995) ²⁶	115,105	30.2	28.5	28.7	27.8	27.1
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²⁶ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2 (continued)

	ESA code	Year 2008	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
		Level	% of GDP				
Selected components of expenditures							
16. Collective consumption	P32	54.036	14.2	13.7	13.6	13.5	13
17. Total social transfers	D62 + D63	58.185	15.3	15.6	15.4	14.6	13.7
17a. Social transfers in kind	P31 = D63	n.a	n.a	n.a	n.a	n.a	n.a
17b. Social transfers other than in kind	D62	n.a	n.a	n.a	n.a	n.a	n.a
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	2.647	0.7	0.6	0.9	0.9	1.0
19. Subsidies	D3	10.001	2.6	2.7	2.9	2.8	2.6
20. Gross fixed capital formation	P51	20.184	5.3	4.3	6.4	6.3	6.1
21. Other (21 = 22-(16+17+18+19+20))		0	0	0	0	0	0
22. Total expenditures ²⁷	TE	145.053	38.1	36.9	39.2	38.1	36.4
p.m. compensation of employees	D1						

Table 3: General government expenditure by function

Percentage of GDP	COFOG Code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
1. General public services	1	13.481	13.500	13.618	n.a	n.a
2. Defence	2	6.998	7.403	6.654	n.a	n.a
3. Public order and safety	3	14.356	13.114	12.667	n.a	n.a
4. Economic affairs	4	22.324	28.200	30.637	n.a	n.a
5. Environmental protection	5	409	797	946	n.a	n.a
6. Housing and community amenities	6	1.401	1.582	1.948	n.a	n.a
7. Health	7	20.856	20.794	22.199	n.a	n.a
8. Recreation, culture and religion	8	3.557	3.787	4.168	n.a	n.a
9. Education	9	19.302	21.656	20.268	n.a	n.a
10. Social protection	10	42.369	47.170	48.822	n.a	n.a
11. Total expenditure (item 7 = 26 in Table 2)	TE	145.053	158.003	161.927	165.969	170.516

Data for 2009 are projections

²⁷

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

Table 4: General government debt developments

Percentages of GDP	ESA code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
1. Gross debt ²⁸		21,3	24,7	26,5	27,1	27,9
2. Change in gross debt ratio		-3,4	3,4	1,8	0,6	0,8
Contributions to change in gross debt						
3. Primary balance ²⁹		-0.3	-2.2	-1.6	-1.6	-1.0
4. Interest expenditure (incl. FISIM) ³⁰		0.7	0.6	0.9	0.9	1.0
5. Stock-flow adjustment		-3.8	1.8	1.1	-0.1	0.8
of which:						
Differences between cash and accruals ³¹		n.a	n.a	n.a	n.a	n.a
Net accumulation of financial assets ³²		n.a	n.a	n.a	n.a	n.a
of which:						
Privatisation proceeds		n.a	n.a	n.a	n.a	n.a
Valuation effects and other ³³		n.a	n.a	n.a	n.a	n.a
p.m. implicit interest rate on debt ³⁴		n.a	n.a	n.a	n.a	n.a
Other relevant variables						
6. Liquid financial assets ³⁵		n.a	n.a	n.a	n.a	n.a
7. Net financial debt (7 = 1 - 6)		n.a	n.a	n.a	n.a	n.a

²⁸ As defined in Regulation 3605/93 (not an ESA concept).

²⁹ Cf. item 10 in Table 2.

³⁰ Cf. item 9 in Table 2.

³¹ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

³² Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

³³ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

³⁴ Proxied by interest expenditure (incl. FISIM recorded as consumption) divided by the debt level of the previous year.

³⁵ AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5: Cyclical developments

Percentages of GDP	ESA Code	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
Real GDP growth (%)	B1g	4.8	-0.6	2.0	3.5	5.0
Net lending of general government	EDP.B.9	-1.0	-2.8	-2.5	-2.5	-2.0
Interest expenditure (incl. FISIM recorded as consumption)	EDP.D.41 + FISIM	0.7	0.6	0.9	0.9	1.0
4. Potential GDP growth (%) ³⁶		3.4	3.0	3.0	3.2	3.3
Contributions:						
labour		1.5	1.6	1.8	2.1	2.3
capital		1.3	1.4	1.7	2.0	2.3
total factor productivity		0.6	0	-0.5	-0.9	-1.3
5. Output gap		1.5	-3.6	-1.0	0.3	1.7
6. Cyclical budgetary component		0.4	-1.3	-0.9	-0.6	0.2
Cyclically-adjusted balance (2-6)		-1.4	-1.5	-1.7	-1.9	-2.2
Cyclically-adjusted primary balance (7-3)		-0.7	-0.9	-0.8	-1.0	-1.2

Table 6: Divergence from previous programme

	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012
1. GDP growth (% points)					
Previous programme	6.0	5.5	6.0	7.0	-
Latest programme	4.8	-0.6	2.0	3.5	5.0
Difference	-1.2	-6.1	-4.0	-3.5	-
2. General government net lending (% of GDP)					
Previous programme	-0.8	-2.8	-2.8	-2.8	-
Latest programme	-1.0	-2.8	-2.5	-2.5	-2.0
Difference	-0.2	0.0	-0.3	-0.3	-
3. General government gross debt (% of GDP)					
Previous programme	21.4	22.7	24.7	25.8	-
Latest programme	21.3	24.7	26.5	27.1	27.9
Difference	-0.1	2.0	1.8	1.3	-

³⁶ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

Table 7: Long-term sustainability of public finances

Percentages of GDP	2000	2005	2010	2020	2030	2040	2050
Total expenditure	36.6	36.2	39.2	38.0	38.0	38.0	38.0
of which:							
- Age-related expenditures	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Pension expenditure	4.6	5.3	8.5	8.0	8.0	8.0	8.0
- Social security pension	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Old-age and early pensions	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Other pensions (disability, survivors)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Occupational pensions (if in general government)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
- Health care	5.3	5.5	4.4	4.2	4.2	4.2	4.2
- Long-term care (this was earlier included in the health care)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Education expenditure	4.5	4.9	5.2	5.4	5.5	5.7	5.8
Other age-related expenditures	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Interest expenditure	1.62	1.12	0.9	1.0	1.0	1.0	1.0
Total revenues	34.1	36.6	36.7	36.0	36.0	36.0	36.0
of which: property income	n.a	n.a	n.a	n.a	n.a	n.a	n.a
of which: from pensions contributions (or social contributions, if appropriate)	7.0	6.6	6.7	6.3	6.4	6.4	6.5
Pension reserve fund assets	n.a	n.a	n.a	n.a	n.a	n.a	n.a
of which: consolidated public pension fund assets (assets other than government liabilities)	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Assumptions							
Labour productivity growth	3.5	0.2	-1.2	2.8	2.8	2.7	2.5
Real GDP growth	4.5	4.1	2.0	5.6	5.0	4.5	4.0
Participation rate males (aged 20-64)	71.7	71.9	77.8	82.0	83.6	84.4	84.2
Participation rates females (aged 20-64)	47.7	49.1	50.9	54.6	60.5	66.3	71.7
Total participation rates (20-64)	59.7	60.7	64.5	68.3	72.0	75.3	78.0
Unemployment rate	32.5	37.6	30.8	21.0	15.8	13.7	11.5
Population aged 65+ over total population		9.4	n.a	n.a	n.a	n.a	n.a

Table 8: Basic assumptions on the external economic environment underlying the PEP framework³⁷

VARIABLE (annual growth rates in %, if not otherwise stated)	REALISATIONS AND ASSUMPTIONS FOR										COMMENTS
	Year 2008		Year 2009		Year 2010		Year 2011		Year 2012		
		<i>chang e*</i>		<i>chang e*</i>		<i>chang e*</i>		<i>chang e*</i>		<i>chang e*</i>	
Interest rates (in % p.a., annual averages)											
- Short-term interest rate ³⁸ (annual average)	4.6	0.3	1.3	-3.3	1.5	0.2	2.5	1.0			European Economic Forecast – autumn 2009 (Euroarea)
- Long-term interest rate ³⁹ (annual average)	4.3	0	3.2	-1.1	3.5	0.3	3.8	0.3			
Exchange rates (annual average “-“: depreciation)											
Exchange rate vis-à-vis €	61.27	0.1	61.3	0.1	61.3	0.0					NBRM
USD / €	1.47	7.4	1.39	-5.3	1.5	7.6					For 2007, 2008 and Q1 2009 - WEO, October 2009; Q2-Q4 2009 and 2010 - Bloomberg
Nominal effective exchange rate ⁴⁰	105.6	1.0	111.8	5.8							NBRM
Real effective exchange rate ^{** 41}	89.0	0.6	90.5	1.7							NBRM
GDP (in real terms)											
- World, excluding EU											
- Euroarea	0.6	-2.2	-4.0	-3.6	0.7	4.7	1.5	0.8			WEO October 2009
World trade (in real terms)											
Country export markets											
World imports											
International prices											
World import prices (goods, in €)											

³⁷ This table should preferably be included in the programme itself; if not, these assumptions should be transmitted to the Commission together with the programme.

³⁸ If necessary, purely technical assumption

³⁹ If necessary, purely technical assumption

⁴⁰ The data for NEER, as of September 2009.

⁴¹ REER of the denar using CPI deflator, as of September 2009.

Oil Prices (Brent – USD per barrel)	97.6	34.3	61.9	-36.6	76.5	5.2	80.5		For 2008 and 2009 – World Bank; Forecasts from European Economic Forecast – autumn 2009
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*: change vis-à-vis assumptions made for last PEP

** : please indicate type of calculation (number of currencies, type of price index for deflation)

AP: The institutions have provided us with projections for 2011 and 2012, but we have noticed that the projections were not reliable. Due to the time constraint and because the Budget department does not have disaggregated projections for many of the items, we have decided to live the 2011 and 2012 fields blank.

Matrix of Policy Commitments

	Description of policy	2010	2011	2012
Economy				
Industrial policy				
Improvement of the competitiveness of the Macedonian industry				
A	Implementation profile			
B	Net direct budgetary impact	17,150,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	17,150,000		
Improvement of the institutional infrastructure Entrepreneurship Agency				
A	Implementation profile			
B	Net direct budgetary impact	4,000,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	4,000,000		
SMEs and entrepreneurship development support				
A	Implementation profile			
B	Net direct budgetary impact	6,404,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	6,404,000		
Business environment improvement				
Improvement of the business environment (Exit and entry to the market)				
A	Implementation profile			
B	Net direct budgetary impact	16,161,000		
B1	Direct effect on budgetary revenues	30,655,000		
B2	Direct effect on budgetary expenditures	46,816,000		
Strengthening of the rights of intellectual property of individual holders and business community				
A	Implementation profile			
B	Net direct budgetary impact	24,150,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	24,150,000		
Tourism				
A	Implementation profile			
B	Net direct budgetary impact	41,392,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	41,392,000		
Macedonian village project				
A	Implementation profile			
B	Net direct budgetary impact	50,000,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	50,000,000		
Agriculture				
Integrated information system for setting policies, adjustment to EU and strengthening administrative capacity and international trade cooperation				

A	Implementation profile			
B	Net direct budgetary impact	28,040,000		
B1	Direct effect on budgetary revenues	153,275,000		
B2	Direct effect on budgetary expenditures	181,315,000		
Forestry and Hunting				
A	Implementation profile			
B	Net direct budgetary impact	132,860,000		
B1	Direct effect on budgetary revenues	50,000,000		
B2	Direct effect on budgetary expenditures	182,860,000		
Supporting the development of agriculture and rural areas				
A	Implementation profile			
B	Net direct budgetary impact	5,883,239,000		
B1	Direct effect on budgetary revenues	7,000,000		
B2	Direct effect on budgetary expenditures	5,890,239,000		
Animal health				
A	Implementation profile			
B	Net direct budgetary impact	249,300,000		
B1	Direct effect on budgetary revenues	10,000,000		
B2	Direct effect on budgetary expenditures	259,300,000		
Protecting the health of plants, seeds and seedlings				
A	Implementation profile			
B	Net direct budgetary impact	16,570,000		
B1	Direct effect on budgetary revenues	2,500,000		
B2	Direct effect on budgetary expenditures	19,070,000		
Managing water resources				
A	Implementation profile			
B	Net direct budgetary impact	418,220,000		
B1	Direct effect on budgetary revenues	122,620,000		
B2	Direct effect on budgetary expenditures	540,840,000		
Labor market reforms				
Active employment measures				
A	Implementation profile			
B	Net direct budgetary impact	504,467,000		
B1	Direct effect on budgetary revenues/ estimated	22,376,350		
B2	Direct effect on budgetary expenditures /estimated	526,843,350		
Promotion of national policies in the area of social inclusion				
	Net direct budgetary effects	162,348,000		
	Direct effect on budgetary revenues	5,687,000		
	Direct effect on budgetary expenditures	168,035,000		
Education				
Improving the level of education for all adult groups				
A	Implementation profile			
B	Net direct budgetary impact	8,000,000		
B1	Direct effect on budgetary revenues	2,000,000		
B2	Direct effect on budgetary expenditures	10,000,000		
Literate and gaining first degree of professional qualifications for persons in custody in the Penalty Correction Institutions in Republic of Macedonia				
A	Implementation profile			
B	Net direct budgetary impact	3,000,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	3,000,000		
Creation of occupational standards, teaching materials and exam plans for specified scarce occupations				

A	Implementation profile			
B	Net direct budgetary impact	10,500,000		
B1	Direct effect on r budgetary revenues	120,000		
B2	Direct effect on budgetary expenditures	10,620,000		
Public administration reform				
Institutional improvement of the administrative structures and strengthening of the administrative capacities				
A	Implementation profile			
B	Net direct budgetary impact	- 740,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	740,000		
Improvement of the transparency and responsibility of the administration				
A	Implementation profile			
B	Net direct budgetary impact	- 828,000		
B1	Direct effect on revenues	0		
B2	Direct effect on expenditures	828,000		
Implementation of the Strategy for cooperating between the Government and the civil sector				
A	Implementation profile			
B	Net direct budgetary impact	- 60,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	60,000		
Judicial reform				
A	Implementation profile	X		
B	Net direct budgetary impact	11,993,000		
B1	Direct effect on budgetary revenues	110,358,000		
B2	Direct effect on budgetary expenditures	122,251,000		
Reconstruction of the criminal-corrective and educational-corrective institutions in the RM				
A	Implementation profile	X		
B	Net direct budgetary impact	83,500,000		
B1	Direct effect on budgetary revenues	122,600,000		
B2	Direct effect on budgetary expenditures	206,100,000		
Cadastre reform				
A	Implementation profile	X		
B	Net direct budgetary effects	37,690,000		
B1	Direct effect on revenues	135,300,000		
B2	Direct effect on expenditures	172,990,000		
Energy infrastructure development support				
A	Implementation profile			
B	Net direct budgetary impact	56,810,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	56,810,000		
Road transport				
Improvement of road infrastructure				
A	Implementation profile			
B	Net direct budgetary impact	3,479,000,000		
B1	Direct effect on budgetary revenues	1,700,000,000		
B2	Direct effect on budgetary expenditures	5,179,000,000		
Railway transport				
Modernisation and reconstruction of railway infrastructure and introduction of system for alleviation of trade and transport through border crossings				
A	Implementation profile			
B	Net direct budgetary impact	324,000,000		

B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	324,000,000		
Air transport				
Infrastructure expropriation				
A	Implementation profile			
B	Net direct budgetary impact	3,500,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	3,500,000		
Civil Aviation Agency - provider and regulator				
A	Implementation profile			
B	Net direct budgetary impact	0		
B1	Direct effect on budgetary revenues	76,020,000		
B2	Direct effect on budgetary expenditures	76,020,000		
Electronic communications				
Completion of legal framework in the area of electronic communications and radio broadcasting in order to implement the new directives				
A	Implementation profile			
B	Net direct budgetary impact	-5,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	5,000		
Implementation of measures from the National strategy for development of electronic communications with information technologies and measures from the Strategy for development of broadband internet in RM				
A	Implementation profile			
B	Net direct budgetary impact	750,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	750,000		
Post office				
Implementation of the Strategy for development of postal services in Republic of Macedonia 2008-2010 and the Law on postal services				
A	Implementation profile			
B	Net direct budgetary impact	12,000		
B1	Direct effect on budgetary revenues	0		
B2	Direct effect on budgetary expenditures	12,000		