

North Macedonia 2018



Total: 56.58

Political Freedom

Free and Fair Elections : 5.36

The building of new government of Macedonia in the mid of 2017 has ended years of political crises and uncertainties, somewhat normalizing political life in the country. Electoral process is partly free and fair. Many problems which undermine fairness remained unaddressed. Political campaigns are characterized by abuse of power by the politicians in power, politicization of the State Electoral Commission (SEC), non-transparent campaign financing and vote frauds and irregularities on the election day. Local elections in Macedonia were held in October 2017, after being postponed due to late election of the Speaker of Parliament. They were marked by huge losses of the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE), whereby the ruling Social Democratic Union of Macedonia (SDSM) won in the vast majority of places. However, fraudulent activities on the voting day, cases of political violence, politicized decisions by the SEC over complaints and unclear separation between state and party positions, were addressed by the OSCE observation mission to local elections. After police arrested 6 MPs of VMRO-DPMNE on the ground of allegations for being involved in the violence in Macedonian parliament, party started to boycott assembly sessions, until they have submitted a no-confidence vote against government of PM Zoran Zaev, which unsuccessfully took place in April 2018. Strong societal division along political lines triggered several protests in 2018, such as over introduction of Albanian as another official language and over agreement with Greece on their longstanding dispute over the name “Macedonia”.

Absence of Unconstitutional Veto Players : 5

Macedonia improved its score in this section due to democratic shift of government and stabilization of democratic institutions. However, politicization of the institutions still remains an undermining factor. President Gjorge Ivanov, supported by VMRO-DPMNE, continued to use extralegal tools to obstruct the work of the Government and shape public opinion, deepening the divisions in society over politics. His decisions are often ethnic based, the last one being his refusal to sign the law on introducing Albanian as an official language, even after the law was carried in the second reading in parliament. VMRO-DPMNE focused, throughout the year, all their efforts to obstruct the work of the National Assembly, through creation of tens of party clubs in the parliament, boycott of sessions or a no-confidence motion. Corruption among high ranking officials is high.

Freedom of Press : 3.6

Democratic transition of the government in Macedonia paved the way for more positive developments in media, although it is still to be seen how effective the new government will be on this. The work of media outlets is not independent, while it is often impeded with political interference and pressure, resulting in biased coverage on the most important social and political issues. However, the situation regarding polarization of the media is slightly improving, with some outlets, previously highly politicized, having started reporting in a more balanced way. Government cut down state advertising in media. Subsequently, many outlets closed, or remained active while reporting on their financial obstacles. Those events clearly indicated at strong relations between media and previous regime. Strong editorial, political and social pressures arising from deep societal division influence journalists' independence, thus self-censorship is widespread. Also, physical and verbal attacks against journalists are not rare. Poor job conditions in media sector make this independence even more difficult to achieve.

* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

Rule of Law

Independence of the Judiciary : 4.34

Macedonia's judiciary has been stagnating for several years now. Strong political influence, as part of a broader state capture during the decade 2006-2015, has prevented it from its role of safeguarding constitutionality, being a corrective factor against any government's attempts to put institutions under political party control, and checking on crime wherever it came from. However, judiciary (and similar services, e.g. SJO – Special Public Prosecutor Office) made it to launch a number of investigations against politicians from the most important parties, from both sides of the left-right aisle. Several politicians of the previous government (including ex-PM Nikola Gruevski) were sentenced to prison on corruption or embezzlement charges, while a number of other cases are still in progress. However, activities of SJO face tremendous obstacles, whereby many previously (politically) appointed judges refuse to sufficiently cooperate, which led to escape attempts by some of the suspects (later caught abroad) and various procedural difficulties in processing others.

Corruption : 3.5

Grand scale misuse of office and attempts to create a party-state that would control not just the entire public but indirectly also the private sector of the economy, as the policy during the VMRO-DPMNE government, together with its peculiar type of nationalism and mispending on the "antiquization" project, all were topped by increasing and ever less hidden corruption, which, after the release of "wiretap bombs" in 2015, led to mass protests and change of government. New centre-left government and its leading party SDSM promised, prior to 2016 elections, substantial

reforms, of the sort that would forever, and institutionally, prevent state capture as seen during the past decade. Afterwards, while trying to make sure no corruption culprits from the old government escape prosecution, and while negotiating the name-deal with Greece, it failed to implement enough of the promised institutional change. Some promising developments included renewed government cooperation with civil society organizations, which could help final shaping and implementing of the reforms and fighting corruption. In the Transparency International's CPI 2017 ranking, Macedonia fell to the place 107/180, far below all other Western Balkans countries. In the Freedom Houses' reports Nations in Transit, a setback regarding corruption was spotted in 2016/2017 (from 4.50 to 4.75), while stagnation in 2017/2018.

Protection of Human Rights : 5.51

New SDSM-led government promised a lot, from renewed sense of legality and making sure that no perpetrators of the 2006-2015 state capture and corruption escape prosecution, via settling the dispute with Greece, to reversal of all those policies of the last decade that were limiting human rights. Re-traditionalizing of family relations, including restrictions on abortion, changes to inheritance law, or keeping LGBT community out of any legal protection, were among VMRO-DMNE policies to be revoked first. So far, almost two years after the change of majority in Parliament, new family law is still pending adoption. Once carried, it will certainly better protect women, and introduce anti-discrimination clauses hence mitigate homophobia, but the fate of same-sex unions is still undecided. While, it is certain that, this time, same-sex marriages will not be legalized. However, ethnic-Albanian political parties in government made it to pass through a new legislation on the use of languages, making Albanian more present in public and de facto the second official language of the country, alongside Macedonian. The negative attitude towards migrants has not changed, whereby various illiberal groups are stepping up their campaign against them.

Economic Freedom

Security of Property Rights : 5.33

Private property rights in Macedonia are mostly respected. Yet, there are still many problems within the judiciary, stemming from the strong executive influence which could be depicted as state capture. The political changes - with the new government which has been in charge since June 2017 - provided hope for some changes in this area as well, especially because of high profile corruption cases against leading members of the previous government. However, the judicial environment still protects property rights fully only for those with good political connections while laws are not applied equally to all. Namely, corruption and favouritism still plague the judiciary. Furthermore, judicial processes are very slow, lasting on average almost 2 years, which is more than enough to diminish the public trust in judiciary. Administrative courts often fail to deliver verdicts in accordance to judicial precedents, therefore requiring parties in the process to appeal to appellation courts, increasing their workload substantially and prolonging the legal processes. Insolvency procedures are also slow, taking on average 1.5 year. They deliver very low recovery rates of less than 50% of the initial claim. Recent changes in voting procedures for the

reorganization plans and greater participation of creditors in insolvency proceedings are expected to provide positive results in this area. Private property registration is a long process, due to inefficient local tax office procedures which determine the level of transfer tax, which could be substantial. Not all land has a clear title, but urban areas are mostly covered. The 2016 legislation which requires obligatory mediation between companies for all disputes up to 15 000 euro of value as a precondition for going to court has imposed additional costs to businesses and prolonged contract enforcement, although its initial intention was to promote mediation and decrease pressures on the judiciary. There are signs of the lack of policy stability and predictability in designing and enacting regulation, which is usually done in a non-transparent way and with limited public consultations. Foreign investors can be active in almost all industries, but in certain ones (such as banking, insurance, energy and transport, etc.) they must meet licensing requirements. Foreign resident cannot acquire agricultural land in Macedonia, but this is easily avoided through establishment of a local company.

Size of Government: Expenditures, Taxes, and Enterprises :

8.1

Government consumption in Macedonia is relatively smaller as compared to other countries of the region, with public expenditure reaching just 32% of the GDP in 2017. Economic growth in 2017 was nil, since political uncertainties regarding the elections and possible regime change had put investments on hold. This was especially pronounced since recent economic policy was focused mostly on attracting FDIs. Under execution of capital expenditures, the problems in infrastructure projects (mostly in road construction) have been somewhat alleviated. A rise of the former, from a very low level, has been recorded. But current public expenditures on the wage bill and pensions system are high, leading to a high budget deficit of 2.7% of GDP in 2017, although public revenues have started to rise. The level of public debt was recorded to be 40% of GDP in 2017, but it is expected to rise due to an active spending agenda of the new government which is not followed by an increase in revenues. Government pension system is unsustainable, with huge deficits, which transferred to the state coffers. As in other countries in the region, demographic changes will further create stress to the public finances. After the full scale privatization programs during the previous two decades, the number of SOEs in the country is estimated to stand at 120, most of which are public utility companies owned by the central government, but SOEs are also present in energy, banking and transportation. Management appointments are connected to political influence, as are their wage and employment policy. They mostly have a weak business performance, and their operations are tied to purchasing social peace. The two biggest public-owned companies, operating in road infrastructure (PESR) and electricity (ELEM) could pose a significant financial challenge for the public finance if their efficiency is not assured. Low government spending results in a relatively lower tax burden than in other European countries, with VAT rates of 18% (standard rate) and 5% (preferential rate), while personal income and corporate taxes are both flat and both at the low 10%. However, high social security contributions put the overall labour tax wedge slightly below the OECD average. There is a significant exemption from social contributions for employment of young workers, decreasing their relative costs, but this contributed only slightly to the decrease in their unemployment rate.

Regulation of Credit, Labour, and Business : 7.06

Regulatory environment in Macedonia is mostly business friendly, so the country is ranked very high on the Doing Business list. Although regulation is mostly in line with the EU or other

international standards, there are serious deficiencies in the area of its actual implementation, bureaucracy capabilities and favourable treatment of different parties. Furthermore, regulatory changes are frequent, without due process and proper consultative mechanism with the public. Businesses, the public and NGOs play a limited role in the legislative and regulatory development process. Inconsistent interpretations of the legislation also create an unpredictable business environment and foster corruption. In February 2018, the government adopted a new Strategy for Public Administration Reform and Action Plan, which focus on policy creation and coordination, strengthening of public service capacities, and increasing of accountability and transparency, which is expected to alleviate at least somewhat these problems. Public procurement is prone to corruption, although usage of an automated electronic customs clearance process is widespread. Due to its weak performance and extended procedural delays, the government abolished the Council for Public Procurement in 2018, in order to make the public procurement system more efficient. Starting a business is expedient, without a paid in minimum capital, and is done in only two days, all due to the compulsory electronic online registration. Tax procedures are not overly burdensome, due to widespread electronic filing system, although they still require significant workload, but the VAT refunds take a lot of time. Obtaining a construction permit and getting electricity are also quick, but very expensive, due to high fees by the public utilities in charge of these processes. On the other hand, labour regulation is mostly flexible - due to flexible working hours and hiring procedures: fixed term contracts are not prohibited for permanent tasks and their duration is limited to a very long period of 60 months. Collective bargaining is mostly concentrated in the public sector, so it does not incur high costs to private entities. But the minimum wage is relatively high, reaching almost two thirds of the average wage, which encourages activities in the shadow economy and unemployment. It was further increased in September 2017 by 20%, and there is a further political commitment for its growth. Firing workers could be costly due to the prescribed levels of severance pay, which rises with the years in tenure, protecting more seasoned workers. Macedonia levied the obligation of paying social contribution for natural persons on professional contracts, if they are not employed in the entity, which boosted freelancer and professional activities.

Freedom to Trade Internationally : 8.78

Freedom of foreign trade in Macedonia is mostly respected. Since 2003, Macedonia has been a World Trade Organization (WTO) member, which liberalized its foreign trade. Trade tariffs are moderate, with the average MFN applied tariff rate of 6.7%. However, tariffs on agriculture goods (12.8%) are double that of those on manufactured goods (5.7%). Regulatory trade barriers are still a hindrance to foreign trade, due to complicated procedures for standardization of products. Bureaucracy procedures at the Customs Office also hinder free movement of goods, with long procedures and allegations of misconduct and partial dealing with different companies. Poor state of the transportation infrastructure, most notably the poor quality of roads and railways, is yet another obstacle, itself imposing increased freight costs. Full liberalization of the capital accounts is yet to be carried, since there are capital controls on movement of short-term capital. Macedonia ratified the WTO Trade Facilitation Agreement (TFA) in July 2015, which is expected to further liberalize trade flows after its implementation that is pending; and in October 2017 the government formed a National Trade Facilitation Committee in order to identify areas that need harmonization with the TFA. Macedonia is also an observing member to the Government Procurement Agreement (GPA); and in February 2018 the government sent its bid to the WTO to upgrade its status from observer to a fully-fledged member. Macedonian main trade partners are the EU countries Germany, Italy, Greece and Bulgaria, followed by neighbors from the region, such as Serbia and Kosovo. Therefore, bulk of its trade is conducted through Stability and Accession

Agreement (SAA) with the European Union, signed in 2001, and Central European Free Trade Area (CEFTA) agreement as of 2006. Macedonia has recorded a low negative current account balance of 1.3% of GDP in 2017, but export growth rate of 13% is almost double than that of imports (7%). In March 2018, the government passed its “Plan for Economic Growth”, which provides substantial incentives to foreign companies operating in the 15 free economic zones (Technological Industrial Development Zones - TIDZ). These incentives include a variety of measures including job creation subsidies, capital investment subsidies, and financial support to exporters.