

# North Macedonia 2016



Total: 58.01

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## Quick facts

Population:	2.071 million
Unemployment rate:	26.1 %
GDP:	9.453 billion EMU
GDP growth rate:	3.7 %
GDP per capita:	4 560 EMU

## Political Freedom

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### Free and Fair Elections : 5.71

Freedom and fairness of political processes in Macedonia deteriorated further in 2015. The year was marked by political polarization, an opposition boycott of the parliament, demonstrations, a wiretap scandal, transitional government and preparations for a new parliamentary election at the end of 2016. After last elections, the biggest opposition party Social Democratic Union of Macedonia (SDSM), accused the ruling coalition for electoral fraud and boycotted parliament session. Political situation became even worse when SDSM released wiretapped recordings by the government which indicated abuse of power, numerous electoral frauds and other manipulative violations in the campaigns by the government and ruling party officials. It led to massive demonstrations of opposition in May, followed by counter demonstrations of government supporters, bringing political polarization in the country to its peak. European Union jumped in as mediator to try to bring stability in the country and reconcile these two ends. Result of the negotiating process was comeback of SDSM and its coalition partners in the parliament and establishment of transitional government in order to make preparations for free and fair 2016 national elections. In the light of that, in November the parliament adopted some electoral changes regarding auditing of the voter list, formation of new Electoral Commission among others. Twice in the first half of 2016 the opposition block boycotted the scheduled early elections due to the lack of legislative amendments guaranteeing the necessary conditions for free and fair elections.

### Absence of Unconstitutional Veto Players : 5

Although unconstitutional veto powers don't exist in Macedonia, elected government wasn't able to function effectively during the observed period. Work and decision-making process by the government were undermined by the opposition boycott of the parliament, justified by alleged electoral fraud, which all finally led to the formation of a new, provisional government. That ruling party officials are the biggest threat to democratic processes, it became obvious after publishing the wiretapped material which clearly pointed out at the huge network of corruption that existed among the highest ranking country's politicians. Besides that, it also indicated that government didn't hesitate to abuse its power and espionage their citizens on an unlawful ground. On the other hand, ethnic conflicts between Albanians and Macedonians posed a threat to country's security. Alleged paramilitary Albanians attacked state border police in April, causing a raid by security forces in Albanian ethnic quarter of Kumanovo, a month later, leaving several people killed on both sides.

## **Freedom of Press : 3.8**

Press is not free in Macedonia. Deep political polarization during the last few years had reflected on media outlets in this country, therefore most of them are extremely biased toward either side of political spectrum. Poor job conditions for journalists, followed by a pressure to create content in line with owners' political affiliations or business interests, led to a high rate of self-censorship. Wiretap scandal that shackled Macedonian society revealed not only that over 100 journalist were supervised by the government, but also that their developed connections to media owners, as well as the owners' power to influence the contents of both public and private media outlets. Free access to public information is preserved only for pro-government outlets. Same goes for advertisements of the state-owned companies. Verbal and physical attacks on journalists are common. They, among other violent acts, included death threats, destruction of property and beating.

## **Rule of Law**

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### **Independence of the Judiciary : 4.33**

Independence of judiciary witnessed further deterioration during last year. Political pressures, especially in the most important high profile cases, have been reinstated. The most important investigation, upon which the peaceful future development of Macedonia crucially depends, is the one regarding secret tapes released between February and June 2015, the high corruption which they unmasked and adjacent conduct of secret services. For that purpose, Special Prosecutor was named in September 2015, as agreed by all major political parties. Meanwhile, her work was questioned from the constitutionalist point of view and sabotaged in many other ways by the major ruling party VMRO. In spring 2016, President of Macedonia pardoned all participants in the "tape bombs" scandal against whom there were evidences for involvement in corruption practices and political pressure, but he revoked the decision after renewed mass street protests and international critics.

### **Corruption : 4.2**

The tapes that Macedonia's opposition released in spring 2015 alleged that the highest officials of the government and of the ruling party VMRO-DPMNE, including the Prime Minister Nikola Gruevski, were involved in high level corruption – taking cuts of the major infrastructural projects or of procurement for the security sector, fixing tenders, bribing journalists, extorting donations to the party from companies, illicit favoring of party activists regarding employment in public sector, etc. Since then, mass protest anti-government movement is in the streets, whereby the country has been severely polarized. Subsequent attempts to find a peaceful end to crisis included the resignation of the PM and installation of the interim Government until new elections. As for other corruption-vulnerable areas, local politics has also proved as affected to a high degree. Macedonia's economy, not least the public sector but also parts of the private sector is, at least indirectly, controlled by political parties. Petty corruption is also pervasive. The Law on Protection of Whistle Blowers became effective in March 2016, but its implementation (by-laws, staff, etc) was so shallow that its amending might prove as necessary. Macedonia fell on the Transparency International's Corruption Perception Index 2015 list – with 42 points, together with Sao Tome & Principe and Turkey, it was ranked 66 (of 168).

## **Protection of Human Rights : 5.88**

Throughout 2015 and much of 2016, the street protests were rather daily than occasional. Many of them were to do with the ongoing of the “tape bomb” corruption scandal. Some of them were ignited by the discovery of a police murder of a detainee in 2011. Some were against the new, restrictive Law on High Education or other government measures. Some were pro-government, whereby public resources were used to bring pro-government rally participants to the capital. But all of them were marked by the polarization of the country into two belligerent political blocks. Many shortcomings in other areas of protection of human rights have thereby been overshadowed. Arbitrary arrests by the police are anyway in the rise. Islamophobia and hate speech are spreading. The position of the LGBT people is worsening, making Macedonia the most LGBT-unfriendly place in Balkans, with no anti-discrimination mechanisms at hand. New legislation is trying to re-traditionalize gender roles and family relations. Besides, the treatment of refugees was often violent – at the Greek border, on several occasions between autumn 2015 and April 2016, Macedonian police used teargas, rubber bullets and/or shock-bombs to discipline the protesting refugees, asylum seekers or other migrants. Those of them who were given temporary stay are not allowed to leave the refugee camps and are de facto locked in there (however provided all basic necessities), until they could legally leave to another country.

## **Economic Freedom**

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### **Security of Property Rights : 5.59**

Private property rights are mostly protected in Macedonia, but there are many deficiencies within the judiciary which strongly undermine its performance. Courts are not impartial in their dealings, and pressure from political groups might influence them. Furthermore, judicial processes are costly and very slow, which also applies to enforcement of court judgments. 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 legal processes. Similar problems plague insolvency procedures, which leads to very low recovery

rates. A new legislation in effect since February 2016 requires obligatory mediation for all disputes up to 15 000 euro of value as a precondition for going to court. This measure, which was introduced to promote mediation procedures in order to decrease workload pressures on the judiciary, has in fact led to imposition of an additional cost in pecuniary and time measures for businesses. Private property registration is a long process due to inefficient tax office procedures.

## **Size of Government: Expenditures, Taxes, and Enterprises : 8.09**

Size of government in Macedonia is relatively smaller as compared to other countries of the region, with public expenditure reaching only 32.2% of the GDP in 2015. Economic growth remains sluggish, facing certain deceleration due to the constrained external demand. Fiscal stimulus, that was used for capital investments in infrastructure in order to foster growth, delivered mixed results. However, budget deficits, used as an instrument of fiscal policy, have accumulated a substantial increase in public debt, which is expected to reach the 40%-of-GDP threshold at the end of 2016. Since government deficits are expected to remain elevated, mostly due to rising pension system deficits, it calls for a substantive fiscal program in order to contain public debt increase. Full scale privatization programs strongly decreased the level of influence the state exercises over the economy through state-owned enterprises (SOE). SOEs are active mostly in the field of public utilities, but also in energy, banking and transportation. Their business performance is not high - appointments are connected to political influence. Also, they are rather considered as guardians of social peace than as profit-generating entities. The two biggest public-owned companies, themselves operating in road infrastructure (PESR) and electricity (ELEM), pose a significant financial challenge for the public finance, due to their rising level of debt. Low government spending resulted in a relatively lower tax burden, with VAT rates set at 5% for preferential and 18% for standard rate, while personal income and corporate taxes are set at the low 10%. However, high social security contribution of 27% of the gross wage, sets the overall labour tax wedge to 37%, slightly above the OECD average.

## **Regulation of Credit, Labour, and Business : 6.77**

Regulatory environment in Macedonia is mostly favourable to entrepreneurial activities. However, the problem is not whether regulation exists or not or even what is its quality, but more in the field of its actual implementation in leveling the playing field for all contestants. Regulatory changes are frequent, often without proper consultative mechanism with the public, and they are retroactively applied. Macedonia has scored well in the Doing Business report of the World Bank, due to many reforms it had introduced during previous years, at times being at the top of the SEE countries. Starting a business is among the most efficient processes - without cost or paid in minimum capital - and fast, due to the introduction of the compulsory electronic online registration. Compliance with tax procedures is not burdensome, due to widespread electronic filing system. Obtaining a construction permit and getting electricity are very expensive, due to high fees of public entities in charge. On the other hand, labour regulation is mostly flexible - due to flexible working hours and because collective bargaining does not incur high costs to businesses, since it is mostly concentrated in the public sector. Also, duration of fixed term contracts is long, reaching 60 months. Introduction of the new law on misdemeanors will harmonize fines and link the gravity of the offense to financial resources of the company, alleviating the situation for the SME sector, since they were, due to their size, discriminated by the previous flat system. But the minimum wage is relatively high as compared to the average monthly salary. Firing workers could be costly due to prescribed levels of severance pay that are rising with years in tenure, protecting more

seasoned workers. Macedonia has recently levied the obligation of paying social contribution for persons on professional contracts, if they are not employed in the entity.

## **Freedom to Trade Internationally : 8.64**

Free trade is mostly respected in Macedonia. Same as in all small, open economies, free trade fosters production specialization and rise in productivity, thus enhancing economic development. Since 2003, Macedonia has been a member of the World Trade Organization (WTO), which liberalized foreign trade. Trade tariffs are not high, with the average applied tariff rate of 6.9%, with the exception of agriculture products, where tariffs could be significant. Regulatory trade barriers still remain, incurring cost on imported goods, due to the complicated product-standardization procedures. Customs` bureaucracy procedures hinder free movement of goods, especially in the border compliance section. There are also challenges posed by poor state of the transportation infrastructure, most notably by the quality of roads and railways, which increases freight costs. Capital controls on short-term capital inflow in order to limit the impact on the national currency exchange rate are still maintained. Vast majority of the trade is facilitated through Stability and Accession Agreement (SAA) with the European Union, signed in 2001, and Central European Free Trade Area (CEFTA) agreement as of 2006. These two free trade agreements connect Macedonian economy to its main trade partners: Germany, Italy, Greece, Bulgaria, Serbia and Kosovo. During October 2015, Macedonia ratified the WTO Trade Facilitation Agreement (TFA) which is expected to further liberalize trade flows, and is an observer to the Government Procurement Agreement (GPA). There are some obstacles in issuance of work and residence permits for foreign nationals, since the process could be very slow.