



**EUROPEAN
COMMISSION**

Brussels, 10.10.2012 SWD(2012) 332

**COMMISSION STAFF WORKING DOCUMENT
THE REPUBLIC OF MACEDONIA 2012 PROGRESS REPORT**

accompanying the document

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE
COUNCIL**

Enlargement Strategy and Main Challenges 2012-2013

{COM(2012) 600}

The Secretariat for European Affairs intervened in the text by replacing the reference “former Yugoslav Republic of Macedonia” with the constitutional name “Republic of Macedonia”

EN

EN

TABLE OF CONTENTS

1.	Introduction	4
1.1.	Preface	4
1.2.	Context	4
1.3.	Relations between the EU and the Republic of Macedonia	4
2.	Political criteria	6
2.1.	Democracy and the rule of law	6
2.2.	Human rights and the protection of minorities	13
2.3.	Regional issues and international obligations	18
3.	Economic criteria	20
3.1.	The existence of a functioning market economy	20
3.2.	The capacity to cope with competitive pressure and market forces within the Union	24
4.	Ability to take on the obligations of membership	26
4.1.	Chapter 1: Free movement of goods	26
4.2.	Chapter 2: Freedom of movement for workers	27
4.3.	Chapter 3: Right of establishment and freedom to provide services	28
4.4.	Chapter 4: Free movement of capital	29
4.5.	Chapter 5: Public procurement	30
4.6.	Chapter 6: Company law	31
4.7.	Chapter 7: Intellectual property law	32
4.8.	Chapter 8: Competition policy	33
4.9.	Chapter 9: Financial services	33
4.10.	Chapter 10: Information society and media	35
4.11.	Chapter 11: Agriculture and rural development	37
4.12.	Chapter 12: Food safety, veterinary and phytosanitary policy	38
4.13.	Chapter 13: Fisheries	40
4.14.	Chapter 14: Transport policy	40
4.15.	Chapter 15: Energy	41
4.16.	Chapter 16: Taxation	43
4.17.	Chapter 17: Economic and monetary policy	44
4.18.	Chapter 18: Statistics	44
4.19.	Chapter 19: Social policy and employment	45
4.20.	Chapter 20: Enterprise and industrial policy	47
4.21.	Chapter 21: Trans-European networks	48

4.22.	Chapter 22: Regional policy and coordination of structural instruments	48
4.23.	Chapter 23: Judiciary and fundamental rights	49
4.24.	Chapter 24: Justice, freedom and security	56
4.25.	Chapter 25: Science and research.....	59
4.26.	Chapter 26: Education and culture	60
4.27.	Chapter 27: Environment and climate change	61
4.28.	Chapter 28: Consumer and health protection	63
4.29.	Chapter 29: Customs union	64
4.30.	Chapter 30: External relations	65
4.31.	Chapter 31: Foreign, security and defence policy	66
4.32.	Chapter 32: Financial control	66
4.33.	Chapter 33: Financial and budgetary provisions	67
	Statistical Annex	68

1. INTRODUCTION

1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkans region. This report on progress made by the Republic of Macedonia in preparing for EU membership largely follows the same structure as in previous years. The report:

- briefly describes the relations between the Republic of Macedonia and the Union;
- analyses the situation in the Republic of Macedonia in terms of the political criteria for membership;
- analyses the situation in the Republic of Macedonia on the basis of the economic criteria for membership;
- reviews the Republic of Macedonia's capacity to take on the obligations of membership, i.e. the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

This report covers the period from October 2011 to September 2012. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or awaiting parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and enables an objective assessment.

The report is based on information gathered and analysed by the Commission. Many other sources have also been used, including contributions from the government of the Republic of Macedonia, the EU Member States, European Parliament reports¹ and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding the Republic of Macedonia in its separate communication on enlargement², based on the technical analysis contained in this report.

1.2. Context

The European Council of December 2005 granted the status of candidate country to the Republic of Macedonia. The Stabilisation and Association Agreement (SAA) between the Republic of Macedonia and the EU was signed in April 2001 and entered into force in April 2004. In October 2009, the Commission made recommendations to the Council to open negotiations with the country and to move to the second phase of SAA Implementation. These recommendations were reiterated in 2010 and 2011. The Council has not yet decided on the Commission's proposals.

1.3. Relations between the EU and the Republic of Macedonia

The Republic of Macedonia is participating in the **Stabilisation and Association Process**.

The **Stabilisation and Association Agreement** (SAA) remained at the core of the relationship between the EU and the Republic of Macedonia. The country has been implementing its commitments under the SAA with the EU, including all those relating to the first stage of implementation of Title V (Movement of workers, establishment,

The rapporteur for the Republic of Macedonia is Mr Richard Howitt. Enlargement Strategy and Main Challenges 2012-2013, COM(2012) 600.

supply of services, capital). The Commission's 2009 proposal on passage to the second stage of the Association, under Article 5 of the SAA, has been under consideration by the Council.

Regular political and economic dialogue between the EU and the country has continued through the SAA structures. Meetings of the highest joint bodies, namely the Stabilisation and Association Committee and the Stabilisation and Association Council, took place in October 2011 and January and July 2012. Experts from both sides have met in seven sub-committees and a special group on public administration reform. Multilateral economic dialogue between the Commission, the EU Member States and candidate countries on pre-accession fiscal surveillance continued, and included a ministerial meeting in Brussels in May. In December 2011, the government adopted its annual revision of the national programme for the adoption of the *acquis*.

A **High Level Accession Dialogue (HLAD)** was launched by the government and the Commission on 15 March 2012. The purpose of the HLAD is to inject new dynamism into the EU accession reform process, thereby strengthening confidence and boosting the country's European prospects. It does not override the standard pre-accession procedures. The HLAD focuses on five key areas: protecting freedom of expression in the media; strengthening the rule of law; reforming public administration; improving the election process; and developing the market economy. It also discussed good neighbourly relations. Political-level meetings were held on 15 March, 7 May and 17 September. These reviewed progress in reforms on the basis of agreed targets and actions and a government roadmap. Technical consultations on various topics continued throughout the year. There has been good overall progress. The targets and actions are assessed in detail within the relevant sections of the Progress Report.

Visa liberalisation for citizens of the Republic of Macedonia travelling to the Schengen area has been in force since December 2009. The Commission set up a post-visa-liberalisation monitoring mechanism to assess whether the implementation of all the reforms introduced by the country was consistent with the visa roadmap and sustainable. This was complemented by an alert mechanism to avoid abuses. The Commission presented its second monitoring report to the European Parliament and the Council in December 2011 and adopted the third in August 2012. A **readmission agreement** between the European Union and the Republic of Macedonia has been in force since January 2008.

Financial assistance is provided through the Instrument for Pre-Accession Assistance (IPA). The revised Multiannual Indicative Financial Framework for 2012-13 allocates a total EU contribution of €215 million to the country. The last national programme under the current IPA Component I was submitted to the Commission in July 2012 with a total EU allocation of €56 million for the years 2012 and 2013. In addition, the country continued to benefit from various regional, cross-border cooperation and horizontal programmes. Implementation of all IPA programmes on the ground is slowly taken off. The government should, however, streamline and strengthen planning and horizontal coordination of policies, particularly in view of the forthcoming IPA 2014-2020 programming period.

Since 2007 the Commission has committed over €490 million for projects to be implemented in the country, including € 101 million in 2012. This assistance focuses on further strengthening administrative capacity (with particular emphasis on the judiciary and public administration sectors), regional economic development, customs reforms, alignment with the EU *acquis* and technical support to ensure sound and efficient management of EU funds. In the context of pre-accession, since December 2010, the national authorities have been directly managing over €250 million under the Decentralised Implementation System (DIS) for four out of five IPA components. There have been encouraging elements regarding the reinforcement of capacities across the administration in 2012, although further strengthening

of the national management and control systems is still needed in order to ensure higher effectiveness, impact and absorption of EU funds.

Civil society has received extensive financial support from the EU under the IPA Civil Society Facility and national programmes, as well as through the European Instrument for Democracy and Human Rights. The programmes currently being implemented provide significant support for NGO management and resource mobilisation, for institutional cooperation between CSOs and central and local authorities as well as networking at regional level. Furthermore, under the DIS, civil society is involved in monitoring the implementation of EU aid, particularly the assistance given under the Transition and Institution-Building Component, via participation in the biannual IPA Monitoring Meetings. The first one was held in Skopje on 16 July 2012.

The Republic of Macedonia actively participates in the following **Union Programmes**: the Seventh Research Framework Programme, the Entrepreneurship and Innovation Programme, 'Progress', 'Culture', 'Europe for Citizens', 'Fiscalis 2013', 'Customs 2013', and (since December 2011) the Intelligent Energy Programme.

2. POLITICAL CRITERIA

This section examines the progress made by the Republic of Macedonia towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States and compliance with international obligations, such as cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY).

2.1. Democracy and the rule of law

Parliament

The functioning of Parliament and political dialogue have been maintained. Dialogue needs to be further strengthened, including on inter-ethnic issues.

All parties supported the High Level Accession Dialogue (HLAD) as an opportunity to inject new dynamism into the EU accession process. The Parliament adopted several laws related to EU accession, in particular as regards the reform targets of the HLAD.

The parliament is discussing government proposals for improvement of the legislative framework for elections, following the OSCE/ODIHR recommendations on the 2011 elections. The proposals aim to strengthen the Electoral Code, in particular by increasing transparency of campaign and political party financing and addressing gaps and ambiguities in the existing Code. The government has also proposed amendments of the Law on financing of political parties. The Voters' List is in the process of being revised. On-going efforts will be necessary to fully address the recommendations of the OSCE/ODIHR, in particular as regards the separation of state and political parties, prevention of intimidation of voters and audit of the Voters' List.

The Parliamentary Committee on EU Affairs (CEA) and the National Council on EU Integration (NCEI), which is chaired by the opposition and includes civil society representatives, held joint sessions on key EU topics. They debated the 2011 Progress Report, the annual revision of the National Programme for the Adoption of the Acquis (NPAA) and the HLAD roadmap for reforms. The CEA and NCEI consulted with the Commission as part of the HLAD meeting of 7 May and 17 September in Skopje. The two bodies held regular sessions and public hearings.

Agenda items proposed by the opposition were discussed in plenary, in line with the 2009 Law on Parliament and 2010 amendments to the rules of procedure.

Fourteen further public hearings, one public discussion and two oversight hearings were held. The legislative process involved consultations with civil society organisations and academia.

The 2011 amendments to the Law on Languages were implemented. The Committee on Inter-ethnic Relations continued its activities and held five sessions, including one on inter-ethnic incidents and tensions which arose in the first half of the year. The Committee on Labour and Social Policy continues to discuss the scope of the government proposed Law on Defenders concerning support to victims of the 2001 conflict. A mutually satisfactory solution should be found which facilitates reconciliation, on the basis of the recent government report on the Ohrid Framework Agreement.

The Code of Ethics for MPs was not adopted. The Committee of Inquiry set up to investigate the incident in the Parliament in 2010 has not come to any conclusions.

The Parliamentary Institute, established by the 2009 Law on Parliament in order to support the work of Members of Parliament, has not become operational. Further efforts are needed to resolve administrative blockages, such as delays in staff recruitment procedures.

Parliamentary oversight of the interception of communications has been strengthened by amendments to the legal framework. Oversight of intelligence and counter-intelligence services also need to be strengthened. There is insufficient cooperation between the two parliamentary committees responsible and the Ministry of the Interior.

Overall, the functioning of the parliament and political dialogue have been maintained. The parliament has consistently supported the accession process, including the High Level Accession Dialogue. The implementation of the Law on Languages and of the rules of procedure has progressed. The government has adopted proposals to for improvement of the framework for elections which are being considered by Parliament. On-going efforts will be needed to fully address the recommendations of the OSCE/ODIHR. Continued efforts are needed to develop the capacity of the parliament and political dialogue needs to be strengthened.

Government

The Macedonian government has deepened its commitment to the EU reform process by engaging fully with the High Level Accession Dialogue. On this basis, it adopted an ambitious roadmap for reforms in April 2012 and regularly reviewed its implementation at ministerial level. Civil society organisations were consulted, in an inclusive spirit. Through this dialogue, the EU accession process regained a central position in the political agenda of the country.

The revised National Programme for the Adoption of the Acquis for 2012 was adopted in December 2011. This would benefit from clearer deadlines, staffing requirements and budgetary implications. Implementation of some of the measures was affected by the cuts to the state budget.

In the first half of 2012 there were a number of incidents and killings in the country. Joint efforts by the coalition partners played an important role in alleviating the inter-ethnic tensions triggered by these incidents (*See Respect for and protection of minorities, cultural rights*). Relations in the government were affected by different points of view concerning the status of victims of the 2001 conflict. The coalition partners should pursue their dialogue in order to find solutions and ensure stability.

In October 2011, 10 days after the beginning of the census, the State Census Commission resigned due to disagreements concerning the methodology established by the State Statistical Office, notably the method for counting citizens working abroad. The coalition partners agreed to interrupt the census.

Decentralisation of government, a key element of the Ohrid Framework Agreement, continued. A programme for implementing decentralisation and local self-government for 2011-2014 and the corresponding action plan were adopted. All but one of the 85 municipalities entered the second phase of fiscal decentralisation, enabling a more substantial transfer of responsibilities and financial management to the local level. Under the Law on Financing the Units of Local Self-Government, the share of VAT transferred to municipalities increased to 4%, thus enhancing their financial capacity to take on new tasks. The provisions of the Law on Regional Development on financial allocations through the responsible bodies are not fully implemented. Capacity-building programmes are being implemented to assist municipalities.

Progress in meeting the objectives of decentralisation needs to be accelerated, driven in particular by the Ministry of Local Self-Government (MoLSG) and Ministry of Finance. Mechanisms for addressing the significant disparities in delivery of public services are limited, and rural and small municipalities are especially disadvantaged. Financial sustainability of municipalities remains the main challenge. Although there has been some increase in the collection of local taxes and fees, some municipalities have difficulties ensuring the collection of property tax.

The financial and legal framework for the implementation of all responsibilities transferred to municipalities needs to be developed with the participation of the local self-government units. Also, more transparency and coordination of central funding for municipal projects is needed.

Overall, cooperation within the government coalition has continued and has been successful in putting the accession process at the centre of the political agenda. The government has effectively coordinated the implementation of the HLAD on the basis of its own Roadmap. The government responded with maturity to inter-ethnic tensions and needs to build on this to further strengthen inter-ethnic relations and reconciliation, including on the status of victims of the 2001 conflict. The coalition partners should pursue their dialogue in order to find solutions and ensure stability. In the field of local government, progress on decentralization needs to be accelerated, in particular as regards the financial framework.

Public administration

Some progress was made in the area of public administration. The High Committee on Public Administration, led by the Prime Minister, maintained its overall coordination and political responsibility for public administration reforms. The administrative and operational capacity of the Ministry of Information Society and Administration (MISA) for managing public administration improved, and administrative inspection was reinforced with new staff and training. Additional efforts and resources are needed to further improve the MISA's administrative capacity and administrative inspection to effectively cope with tasks throughout the country.

The Laws on Civil and Public Servants were amended, postponing until January 2013 the application of some staff appraisal methods previously criticised by EU experts. The mobility of civil and public servants has been partially improved. The registry of public servants is now operational, albeit with incomplete data from some institutions. The Constitutional Court excluded certain categories of staff from the scope of the Law on Public Servants retaining only those clearly exercising public authority. The recruitment and dismissal procedures for

institutions finding themselves outside the public servants law are now governed by general labour law provisions and collective bargaining. The area of civil and public service therefore remains fragmented. To consolidate regulation in this area and to address persisting shortcomings regarding in particular the recruitment, promotion and termination of employment, preparations for a new comprehensive Law on Administration have commenced.

Eligibility criteria for recruiting staff remain inconsistent. While some progress has been observed in eliminating tailor-made vacancies, concerns remain that the principle of merit-based recruitment is not always respected. The regulations on hiring temporary staff remain unaligned with general recruitment procedures for civil and public servants. The Government has not made available official figures on existing or transferred temporary positions.

Regarding equitable representation, approximately one quarter of all newly employed civil servants came from the non-majority communities. The co-ordination of the recruitment process, in particular by the Secretariat for Implementation of the Ohrid Framework Agreement (SIOFA), needs substantial improvement. The trend of recruiting employees on a quantitative basis without sufficient regard to the real needs of the institutions continued. Most of the recruits have not reached their designated institutions while already receiving remuneration by SIOFA. The recruitment procedure for non-majority members is not harmonised with the general recruitment procedures and remains vulnerable to undue political influence.

The salary framework remains fragmented. The practice continued of paying ad hoc allowances to public servants for certain duty-related tasks without giving a transparent justification.

The Parliament introduced the principle of tacit approval in administrative proceedings ('silence is consent') by amending over 130 laws in line with recent amendments to the Law on General Administrative Procedures. A complex appeals procedure seriously undermines the application of this principle. To address this and other issues, preparations for a contemporary Law on General Administrative Procedures have commenced.

The Parliament appointed members of the Second Instance State Commission for appeals administrative procedures. The State Commission is not yet fully operational and lacks administrative capacity.

MISA continued efforts to improve the services offered to citizens. E-government is promoted as a tool to increase transparency and prevent petty corruption. The 'scoreboard' grading system for use by citizens has been expanded to additional institutions. Responsibility for management of regulatory impact assessment (RIA) and the Single Electronic Register of Legislation (ENER) shifted from the Secretariat General to MISA. Steps have been taken to improve the legislative drafting process through RIA. It has not, however, been applied systematically. Public awareness of the citizens' charter offering satisfaction surveys needs to be increased.

As regards financial management, managerial accountability is not yet fully taking into account the principles of public internal financial control. The reports of the State Audit Office repeatedly draw attention to various shortcomings with regard to the application of procurement rules and human resources policy. The quality of strategic planning in central and local institutions needs to be enhanced.

The Constitutional Court annulled provisions of nearly 15% of laws that were challenged at the Court in the course of 2011, a decrease compared to 2010.

The number of complaints received by the National Commission for Protecting Access to Information (NCPAI) fell by 25% in 2011. The majority of the complaints were made against state administrative bodies for administrative silence. More than half of the complaints resulted with the submission of the requested information. No sanctions were imposed. The administrative capacities of the NCPAI have not improved and the state funding was reduced. The NCPAI continued to hold frequent training sessions to increase the awareness of the right to free access to public information.

The Ombudsman Office's recommendations continued to be respected by the public bodies in the majority of cases (78%). The least responsive bodies in this regard remained the second-instance government commissions, followed by the Ministry of Finance, the Ministry of the Interior and local self-government units. The majority of violations concerned consumer rights, property rights, labour rights and prisons.

There was moderate progress in police reform with ongoing implementation of the Act of Systematisation aimed at strengthening the efficiency of police services. Additional human resources are needed to implement the act, especially in regional police commands. There is a need for continued training, professionalization and depoliticisation of police personnel. To that end, an independent oversight mechanism for law-enforcement agencies is needed to combat impunity and ensure democratic and accountable policing services. The Law on Interception of Communications was amended, strengthening the efficiency and transparency of this special investigative measure.

Overall, there was some progress as regards public administration. Services to citizens were improved and e-government has been gradually introduced. Steps on fundamental reforms of the administrative framework and public and civil service have been launched. Additional efforts are needed to guarantee the transparency, professionalism and independence of the public administration. In particular, respect for the principle of merit-based recruitment together with the principle of equitable representation needs to be ensured.

Judicial system (See also Chapter 23 – Judiciary and fundamental rights)

The main bodies tasked with ensuring the *independence, impartiality, accountability* and professionalism of the judiciary continued to carry out their functions.

The Judicial Council appointed 63 judges to courts of all levels in 2011, and 6 new court presidents. When appointing first instance judges, it continued to give preference to applicants who had not graduated from the Academy for Judges and Prosecutors (AJP), despite the legislative requirement that 50% of such appointments should be AJP graduates. This raises concerns about the credibility of the current recruitment provisions and the Judicial Council's commitment to merit-based recruitment. The Judicial Council initiated 4 dismissal procedures during 2011 (down from 12 the previous year) and 1 disciplinary procedure. There are at present numerous grounds for the dismissal of judges, but the one which is used in most cases is broad and general (unprofessional, untimely or inattentive exercise of judicial office). Efforts are needed to further safeguard the security of tenure of judges by ensuring that the grounds for dismissal are clear, precise and predictable, and that the application of the rules respects the principle of proportionality. The Judicial Council completed the professional evaluation of 612 judges for the year 2011: 77% were rated as very good, 20% as good, 2.45% as satisfactory and 0.49% (3 judges) as unsatisfactory. The assessment criteria applied by the Judicial Council under the current legislation are predominantly quantitative rather than qualitative, and no link is made between the professional evaluation of judges and identification of their future training needs.

The Council of Public Prosecutors appointed 18 prosecutors in 2011. No prosecutors were dismissed. The Council service remains understaffed. It is financially dependent on a budget line from funds allocated to Public Prosecutor's Office and is accommodated in rented offices.

The principle of equitable representation and gender balance continues to be observed in both the judiciary and the prosecution service.

The Academy for Judges and Prosecutors (AJP) continued to provide both initial training for future judges and prosecutors and ongoing training for the members and staff of the judiciary, law enforcement agencies and other institutions and bodies. However, the fifth annual intake of candidate judges and prosecutors scheduled for autumn 2011 was postponed and combined with the autumn 2012 intake. This delay resulted from uncertainty over the newly introduced integrity component of the entrance exam for the AJP, which was partly annulled by the Constitutional Court in February 2012. Of the 80 candidates who have successfully graduated from the AJP since January 2009, 56 have so far been recruited as judges and prosecutors, while 24 remain to be appointed in their first posts.

As regards *efficiency*, progress is being made to reduce the overall backlogs in the court system as a whole. The global number of pending cases in national courts at all levels at the end of 2011 was 295,769 (as compared with 678,670 in 2010). A significant number of enforcement cases and non-contentious cases (around 330,000) were removed from the court system in the second half of 2011 as a result of a transfer of competences to professional bailiffs and notaries. However, the main reason for the reduction in backlogs was the high clearance rate of the basic courts over the last three years (up to 170% in 2011), due to greater procedural discipline and monitoring at the level of individual judges. Only the Supreme Court and the Administrative Court continued to accumulate backlogs rather than progressively reduce them, and urgent attention needs to be given to adequate distribution of human resources in order to address this problem. While the improvement in the efficiency of justice is an important achievement, care needs to be taken that the quality of justice is given equally high priority.

Following on from the significant reforms of the justice sector between 2004 and 2010, there is currently no comprehensive judicial reform strategy or action plan in place. The Courts Budget Council completed a project to determine the average cost of court proceedings, with a view to establishing the human and budgetary resources needed by the national courts. The 2011 methodology for judicial statistics is not yet being implemented systematically and there has not been adequate training or awareness-raising among courts on how to use new statistical tools. The 2011-2013 strategy determining the number of judges and prosecutors does not contain any analysis which would inform the management or distribution of existing resources to make it more efficient across the court network, nor does it project future needs in terms of clear, verifiable indicators. The IT strategy for the judiciary still remains to be fully implemented and extended to the prosecution service. Efforts are needed to either improve the implementation of individual strategies, or to develop an overall strategy which brings these together in a coherent way and focuses on the remaining challenges within the judicial sector. The Council for Judicial Reform should intensify its work and take a lead in defining the new strategic framework for continuation of the judicial reform.

Overall as regards the judiciary, legislative and institutional safeguards are in place, but further efforts are needed to guarantee independence and impartiality in practice. Progress has been made, notably in reducing the backlog of cases. Further efforts are needed to create clear and transparent grounds ensuring proportionate dismissal procedures and to improve significantly the implementation of merit-based judicial appointment and career development.

The AJP should be further supported in its key role in the development of a professional and highly-skilled judiciary and prosecution service.

Anti-corruption policy (See also Chapter 23 – Judiciary and fundamental rights)

Further amendments were made to the legal framework. Changes were made to the Law on Financing of Political Parties and the Law on Prevention of Conflicts of Interests, which improved the verification and enforcement powers of the relevant authorities. New State Programmes for Prevention and Repression of Corruption and for Prevention and Reduction of Conflict of Interest were adopted by the State Commission for the Prevention of Corruption (SCPC), along with a corresponding Action Plan for 2011-2015. However, weak preparation for the entry into force of the new Law on Criminal Procedure has meant further delays in its implementation, with entry into effect now postponed until December 2013.

Stricter sentences for corruption-related offences were imposed by the courts in comparison with 2010. However, orders for the seizure and confiscation of assets remain exceptional. A track record of investigations, prosecutions and convictions, including the full use of available enforcement means and special investigative techniques, has yet to be established. The general capacity of the judiciary to deal with corruption cases remains low. Only a handful of high-level corruption cases have been prosecuted, and almost all of them remain in the court system after many years, having been returned for retrial following appeals, due to inadequate examination of evidence by the first instance court.

The Law on the Financing of Political Parties was amended in October 2011 to strengthen the system for controlling party and campaign funding. However the State Audit Office (SAO) remains ill-equipped to carry out its new functions under the legislation. Implementation of the rules on party financing needs to improve significantly, especially taking into account GRECO recommendations. The SAO has so far audited 11 political parties' financial statements for 2010 and has not yet audited any for 2011. It has not taken measures against any political parties for breaches of the reporting obligation, despite having received financial statements from only 16 out of over 40 registered parties for 2011.

Following the 2011 elections, in May the Court of Appeal upheld the conviction of an opposition party leader who was sentenced to 5 years imprisonment for illegal financing of election campaign and misuse of position. This has raised questions about selectivity.

The number of police officers subjected to disciplinary proceedings remained steady, while the Customs Administration strengthened its internal control system, doubling the number of disciplinary procedures initiated against customs officers.

Corruption in public procurement continues to be a serious problem. The institutional framework and measures taken remain ill-suited to effectively addressing this phenomenon. Existing legislation requires further improvement to address corruption risks and increase transparency in public procurement. The internal control system in central and local administration remains weak. Effective whistle-blowing mechanisms in the public and private sectors have yet to be established. There are few criminal prosecutions for abuse of public procurement.

There is a lack of analysis of corruption and ways to tackle it. Operational cooperation and information sharing between institutions needs to be further strengthened. Supervision and enforcement of the law by the SAO, the SCPC and other bodies is hampered by the lack of any coordinated system of follow-up concerning the outcome of those misdemeanour or criminal proceedings which are initiated. The statistics system for monitoring anti-corruption policies is underdeveloped. Public anti-corruption awareness remains low. Resources to ensure effective action against corruption remain insufficient.

Overall, the legislative framework is in place and capacity has been strengthened slightly, but greater efforts are needed as regards implementation of existing laws. Steps have been taken to improve verification capacities and enforcement powers of the authorities. However, there has been little visible progress in terms of end-results. A track record of handling high-level corruption cases has yet to be established. A more proactive and coordinated approach by supervisory bodies and enforcement agencies is needed. Collection and analysis of statistical data should be improved to focus efforts where they are most needed. Corruption remains prevalent in many areas and continues to be a serious problem.

2.2. Human rights and the protection of minorities (*See also Chapter 23 – Judiciary and fundamental rights*)

Observance of international human rights law

Progress was made as regards **international human rights instruments**, with the ratification of the revised European Social Charter and the UN Convention on the Rights of Persons with Disabilities and the corresponding Optional Protocol. The European Charter for Regional or Minority Languages has not yet been ratified.

During the reporting period, the **European Court of Human Rights** (ECtHR) delivered judgements on seven applications finding that the country had violated rights guaranteed by the European Convention on Human Rights (ECHR). A total of 341 new applications have been submitted to the ECtHR since September 2011, bringing the total of pending applications to 969.

Limited progress can be reported in the **promotion and enforcement of human rights**. Efforts were made to strengthen the implementation of the legal framework, and increase staff in institutions. The Ombudsman still needs a full mandate to promote and protect human rights in compliance with the Paris Principles.

Civil and political rights

The Ombudsman's Office's national prevention mechanism remains an important tool for the **prevention of torture and ill-treatment**. The Ministry of the Interior's Sector for Internal Control and Professional Standards further improved the professionalism of its staff members and its regular monitoring of police work continues; however, the results remain limited. Efforts were made to increase police officers' knowledge of European standards and to enforce safeguards against ill-treatment in police stations. Gaps remain, in practice, as regards the implementation of formal safeguards against ill-treatment, including the zero-tolerance strategy for ill-treatment. Weaknesses in the complaints system and the related data-collection system remain a concern. Efforts were made to improve the procedures for and treatment of detained persons, including an Action Plan for the renovation of detention facilities; however, conditions in a number of detention facilities remain below required standards.

There was no response to the European Parliament's recommendation of 2007 on follow-up of the Khaled El-Masri case of alleged extra-judicial detention.

There was some progress as regards the **prison system**. Prison reconstruction and training of prison staff continued. Standardised procedures for management and risk assessment were adopted. However, the prison system remains seriously underfunded and understaffed. Poor management, poor material conditions, limited health care provision, a lack of educational and rehabilitation activities, in particular for juveniles, and the lack of an independent inspection mechanism to address violations and punish perpetrators remain matters of concern. Overcrowding continues at an average of 20%.

Access to justice recorded a positive trend in providing legal aid via counselling by the Ministry of Justice to 24 out of 85 citizens. Asylum seekers are also eligible for legal aid.

Some progress has been made in the field of **freedom of expression** and the media. The overall constitutional and legal framework protecting freedom of expression is generally in place. The roundtable process of dialogue between the government and the Association of Journalists has proved an important forum for addressing key challenges relating to the media. A memorandum of understanding was signed, which identified five areas to be discussed, including the decriminalisation of defamation and ‘insult’, the strengthening of the public broadcaster, transparency of government advertising and improving journalists’ and editors’ respect for professional standards. In September 2012, the government adopted proposals for a new Law on Civil Liability for Insult and Defamation aiming at alignment with relevant ECHR principles. The Criminal Code needs to be revised in line with this approach. Training of the judiciary on Article 10 of the European Convention on Human Rights has been conducted, and translations made of key European Court of Human Rights judgments. Further efforts are needed to ensure that these standards are consistently applied. Professional standards in journalism also need to be strengthened. At the same time, there are continued concerns about lack of pluralism and self-censorship. There is currently no active self-regulatory body for the media.

The Broadcasting Council improved its enforcement record as regards illegal concentration of ownership and conflicts of interest, and a number of television channels were required to amend their ownership structure. The Broadcasting Council also revoked the licence of the television channel A2 TV on the grounds that the programming content was not in line with the licence requirements. The Broadcasting Council needs to demonstrate that it is following a non-discriminatory and transparent approach. There continues to be concern that a large share of government-funded advertising campaigns is being directed to media supportive of the government. The State Labour Inspectorate should continue to enforce the labour rights of media workers to ensure job security and independence.

Freedom of assembly and association are generally ensured. There were no cases of misuse of the legislation or prohibited registration.

A new Strategy for Cooperation with Civil Society (2012-2017) and Action Plan (2012-2014) were adopted in June 2012. A Council for Cooperation with Civil Society is proposed under the strategy, while a legally binding framework will standardise rules for state financing for civil society organisations. The new strategy aims to ensure that all measures carried forward from the previous strategy are implemented. Preparation of the new strategy was broadly participatory.

The Government Commission for Public Benefit Status set up in September 2011 has yet to become fully operational. Tax legislation is still not in line with the Law on Associations and Foundations, preventing access to tax benefits and certain types of economic activity. The system for allocating state financing to civil society organisations needs to be improved and standardised. Civil society organisations remain heavily dependent on foreign funding. Existing government systems for implementing the Strategy for Cooperation with Civil Society needed further strengthening, including the NGO Cooperation Unit in the General Secretariat. No measures have been taken to develop civil society in rural areas and/or at municipal level. Local self-government units lack sufficient capacity in this area to ensure standardised cooperation with and financing of local civil society organisations.

The new law on lustration enacted in June replaces the previous law which was contested twice by the Constitutional Court. The period covered by the law goes beyond 1991, as in the previous laws. Furthermore the new law allows for publication of the names of former

collaborators of the secret service as well as of the supporting evidence. The scope of application includes journalists, academics, past holders of public office, members of civil society organisations and individuals who made a profit during the privatisation process. Concerns have been raised about the proportionality and constitutionality of the law.

With regard to **freedom of thought, conscience and religion**, two more religious entities were registered under the Law on the Legal Status of Churches, Religious Communities and Religious Groups, bringing the total number to 30. Two applications for registration were rejected. The Bektashi community from Tetovo remains unregistered. It has filed a case with the European Court of Human Rights relating to restitution of property.

Overall, civil and political rights are broadly respected and some further progress was made. The ongoing reform of the prison system needs to be pursued. Significant efforts are needed to improve management of the prisons, in particular for juveniles. The dialogue between the government and journalists on issues relating to freedom of expression was deepened. The government adopted a proposal to decriminalise defamation through a Law on Civil Liability for Insult and Defamation. The Criminal Code needs to be revised in line with this approach. The Broadcasting Council has begun to enforce legal provisions against concentration of ownership and conflicts of interest with the political sphere. There are widespread concerns about lack of pluralism and self-censorship and the Broadcasting Council needs to demonstrate that it is following a non-discriminatory and transparent approach. Continued efforts are necessary to address related challenges such as transparency of government advertising and the labour rights of journalists.

Economic and social rights (See also Chapter 19 – Social policy and employment)

As regards **women's rights and gender equality**, discriminatory customs, traditions and stereotypes are widespread and undermine women's basic rights, especially those of women in rural areas. Active participation by women in political life remains low, particularly at local level. Women are also under-represented on the labour market. Some very limited actions targeting Roma women were implemented. Institutions do not appropriately exercise their role in ensuring better integration of the gender perspective into other policy areas. There is no strategic approach to implementing national strategies and action plans.

Some limited progress was made in the area of **children's rights**. Amendments to the Juvenile Justice Law provide for more rights and better protection of child victims and introduce special protection measures for child witnesses. Juvenile justice professionals from all relevant institutions benefited from comprehensive training. Collection of statistical data on juvenile justice has improved. Eleven municipal councils for the prevention of juvenile delinquency were set up. The relevant institutions remained underfunded and understaffed as regards administration of juvenile justice. Leadership and coordination of the reform process need to be strengthened.

Juvenile detention conditions in police stations fail to meet legal requirements. Free legal aid was not systematically provided to juveniles. The programme to compensate juvenile victims is not operational. The situation in the educational-correctional facility in Veles remains a matter of serious concern, in particular with regard to the treatment of juveniles in the closed wing, provision of external healthcare, education and rehabilitation services. The number of specialist staff such as psychologists and social workers remains insufficient.

Prevention, protection, outreach and care services still lack sufficient financial and human resources notably with reference to children with disabilities, street children, children using drugs and children who are victims of domestic violence, sexual abuse or trafficking.

Some limited progress can be reported in the treatment of the **socially vulnerable and/or persons with disabilities**. The UN Convention on the Rights of Persons with Disabilities was ratified. Social services are slowly being deinstitutionalised and civil society is slowly increasing its provision of social care services. However, the fiscal and administrative decentralisation of social services is still limited. The implementation of adopted policies is slow. Poor material conditions and inhumane and degrading treatment in psychiatric institutions need to be addressed. Social integration of people with disabilities is very limited. The poverty rate remains very high.

Some progress can be reported in the area of **anti-discrimination policies**. The Commission for Protection against Discrimination became an observer member of the European Network of Equality Bodies. It was active in processing complaints, mainly in the areas of labour relations, social security, the judiciary and administration. The overall capacity of the Commission remains weak and its public visibility and accessibility levels are low. Public awareness of the need for non-discrimination is very limited. The Anti-Discrimination Law is still not fully in line with the *acquis*; discrimination on the grounds of sexual orientation is still omitted. The Lesbian, Gay, Bisexual and Transgender (LGBT) community continue to suffer from discrimination and stigmatisation.

There has been progress as regards **labour and trade unions rights**. The Economic and Social Council (ESC) continued to meet regularly. The ESC agreed on the minimum wage and Parliament adopted the Law on the Minimum Wage. Training on peaceful settlements in labour disputes and for negotiators and mediators were provided to the relevant stakeholders. Bipartite social dialogue remains weak, particularly in the private sector. The capacity of social partners remains weak as trade unions lack stable finances and management capacity.

As regards **property rights**, progress was made. The process of returning property confiscated under the Socialist Federal Republic of Yugoslavia has so far resulted in the resolution of 30,744 cases filed between May 2000 and December 2007. About 10% of the decisions taken were dealt with at second instance or by the Administrative Court. Property which could not be returned was compensated for in the form of bonds and 11 issues worth € 301 million were made during the period 2001-2011.

Overall, some progress can be reported in the strengthening of social and economic rights. The Macedonian institutions have taken a more proactive role on behalf of children's rights, notably juvenile justice and street children. Social dialogue has developed through the Economic and Social Council. The Commission for Protection against Discrimination is engaged in processing complaints although its resources are limited. The Anti-Discrimination Law needs to be fully aligned with the *acquis*, notably as regards discrimination on grounds of sexual orientation. There is a need for better protection of the rights of women, including those in vulnerable groups, as well as further efforts to increase their participation in the labour market and in political life. Social integration of people with disabilities remains weak.

Respect for and protection of minorities, cultural rights

In the first half of 2012, there were a number of incidents and killings in the country, which led to heightened tension between ethnic communities and public protests. The government responded in a calm and measured way. Political leaders also made statements calling for restraint and mutual respect. This approach needs to continue in order to avoid politicising the incidents. It is crucial that the judiciary and law enforcement agencies conduct rigorous and objective investigations in order to ensure that the perpetrators of any crime committed are brought to justice.

A review of the implementation of the Ohrid Framework Agreement has been launched by the Secretariat for the Implementation of the Ohrid Framework Agreement (SIOFA) and the government adopted a report for the first time since the signature of the Agreement. The report covers all aspects of the Agreement, showing where there has been progress and highlighting the main challenges. The report provides an important tool for strengthening inter-community dialogue. The review needs to be continued and the recommendations should be followed up in a concrete manner.

Relations in the government were affected by different points of view concerning the status of victims of the 2001 conflict. The coalition partners should pursue their dialogue in order to find solutions and ensure stability. The parliamentary Committee on Labour and Social Policy continues to discuss the government proposed Law on Defenders which aims to provide support to the victims of the 2001 conflict. A mutually satisfactory solution should be found which facilitates reconciliation, on the basis of the recent government report on the Ohrid Framework Agreement.

The SIOFA recruited new senior staff. Nonetheless, further significant efforts are necessary to strengthen the capacity of the SIOFA.

The agency for protecting the rights of minorities which represent less than 20% of the population increased its visibility, for example through participative fora with other institutions and civil society. However, the agency was not able to carry out many of its tasks due to limited resources.

The Ministry of Education and Science promoted access to education for the communities, for instance through the development of relevant textbooks. Access to education in the languages of the smaller communities remains uneven due to the limited numbers of qualified teachers and teaching material.

Committees for relations between communities continued to exist in many municipalities. However, their potential to lead inter-community dialogue at local level is not fully used.

The law on languages continued to be implemented well in the Parliament. Its scope was widened to include officials elected or appointed by the Parliament. An evaluation and monitoring mechanism needs to be established.

Regarding the Ministry of Education and Science's strategy on integrated education, donors funded some activities but no state budget was allocated to implement the strategy. Segregation in schools along ethnic and language lines remains widespread. There have been repeated cases of inter-ethnic violence in secondary schools.

As regards equitable representation, the overall proportion of civil servants from non-majority communities is satisfactory and remains at approximately 29%. However, the distribution between ministries is uneven and equitable representation at senior level remains insufficient. Some of the small communities, in particular the Roma and the Turks, remain underrepresented.

Some progress was made regarding the **Roma**. The strategy on social inclusion of Roma 2012-2014 was adopted, along with an action plan. Despite budgetary restrictions, financial support for Roma programmes was maintained at the 2009 and 2011 level. The country presided over the Decade of Roma Inclusion and organised several regional conferences and seminars. It has undertaken to implement the operational conclusions of the July 2011 social inclusion seminar on Roma. The Roma health mediator programme started in 16 municipalities. Requests for the legalisation of illegal houses were submitted to the municipalities in line with the legislation and the process is ongoing. To address the problem of persons without documents, new Roma information centres were opened. Education

projects continued to be implemented and the enrolment rates of Roma children in secondary education increased slightly.

Recent legislative changes aiming to address the overrepresentation of Roma children in special schools have not been implemented. Access to basic health services remains difficult. Roma have above average rates of infant mortality and many children are either not fully vaccinated or not vaccinated at all. High unemployment rates persist and access to unemployment benefits remains problematic. Discrimination against Roma persists, including continued stereotyping in the media and in social networks on the internet. Roma women and Roma with disabilities face precarious living conditions because of double discrimination.

In July 2012 there were 1,162 **refugees and internally displaced persons (IDPs)** in the country, the majority of whom are Roma from Kosovo*. 257 persons were voluntarily repatriated to Kosovo and Serbia in 2011. The government continued to implement integration policies for Roma refugees. Access to the public health service and active market labour measures was formalised and access to housing was improved.

The number of internally displaced persons (IDPs) decreased from 611 in 2010 to 474 in 2011. Most of the complaints lodged by IDPs against the state for damages from the 2001 conflict are still before the courts.

Overall, some progress was achieved in the area of cultural rights and minorities. A review of the Ohrid Framework Agreement was launched which includes recommendations for addressing the on-going challenges. This momentum needs to be maintained through concrete follow up. Tension between communities following violent incidents caused concern. The government responded with maturity and needs to build on this by further strengthening inter-ethnic relations and reconciliation. Concerning the Roma, several measures were taken, notably to address the issue of persons without documents and to integrate IDPs and Roma refugees. However, implementation of existing strategies and interinstitutional cooperation needs to be significantly strengthened. Several institutions mandated to promote the rights of the communities lack financial and administrative resources.

2.3. Regional issues and international obligations

The Republic of Macedonia continued to cooperate fully with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. There are no remaining cases or appeals pending in The Hague. Of the four cases that the ICTY transferred to the national authorities in 2008, one was dismissed in 2011 by the domestic court system and the other three were dismissed in 2012, at the request of the public prosecution and on the basis of the Amnesty Law.

The Republic of Macedonia still maintains a 2003 bilateral immunity agreement with the United States granting exemptions for US citizens from the jurisdiction of the **International Criminal Court**. This does not comply with the EU Common Positions on the integrity of the Rome Statute or the related EU guiding principles on bilateral immunity agreements. The country needs to align with the EU position.

Regional cooperation and good neighbourly relations form an essential part of the country's progress towards the European Union. The country has continued to actively participate in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty and the European Common Aviation

This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

Area Agreement. The country took over the Chairmanship-in-Office of the SEECP in June 2012. The seat of the Secretariat of the South-Eastern European Health Network (SEEHN) was established in Skopje. The country continued to contribute to the EUFOR Althea mission in Bosnia and Herzegovina.

The Republic of Macedonia has maintained an overall constructive role as regards **bilateral relations with other enlargement countries and neighbouring EU Member States**.

Relations with *Albania* continued to develop, with the entry into force of agreements on travel by citizens between the two countries and on cooperation as part of EU accession process. An agreement was signed on setting up a joint centre for the exchange of information between their respective border and migration police corps.

Relations with *Bosnia and Herzegovina* continued to be good. Several agreements on judicial cooperation and on cooperation in the areas of health and of education were signed.

Relations with *Croatia* continued to be good, leading to regular bilateral high-level visits.

Cooperation with *Montenegro* was further strengthened. The extradition agreement entered into force, as did agreements on economic cooperation and on the EU accession process. Agreements on readmission of persons residing without authorisation and on police cooperation were signed.

Relations with *Serbia* remained good. There were reciprocal presidential visits in December 2011 and January 2012, which took place in a positive atmosphere. Agreements on travel conditions and on compensation for health protection were signed. There were no developments regarding the dispute between the Orthodox churches in the two countries.

Cooperation with *Kosovo* continued to develop with the entry into force of an agreement on railway transport border regulations, and with the signing of an agreement on joint border control and supervision. The joint monitoring patrols along the border with Kosovo need to address the challenge of illegal trafficking of goods and illegal migration.

Close relations with *Turkey* further advanced in the diplomatic, economic and cultural fields. An agreement on regular air traffic between the two countries entered into force.

There continue to be close ties with *Bulgaria*, notably in the economic sphere. Developments during the reporting period highlighted the need for more dialogue to overcome possible misunderstandings and different perceptions concerning historical, cultural and ethnicity based issues. Recent statements at the highest level have confirmed the willingness to move forward.

Relations with *Greece* continued to be close, notably in the economic sphere and tourism. However, relations between the two countries remained affected by the name issue. The International Court of Justice adopted a judgment concerning the Interim Agreement with Greece. The country has kept engaged in talks under the auspices of the UN and in direct contacts with Greece. The talks under the UN auspices for a negotiated and mutually acceptable solution should be pursued with increased vigour, as should direct bilateral meetings and contacts. Actions and statements which could negatively impact on good neighbourly relations should be avoided.

Overall, the Republic of Macedonia is participating actively in regional cooperation and further developing bilateral relations with its neighbours. The name issue continues to affect relations with Greece. A constructive approach to challenges with neighbours is important.

3. ECONOMIC CRITERIA

In examining economic developments in the Republic of Macedonia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

3.1. The existence of a functioning market economy

Economic policy essentials

A broad consensus has been maintained on the fundamental features of the country's economic policy set-up. The medium-term policy framework was described in various programmes, such as the sixth pre-accession economic programme (PEP), covering the period 2012-2014, the labour market strategy for 2015 and the national employment action plan for 2011-2013. In addition, the authorities embarked on a high-level accession dialogue (HLAD) with the EU, which provided another platform for accelerating accession-related reforms in the economy. Cooperation with the IFIs, such as the World Bank and the IMF continued, although the IMF's second review of the current financial arrangement could not be completed yet. Structured dialogue with the business community continued. *Overall*, a broad political consensus has been maintained on the fundamentals of economic policy.

Macroeconomic stability

The economy grew by about 3% in 2011, but shrank by about 1% year-on-year in the first half of 2012, compared with growth of nearly 5% in the first half the year before. Rather resilient private consumption helped to prevent a sharper slowdown, while the reduction in public consumption had a negative contribution to growth. Indicators on domestic production point to a marked year-on-year deceleration during the reporting period, with industrial production being on average nearly 9% lower since October 2011 than in the same period the year before. Average per capita GDP improved in relation to the EU average, increasing from 35% of the EU average in 2010 to 36% in 2011. *Overall*, economic activity has decelerated since autumn 2011, although private consumption and investment remained rather resilient in view of the markedly weaker international environment.

External imbalances declined, but their financing deteriorated. In the first half of 2012, the current account deficit was at about -2.8% of the estimated full-year GDP, compared to -3.5% of GDP the year before. The most important factor for the improvement was a further increase of current transfers to about 10% of the estimated full-year GDP. The trade balance of goods and services deteriorated slightly, reaching -12% of estimated full-year GDP, compared to -11% of GDP the year before, mainly as a result of weaker export revenues. The capital and financial account surplus shrank to a similar extent, declining to about 2.6% of GDP by June 2012, compared to a surplus of 4% a year before. FDI inflows and other investment declined to about 1% of the estimated full-year GDP and 0.6% of GDP respectively, compared to 2% of GDP and 4% of GDP a year before. As a result, the financing of the current account deficit was less based on investment inflows but on external credits.

Gross external debt rose slightly to 61.2% of GDP in the first quarter of 2012, compared to 59.7% a year before. The main reason for this increase was public external debt, which rose by 2.2 percentage points of GDP, while private debt declined by 0.7 percentage points. Foreign reserves stood at €2.1 billion (about 30% of GDP) in July, compared with €1.8 billion (29% of GDP) the year before. The coverage of prospective imports by reserves improved slightly, reflecting not only an increase in the level of foreign reserves, but also expected lower imports. *Overall*, the current account deficit shrank. However, the financing of

the deficit increasingly relied on foreign loans, leading to an increase in public gross external debt.

Unemployment was very high at 31.2% and remained largely unchanged year-on-year in the second quarter of 2012, while during winter it had been about 1 percentage point higher than in the year before. Employment was about 1% higher than a year before but its impact on unemployment was limited, as most newly employed persons appear not to have been registered in the labour market before. The main sectors with employment growth in the second quarter of 2012 were education, the textile industry and municipal services. Youth unemployment increased slightly, from 54.6% in the second quarter of 2011 to 54.9% in the second quarter of 2012. The young account for about 10% of the labour force, but their share in unemployment rose from 18.5% in the second quarter of 2011 to 18.8% in the second quarter of 2012. Unemployment among the less-well educated, who make up nearly 30% of the labour force, has declined, from 39% in the second quarter of 2011 to 36% in the second quarter of 2012. Employment in the public sector increased by about 1% year-on-year, mainly in the education sector. However, as a share in total employment the share of public sector employment has declined from 22% in mid-2011 to 21% in mid-2012. *Overall*, the situation in the labour market remains weak. Unemployment continues to be very high, particularly among the young and less educated.

Monetary policy cautiously supported the gradual recovery, while the exchange rate policy remained geared to maintaining price stability and the *de facto* peg to the euro. The Central Bank has slightly lowered its key policy rate, from 4% to 3¾%. In order to support the lending activities of the financial sector, the Central Bank amended the rules on minimum reserve requirements and collateral. It also introduced a number of measures to stimulate financial market activity, such as establishing new monetary instruments, a new overnight deposit facility and a one-week deposit facility, a standing 7-day repo facility and by lowering the interest spreads between overnight deposit rates and Central Bank bills. *Overall*, the exchange rate and monetary policies have remained sound.

Inflation was markedly lower than a year before, with an average inflation in the first eight months of 2012 of 2.4%, compared to 4.4% the same period a year before. However, during recent months, inflationary pressures have increased. The main sources for the increase lie in higher energy prices, but also rising food prices and rent costs. Prices for food and beverages account for about 40% of the consumer basket. Core inflation, which excludes the impact of energy and food prices on the overall price level, remained fairly stable and below 2%.

The published central government deficit for 2011 was in line with the 2.5% of GDP target. Revenue, which accounts for some 30% of GDP, was some 7.5% lower than initially expected. In order to meet the deficit target, spending was reduced by about 7%, mainly on purchases of goods and services, which were kept some 19% below their initial budget target. Capital investment was also kept some 16% lower than originally planned. However, as a share of GDP capital spending rose, from 3.5% in 2010 to 3.8% in 2011, while overall spending declined from 32.0% of GDP to 31.2%. In 2012, revenues have so far remained below forecasts and dropped by 3% in real terms. To compensate for the shortfall, the authorities adopted a supplementary budget and raised the deficit target for 2012 from -2.5% of GDP to -3.5%. So far, the main area of spending cuts was again capital spending, accounting in July for about 1.8% of the estimated full-year GDP, compared to 2.4% a year before. In the first seven months of 2012, published data point to a deficit of about 2% of the estimated full-year GDP, which is a similar level as the year before. The government debt ratio rose to about 30% of GDP in July 2012, compared to around 25% the year before, mainly due to increased domestic lending. In spite of existing legal obligations, neither the fiscal and public debt strategy nor the Public Investment Programme have been updated yet

for the period 2012-2014. Furthermore, the authorities did not submit a Fiscal Notification, which should present central government data in a format comparable to EU standards.

Fiscal decentralisation has continued. By mid-2012, 84 of the 85 municipalities had advanced to the second stage of decentralisation. Furthermore, municipalities' share of revenue allocation has increased. The efficiency of the local units in charge of financial management still needs to be strengthened by improving management and competences, by ensuring adequate staffing levels and shortening administrative procedures.

Fiscal policy remained geared to meeting the deficit target, although due to a weaker-than-expected revenue performance the fiscal target had to be raised in autumn 2012. Budgetary planning and execution have deteriorated and the quality of public spending continues to be low. The budgetary process continues to be plagued by overly optimistic revenue estimates, a lack of medium-term planning, short-term oriented spending decisions and a deterioration in public spending management, resulting in increasing payment arrears, a further reduced transparency of spending decisions and weakened reliability of public sector accounts. This not only blurs the information on the countries' fiscal position, but also has negative knock-on effects on the liquidity situation of the private sector

Overall, the policy mix continued to be directed towards stability. Monetary conditions were supportive to growth, while taking into account the country's policy of a *de facto* peg to the euro. Public spending was kept largely in line with revenue. However, budgetary planning and the management of public expenditure have deteriorated markedly and the quality of public spending has remained weak. Unemployment continues to be very high, in particular among the young, posing a persistent major policy challenge. Macro-fiscal risks are mainly related to external shocks, such as a further decline in external demand, higher import prices and/or a drop in current transfers.

Interplay of market forces

Privatisation is largely completed and the economy is mainly driven by market forces. The role of the private sector increased slightly from 82% of total value added in 2010 to 82.4% in spring 2012, mainly as a result of an increase in value added in construction and trade. The government took some decisions which increased the state's role in the economy, such as agreeing to a debt-equity swap with a few troubled companies. At the same time, the government scheme to sell state land generated revenue, but also lowered the level of state assets. Attempts to privatise several state-owned companies failed. Overall, the asset value of fully or partly state-controlled property remains largely unchanged at some 13% of GDP. The majority of state capital — nearly 80% — is concentrated in five companies, mainly public utilities. The public sector employs some 20% of the labour force and public procurement accounts for about 11% of GDP. The share of administered and regulated prices in the CPI basket remained unchanged at 13.1%. Regulated prices, which account for about 12% of the CPI basket, usually cover costs. However the electricity prices are still distorted as a result of persistently high technical losses and non-cost covering input prices. Administered prices, such as for water supply and waste disposal which account for about 1.4% of the CPI basket, usually are not cost recovering. *Overall*, the role of the state has remained largely unchanged and limited.

Market entry and exit

The government has continued its efforts to facilitate market entry and exit. However, partly due to the less supportive international economic environment, the number of newly established companies has declined to slightly below 10% of the total number of enterprises. Limited access to finance is still impeding the growth of many companies, in particular of

small and medium-sized enterprises (SMEs). The third phase of the ‘regulatory guillotine’ project, which focuses on reducing administrative burdens, is being implemented and the fourth phase, concentrating on measures for SMEs, has started. Further progress has been made towards closing down non-operating companies. In the period October 2011 and August 2012, the number of bankruptcy procedures was some 32% higher than a year before. The average duration of company liquidation has been reduced. *Overall*, some further progress was made on facilitating market entry and exit.

Legal system

The legal system for a functioning market economy is largely in place. Real estate property registration is practically completed. The authorities adopted a number of reforms to increase the efficiency and transparency of courts, and to expedite legal procedures. The number of pending commercial court cases declined, from 5,782 at the end of 2011 to 2,152 cases in mid-2012. The duration of court proceedings remained largely unchanged. About one third of the cases are resolved within three months and about 60% within six months. The share of cases taking more than five years fell further, from 1.2% in 2010 to 0.8% in 2011. Despite simplified procedures and introduction of new legal instruments strengthening payment discipline, contract enforcement is still difficult, hampering the business environment, in particular for SMEs. Sometimes, the legislative process suffers from insufficient discussion with the stakeholders, leading to the need of frequent revisions of recently adopted legislation. Implementation of existing legislation needs to be further strengthened.

The legal and financial independence and the resource endowment of some regulatory and supervisory bodies has been strengthened. However, in some cases such as the Agency for supervision of fully-funded pension insurances (MAPAS), the State Appeals Commission for Public Procurement and the State Commission for Prevention of Corruption, the endowment with human and IT resources and/or the leverage are still insufficient. The quality of the decisions of the Commission for Protection of Competition needs to be further improved. The follow-up of the State Audit Office (SAO), reports by the Parliament is inadequate and government mechanisms to deal with systemic shortcomings identified in SAO’s reports are lacking.

Overall, the functioning of the legal system has continued to gradually improve. However, weaknesses related to lengthy procedures, corruption and difficult contract enforcement are continuing to hamper the business environment.

Financial sector

The significance of the financial sector and its intermediation function have both improved further. Despite the international financial crisis, the sector’s assets rose slightly from 71% of GDP the end of September 2011 to 72% at the end of June 2012. Deposits remained largely unchanged at about 50%. Gross loans rose from 44% of GDP to 47%, mainly due to increased lending of medium-sized banks. Deposits remain the sector’s main source of liquidity, covering more than 112% of outstanding loans. The sector continues to be owned predominantly by foreign companies, with 13 out of 17 banks dominated by foreign owners. The share of foreign ownership rose to 75% of GDP in mid-2012, compared to 73% a year before. The share of state ownership in the sector remains low, at some 7% of the sector’s assets. The main state assets in this sector are still its majority share in the country’s only development bank and a limited number of remaining minority shares. Market concentration remains high, but decreased slightly. The assets of the five biggest banks in terms of their share of total assets declined slightly, from 67% in mid-2011 to 66% in mid-2012. The efficiency of the banking sector has improved slightly. The profitability of the sector as a whole recovered slightly in the second quarter of 2012. Credit growth has recovered since

autumn last year, reaching some 8.5% in the first seven months of 2012. Private-sector weighted lending rates declined to some 8.4% in July, while deposit rates dropped slightly faster, to some 5%. As a result, spreads widened slightly to 3.4 percentage points. Financial stability has been maintained, with sound liquidity, solvency and capital adequacy ratios. The share of non-performing-loans increased slightly in the case of large and small-sized companies, while in the group of medium-sized banks, the loan performance improved. The sectors average ratio of non-performing loans remained close to 10% with provisions still exceeding the amount of identified non-performing loans.

Banking regulation and supervision are largely in line with international standards. The relevance of non-banking financial market intermediaries continues to be limited, with assets equivalent to some 10% of the financial sector's assets or around 8% of GDP. Insurance institutions account for some 4% of the sector's assets and leasing companies and pension funds for about 3% each. The value of the capital market accounts has continued to decline to about 30% of GDP.

Overall, the trend towards further deepening and widening of the financial sector continued. However, the levels of financial intermediation and competition in the market are still low, constraining more dynamic growth in the private sector, particularly for SMEs. Furthermore, some regulatory and supervisory agencies continued to be impeded by insufficient levels of resource endowment and leverage.

3.2. The capacity to cope with competitive pressure and market forces within the Union

Existence of a functioning market economy

Overall, macroeconomic stability has been maintained. Market entry and exit procedures have improved. Some steps have been taken to strengthen the rule of law. However, so far, those measures have not had significant impact yet. The quality of public finance planning and management has deteriorated and the quality of spending has remained low. Unemployment remains very high, particularly among the young. The business environment continues to suffer from institutional and administrative weaknesses, difficult contract enforcement and corruption.

Human and physical capital endowment

The level of human capital endowment is still low. The authorities continued to improve the physical infrastructure for education, to increase the numbers of teachers and to modernise the curricula. The number of teachers rose by 1.5% in the school-year 2011-12, after an increase by 4.4% the year before. As in the previous year, the increase was mainly due to additional recruitments in primary and lower-secondary schools. Measures have been taken to raise enrolment rates, although in some areas this policy faced difficulties. Budget allocations for education rose marginally in 2011, from 4.6% of GDP in 2010 to 4.7% of GDP, while for 2012 the budget envisages a decline to 4.5% of GDP. Despite continued efforts, the overall level of education of the labour force is still relatively low and the mismatch of skills is still substantial. There is significant room for improving the efficiency of public spending on education and for raising the quality of education. *Overall*, measures to improve qualification levels have continued. However, the still low level of education calls for further sustained efforts in order to improve the country's human capital endowment.

The country's capital endowment remains relatively low and its quality is hampered by decades of underinvestment in the past. Public investment increased to some 3.8% of GDP in 2011. However, there is very limited information on the actual spending priorities. Gross fixed capital formation was still high at some 36% of GDP in the last quarter of 2011, but

dropped to 22% in the first quarter of 2012. The authorities do not provide recent disaggregated gross investment data, which would allow a better understanding of the driving factors behind the investment decisions. Some limited steps have been taken to improve the country's transport infrastructure. The stock of foreign investment increased from 51.5% of GDP in mid-2011 to 53% in mid-2012. Overall, spending on strengthening the knowledge-based economy has remained low. The efforts to increase the public capital stock continue to be impeded by weak implementation capacity, but also by use of funds for less productive purposes, such as the decoration of the capital. *Overall*, the country's capital stock remains low.

Sectoral and enterprise structure

There were no major changes in the area of restructuring enterprises. Network industries are dominated by a very small number of incumbent suppliers, which often undermines effective competition. SMEs continue to be by far the biggest group of companies, providing more than 80% of private-sector employment or nearly 60% of total employment. Access to finance improved, partly thanks to additional international credit facilities, primarily provided by the European Investment Bank (EIB). Furthermore, the government continues to subsidise interest costs for SME loans, although on a declining scale in the 2012 budget.

The informal sector, fuelled by weaknesses in tax and expenditure policies and in law enforcement, remains a major challenge. It reduces the tax base and the efficiency of economic policies.

Overall, structural change towards diversification and activities with higher value added has remained limited. Competition in network industries remains constrained by dominant incumbent suppliers. SMEs still face difficulties in accessing capital and markets, despite increased support.

State influence on competitiveness

The overall level of systematic state intervention is limited. The data available suggest a relatively low level of State aid, i.e. less than 1% of GDP. However, this figure is not comparable with the State aid data compiled in accordance with EU standards. The Competition Commission is in place. However, the quality of its decisions should be further improved and the reporting awareness of state-aid providers is not sufficiently developed. *Overall*, state influence on competitiveness remained limited.

Economic integration with the EU

The country is a small, open economy, with total trade in goods and services accounting for about 120% of GDP in 2011. Trade integration with the EU is advanced. About 64% of all exports currently go to the EU-27 and about 56% of imports originate there. The country's second largest trading area is the CEFTA, which accounts for around 24% of exports and around 11% of imports. The export structure has improved, with an increase in the share of higher unit-value commodities, such as car emission catalysts. However, textiles, clothing and manufactured iron products still account for more than one third of total exports. FDI accounts for about 50% of GDP, with 80% of the investment stock coming from the EU. The exchange rate against the euro has remained stable in nominal terms. Price competitiveness has remained largely unchanged. This is reflected in the largely unchanged real effective exchange rate, which in mid-2012 was some 1% lower than a year before. *Overall*, trade integration with the EU is well advanced. The commodity composition of exports has improved, although traditional products, such as textiles, clothing and steel, still predominate. International price competitiveness remained largely unchanged.

4. ABILITY TO TAKE ON THE OBLIGATIONS OF MEMBERSHIP

This section examines the Republic of Macedonia's ability to take on the obligations of membership – that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses the Republic of Macedonia's administrative capacity to implement the *acquis*. The analysis is structured in accordance with the list of 33 *acquis* chapters. In each sector, the Commission's assessment covers progress achieved during the reporting period and summarises the country's overall level of preparations.

4.1. Chapter 1: Free movement of goods

Limited progress can be reported in the area of **general principles**. Implementation of the action plan to align with Articles 34 to 36 of the Treaty on the Functioning of the European Union is progressing as 26 legal acts (out of identified 42) were amended.

There was progress on **horizontal measures**. Quality infrastructure was improved following the strategic plan for implementation of the *acquis* in the area of free movement of goods. As regards *standardisation*, good progress can be reported. The Law on standardisation was amended to improve the organisational set up of the Institute of Standardisation (ISRM). A total of 16,500 European standards (ENs) have been adopted as national standards. Out of them, 3,210 are so called harmonised ENs in the meaning of the 'new approach' directives. All Yugoslav standards and conflicting standards were withdrawn. The ISRM became a full member of the European Committee for Standardisation (CEN) and of the European Committee for Electrotechnical Standardisation (CENELEC). The membership of the ISRM assembly expanded to 97 stakeholders. The administrative capacity of the ISRM was improved with a new document/standards management system which also allowed electronic sale of standards. The ISRM was certified in line with the EN ISO 9001:2009 standard.

In the area of *conformity assessment*, little progress can be reported. The number of designations issued to the conformity assessment bodies increased by one to nine. Product certification is at an early stage of development. Full alignment of the Law on Product Safety with the horizontal *acquis* of 2008 (New Legislative Framework) has yet to be ensured. A national regulation on common framework for placing goods on the market and notification to the EC was adopted. This regulation aims to take on board horizontal elements of the *sui generis* Decision 768/2008/EC, but alignment remains to be confirmed.

There was some progress in the area of *accreditation*. The Institute of Accreditation (IARM) has adequate capacity for management of the current scope of accreditations. It has accredited a total of 107 conformity assessment bodies, which is a significant increase from 76 one year earlier. However the IARM should establish or upgrade its accreditation capacities in new fields. The IARM signed the Multilateral Agreement for testing laboratories, calibration laboratories, inspection bodies and product certification bodies with European Cooperation for Accreditation (EA-MLA) and Mutual Recognition Agreement with International Laboratory Accreditation Cooperation (ILAC-MRA).

Good progress can be reported on *metrology*. The Law on Metrology was amended to simplify issuing of certificates and to provide a legal basis for inspection and supervision of measuring instruments. The number of calibration and verification certificates issued by the Bureau of Metrology (BoM) increased by 43% in 2011 compared with 2010. The equipment of the BoM's various laboratories was re-calibrated and laboratories for weight, temperature, volume, flow and pressure were accredited by the national accreditation body. However, the capacity of the BoM for calibration of measuring instruments is under-used.

Little further progress can be reported with *market surveillance*. In 2011 the coordination body for market surveillance performed a total of 390 coordinated inspections and 340 surveillance actions, most of which (80%) were related to the legislation on the safety of toys. The State Market Inspectorate recruited four inspectors for product safety surveillance activities. The human and financial resources are insufficient to conduct comprehensive checks on technical compliance of products. Preparations in the area of horizontal measures are advanced, but full alignment of the Law on market surveillance with the *acquis* remains to be achieved.

Progress was achieved on the **‘old approach’ product legislation**. To implement the Law on Chemicals, the list of high-risk substances and the rulebook on methods for testing and registration of chemicals were adopted. In October 2011, reports on the status of chemicals and the national action plan for a strategic approach to chemical management were also adopted. The intra-sectoral body for coordination of activities related to the Law on Chemicals was established. Staff from the State Sanitary and Health Inspectorate received specialised training. Preparations in the area of the ‘old approach’ product legislation are advanced.

Some progress can also be reported on the **‘new and global approach’ product legislation**. Amendments were adopted to rulebooks on machinery, cables, lifts, pressure equipment, simple pressure vessels, and other to allow application of the Multilateral Agreement for European Cooperation for Accreditation (EA-MLA). Further harmonisation with relevant EU Directives was achieved for machinery, toys, medical devices and low voltage equipment electromagnetic compatibility; alignment with the *acquis* remains to be confirmed. Three national annexes on Eurocodes EC1, EC7 and EC8 for the structural design of construction works were adopted. In the area of ‘new and global approach’ product legislation, the country is advanced.

In the case of **procedural measures**, some progress can be reported. The Decree on notification to the European Commission of technical and non-harmonised regulations and technical standards was amended. However, full alignment has not yet been achieved. The country is advanced in this area.

Conclusion

In the area of free movement of goods, good progress can be reported, particularly on standardisation, accreditation and metrology. Certain areas of the framework horizontal *acquis* remain to be fully harmonised. Alignment with the Articles 34 to 36 of the Treaty on the Functioning of the European Union remains to be achieved. Preparations in the area of free movement of goods are advanced.

4.2. Chapter 2: Freedom of movement for workers

Some progress can be reported as regards **access to the labour market**. The Law on Public Servants remains to be amended to give EU citizens access to posts in the public sector.

No progress was made towards preparing for participation in the **EURES** (European Employment Services) network.

Little progress can be reported in the area of **coordination of social security systems**. The bilateral agreement with Canada for coordination of social security systems came into force and negotiations for signing agreements with Italy and Albania continued. Work to resolve social insurance issues with Kosovo also continued. Preparations in this area are moderately advanced.

There has been some progress in the area of the **European health insurance card (EHIC)**. Hungary and Romania accepted the initiative of the health Insurance Fund to start negotiations on EHIC. Agreements on lump sum compensation of the costs for health protection with Montenegro and Serbia were signed. Preparations in this area are moderately advanced.

Conclusion

Some progress has been made in the area of freedom of movement for workers. Alignment with the *acquis* is at an early stage.

4.3. Chapter 3: Right of establishment and freedom to provide services

There was some progress on the **right of establishment**. Efforts to simplify the procedures and decrease the costs of establishment and permits continued. The portal for electronic submission of applications for establishment came into operation. However, awareness about electronic establishment remains low. Efforts continue on establishment of a one-stop shop (register) system for domestic and foreign investors, which is equivalent to the 'point of single contact' under the Services Directive.

Some progress can be reported in alignment with the Services Directive, concerning both establishment and cross-border services. Screening of national legislation is continuing as part of the action plan for harmonisation with the Services Directive. The Ministry of Economic Affairs ensures coordination between the authorising bodies. However, requirements prohibited by the Services Directive remain in several service sectors, including veterinary medicine, private education, tourism and regulated professions. Awareness of the Services Directive remains low and the administrative capacities of various authorising bodies should be strengthened. The minimum tariffs set by the Law on Construction are not in line with the *acquis*. Preparations in the area of the right of establishment are on track.

Little progress can be reported on **freedom to provide cross-border services**. The requirement for permanent establishment remains the general rule for foreign operators providing services in the country. This is not in line with the *acquis*. For some services the establishment requirement has been removed, but this will apply as of the date of accession of the country to the EU. In the area of freedom to provide cross-border services the country has partly met its priorities.

There was good progress on **postal services**. The existing Law on Postal Services is largely in line with the *acquis*. However, full harmonisation has yet to be completed as far as the period for designation of the universal service provider and the financing of the net costs of the universal service obligation are concerned. Principles of the method of conducting a separate accounting and cost accounting of the universal service provider were regulated. In its capacity as the national regulatory authority, the Postal Agency continued to adopt implementing legislation on regulation of the postal market. Market supervision and oversight rules were adopted and general conditions for providing the universal service and for access to that service were established. The regulator's inspection service came into operation. The provider of the universal service is under an obligation to allow other providers of postal services access to the postal network. Quality standards for services covered by the universal service were decided and the method to be applied by the universal service provider in this respect was adopted. However, the universal service provider has yet to establish separate accounting for its universal service. New notification procedures encouraged growth of the postal market, with many operators active on the market. However, it remains to be consolidated. The volume of items posted increased. The regulator adopted a rulebook on obligations for postal service providers. The performance of the universal postal service provider holding the monopoly over services for consignments weighing below 50 grams is

weak. There is no progress concerning the privatisation of the state-owned universal postal service provider. Regarding administrative capacity, the Postal Agency has a sufficient number of staff to carry out its tasks. The policy-making capacity of the Ministry of Transport and Communications in the field of postal services remains insufficient. Preparations in the area of postal services are well on track.

Some progress can be reported on **mutual recognition of professional qualifications**. An inter-sectoral coordination group, bringing together representatives of different authorising bodies, was formed and defined its mandate. The organisational framework is developed, with clear roles and responsibilities for the individual institutions and a stakeholder analysis was provided. A national coordinator for recognition of professional qualifications was nominated, as required by the Professional Qualifications Directive. However, the administrative capacity of the various bodies remains weak. The Law on Recognition of Professional Qualifications is still not fully aligned with the *acquis*. Alignment with the specific sectoral directives on lawyers, commercial agents and professional use of toxic products remains to be achieved. Preparations on mutual recognition of professional qualifications are moderately advanced.

Conclusion

Some progress can be reported in the areas of the right of establishment and freedom to provide services, particularly in the case of postal services. Further efforts are needed to align the legislation with the *acquis*, notably with a view to implementation of the Services Directive, establishment of the single point of contact and mutual recognition of professional qualifications. Overall, in the areas of the right of establishment and freedom to provide services the country is moderately advanced.

4.4. Chapter 4: Free movement of capital

The country met the requirements of the first stage of the Stabilisation and Association Agreement (SAA) in the field of **capital movements and payments** in 2008. Recent progress was limited to relaxing some of the restrictions on opening and holding accounts abroad, but only for residents temporarily staying there. Further liberalisation of capital movements and payments is conditional on the transition to the second stage of the SAA, pending a decision by the SA Council. Nationals are still not allowed to buy foreign securities, to open accounts in foreign banks or to purchase real estate abroad. EU citizens are not allowed to purchase agricultural land. Restrictions remain on the amounts that non-residents can transfer through their local and foreign currency accounts. In the area of capital movements and payments, preparations are moderately advanced.

There was limited progress in the area of **payment systems**. Within the National Council on Payment Systems, preparations for alignment with the Payment Services Directive and for implementation of single euro payments area (SEPA) standards and the direct debit scheme progressed. Most of the charges for cross-border electronic payment transactions remain disproportionate to those for domestic electronic payment transactions. The country partly meets its targets in the area of payment systems.

Some progress was achieved in the **fight against money-laundering**. The Law on Prevention of Money-Laundering and Financing of Terrorism, incorporating the revised Financial Action Task Force (FATF) recommendations, was amended. The government adopted the national strategy for combating money-laundering and financing of terrorism for 2012-2014 and established the Council on Combating Money-Laundering and Financing of Terrorism. The strategy sets out the activities of all institutions involved in order to meet objectives covering legislation, capacity-building, international and interinstitutional cooperation and awareness-raising. The Council is chaired by the Director of the Financial Intelligence Unit (FIU) —

formerly called the Office for Prevention of Money-Laundering and Terrorism Financing — and made up of representatives of 14 reporting institutions and of investigative and prosecuting bodies. It coordinates and monitors activities specified in the strategy and reports to the government. The Council provides a platform for strengthening interinstitutional cooperation. The FIU is upgrading IT systems to improve data collection, processing and analysis. However, the level of reporting remains unsatisfactory and points to persistent deficiencies in implementation. In 2011, the number of suspicious transaction reports submitted to the FIU decreased by 32% to 165. The number of court cases and sentences remains very low (two indictments and one conviction). Preparations for combating money-laundering are moderately advanced.

Conclusion

There was some progress in the area of free movement of capital, notably on improving the institutional framework for the fight against money-laundering. Implementation of anti-money-laundering policies is weak. Further liberalisation of capital movements and payments is planned after the transition to the second stage of the SAA. Preparations in the area of free movement of capital are on track.

4.5. Chapter 5: Public procurement

Some progress was made as regards **general principles**. The Law on public procurement (LPP) was amended to introduce *inter alia* mandatory publication of contract notice for contracts below €5,000, technical dialogue for contracts above €130,000 and 6 months' time suspension to relaunch annulled tenders. A negative reference list of economic operators who are to be excluded from participation in future tenders for 1 to 5 years was introduced; alignment with the *acquis* has yet to be confirmed. Six pieces of implementing legislation were issued, including a Code of conduct for public procurement. The national programme for prevention of corruption 2011-2015 outlined safeguards in the area of public procurement. A new Law on concession and public-private partnerships (LCPPP) was enacted and is in line with the *acquis*. Implementing legislation was adopted, but 16 sectoral laws have yet to be harmonised with the LCPPP. The capacity of the unit in the Ministry of Economy dealing with concessions and PPP is insufficient to respond to the increased competences for implementation of the LCPPP. The EU directives on defence and sensitive security procurement as well as the late payment directive have yet to be transposed. As regards general principles, the country is well on track.

Some progress was made on the **award of public contracts**. The use of e-auction for published contract notices was increased from 70% to 100%. The e-procurement system was extended to include also concessions and PPP contract notices and the negative reference list. Training of contracting authorities and economic operators decelerated. The number of tender cancellations increased from 20% in 2010 to 29% in 2011 and the use of negotiated procedures without publication of a contract notice rose. Tailor-made trainings for contracting authorities on quality criteria, tender specifications and contract management have yet to be developed. With regards to the award of public contracts, the country is moderately advanced.

Progress can be reported as regards the **remedies** system. The competencies of the State Appeals Commission (SAC) were expanded to also cover appeals in the field of concessions and PPP. About 14% of all the tenders launched in 2011 were the subject of appeal. The total number of cases of the SAC decreased from 868 in 2010 to 690 in 2011. The SAC maintained the level of case resolution of above 95%. In four cases the Administrative court overruled the decisions of the SAC. 33 posts in the SAC remain unoccupied and the budget of the SAC decreased in 2012. The right of appeal for the economic operators that were put on the negative reference list is not safeguarded in the LPP. Full alignment with the amended EU

Directive on Remedies has yet to be achieved. Court statistics on public procurement related cases are partially available, and the methodology for their collection is not comprehensive. In 7 out of 45 cases received, the State Commission for Prevention of Corruption suspected corruptive behaviour while spending public funds and recommended the Public Prosecutor's Office to press criminal charges. The enforcement of the articles of the criminal code related to public procurement resulted in one conviction in the first half of 2012. As regards the remedies system, the country is moderately advanced.

Conclusion

Overall, some progress was made in the area of public procurement. Alignment of the legislation on concessions and public-private partnerships with the *acquis* is advanced, with exception of remedies and defence procurement. Use of e-auctions is mandatory. Administrative capacities in the field of remedies and of concessions and public-private partnerships remain weak. Overall, preparations in the area of public procurement are advanced.

4.6. Chapter 6: Company law

Good progress can be reported in the area of **company law**. Law on European Economic Interest Grouping was adopted. It will be applicable only upon the country's entry into the EU. The extension of the one-stop shop to include also Agency for Insurance Supervision, Public Revenue Office and Agency for Supervision of Fully Funded Pension Insurance is underway. Central Registry employs 300 people country-wide which is a sufficient level of staffing. Some of the rules on employee participation were transposed under the concept of *Societas Europaea*; however article 16 of the Tenth Company Law Directive on cross-border mergers has yet to be transposed. The legal department of the Ministry of Economy staffed with 13 people is now responsible for alignment of the company law with the *acquis*. In the area of company law the country remains well on track.

Good progress was made on **corporate accounting**. The Law on performing accounting activities was enacted to define criteria for the accountancy profession, introduce disciplinary measures in case of breach of the Code of ethics of International Federation of Accountants (IFAC) and establish the Institute of accountants and certified accountants as a professional chamber responsible to issue licences and deliver continuous training to professional accountants. The International Financial Reporting Standards (IFRS) for small and medium-sized enterprises were translated and are now being applied.

Little progress can be reported as regards **auditing**. The Council of Audit Promotion and Supervision was established to promote the audit profession, ensure quality control and supervise the Institute for Chartered Auditors (ICA); meetings were held regularly. The ICA conducts exams for certified auditors and delivers lectures for continuous professional improvement. The number of staff in ICA increased to 3 people, but remains insufficient to perform an effective quality assurance control. Chartered auditors' qualifications obtained abroad are not yet recognised. Overall, in the area of corporate accounting and auditing the country is moderately advanced.

Conclusion

Good progress was made in company law, particularly by adopting legislation on European economic interest groups. The administrative capacity of the Institute for Chartered Auditors is weak. Chartered auditors' qualifications obtained abroad have yet to be recognised. Overall, preparations in the area of company law are moderately advanced.

4.7. Chapter 7: Intellectual property law

Some progress was made in the area of **copyright and neighbouring rights**. The amount of single equitable remuneration for reproduction for private use of written works, phonograms and videograms was regulated; the compliance with the *acquis* remains to be confirmed. The commission for mediation in the field of copyright and neighbouring rights is now the institution responsible to provide opinion on the tariff schemes of the collective rights management (CRM) societies that are to obtain licences. Two CRM societies are currently active. The cooperation of the unit responsible for copyright in the Ministry of Culture with the relevant institutions was limited. In this area, the country is advanced.

Further progress was made in the area of **industrial property rights**. The London Agreement on the application of Article 65 of the European Patent Convention that aims at reducing the costs for patent translation was ratified. A license regime for chartered valuers in the area of industrial property was set up. Implementing legislation on registration of designation of origin and geographical indications of agricultural products was adopted. The State Office for Industrial Property (SOIP) continued the cooperation with the World Intellectual Property Organization, European Patent Office, European Patent Academy and other relevant bodies. Trainings and public awareness raising activities related to intellectual property rights (IPR) continued. In 2011, Academy for Judges and Prosecutors delivered 16 trainings on protection of IPR, including training of trainers, to 328 members of the judiciary as part of the continuous training. The National Strategy for intellectual property has yet to be updated. In the area of industrial property rights, the country remains well advanced.

Some progress can be reported as regards **enforcement**. The Law on customs measures for protection of IPR was amended to allow for processing of requests for such measures free of charge. The 2011-2013 Strategy for customs measures for protection of IPR was adopted. The increased competencies of the State Market Inspectorate (SMI) when seizing counterfeit items have had a positive impact. 49 police inspectors from the Ministry of Interior (MoI) deal with infringements of IPR. The Bureau on Pharmaceuticals (BP) seized counterfeit life-style medicines that were being sold in pharmacies, but there is no awareness as regards the threats posed by counterfeit medicines to the health and safety of the consumers. The Coordination Body for Intellectual Property (CBIP) undertook 12 coordinated actions in 2011, which is a drop by half compared to 2010. Cooperation of the CBIP with the Agency for Managing Confiscated Property continued, but the number of goods publicly destroyed decreased significantly in 2011. Competencies for IPR are spread across many law enforcement institutions (CBIP, SMI, MoI, BP, Customs administration, Ministry of Justice etc.) which creates a complex, rather than effective system IPR protection. In 2011, a total of 126 court procedures were initiated for violations of IPR. About 15 prison sentences and a number of fines on criminal offences were issued to individuals by the specialised IPR departments of the courts. Development of a methodology for collecting and exchanging statistical data on IPR is at an early stage; however the exchange of data between the law enforcement institutions is not systematic. Awareness that counterfeit affects also foodstuffs, cosmetics, hygiene products, medicines, toys, technical and electronic equipment is low and such goods are being sold in the streets and green markets. The trade in counterfeit medicines and fake products via the internet is still not subject of criminal prosecution. The cooperation between authorities to trace counterfeit channels and tackle the 'counterfeit pyramid' is limited, both at national and international level.

Conclusion

Some progress was made in the area of intellectual property regarding both the legislative framework and administrative capacity. Implementation remains a challenge and the

collective rights management system is still underdeveloped. A solid track record on investigation, prosecution and trial of IPR-related cases has yet to be established, as violations of IPR continue. The level of awareness of IPR among the institutions and public remains low. Overall, preparations in the field of IPR are moderately advanced.

4.8. Chapter 8: Competition policy

Good progress can be reported in the area of **anti-trust, including mergers**. Guidelines on restrictions related to concentrations and several implementing regulations were adopted. Compared with 2011, the enforcement record of the Commission for Protection of Competition (CPC) has improved in terms of both quantity and quality. Since 1 October 2011, the CPC has adopted three decisions on prohibited agreements, three on abuse of dominant position and 23 on concentrations. The CPC is increasingly investigating economically important areas, particularly telecommunications and broadcasting. The staff dealing with anti-trust and mergers should be used more efficiently. CPC staff have acquired good basic skills, but would benefit from more advanced training. The general budget of the CPC for 2012 remained around 30% less than in 2009 and, hence, inadequate. Effective implementation of the leniency measures provided for in the Law on Protection of Competition is limited because of conflicting provisions in the criminal code. In addition, if an appeal is lodged, enforcement of the decisions taken by the CPC on misdemeanour procedures is suspended until the final decision of the Administrative Court, which weakens the effectiveness of the decisions of the CPC. The number of decisions confirmed by the Administrative Court has increased from 3 in 2011 to 6 in first 9 months of 2012, thus strengthening enforcement. The judges of the Administrative Court received some training on anti-trust and mergers. Preparations in the area of anti-trust, including mergers, are at an advanced stage.

There was some progress in the field of **State aid**. Implementation of the Law on State Aid is satisfactory. In the first 9 months of 2012 the CPC took eleven decisions in the field of State aid, including *ex-officio* decisions, which is an increase compared with 2011. The quality of some of them could be improved. The number of staff dealing with State aid is adequate. In the area of State aid the country is on track.

There is no progress to report in the field of market liberalisation.

Conclusion

Good progress was made on competition. The implementing legislation adopted has improved the legislative framework. The enforcement record continued to improve in terms of both quality and quantity. The CPC does not have adequate budgetary resources. The number of staff is adequate but needs to be used more efficiently. Overall, preparations in this area are advanced.

4.9. Chapter 9: Financial services

There has been good progress in the areas of **banks and financial conglomerates**. The Law on Supplementary Supervision of Financial Conglomerates was enacted, with the aim of aligning with the Financial Conglomerates Directive. The law lays down the rules for supplementary supervision of banks, insurance undertakings and brokerage firms which are part of a financial conglomerate. In the field of consumer protection, the central bank (NBRM), started addressing issues raised in complaints by performing general checks on banks. Implementation of the banking legislation on protection of consumers is improving. However, protection of consumers remains a challenge and needs to be properly addressed.

The NBRM further upgraded the regulations on capital requirements for credit risk. A new methodology was issued on the capital requirements for covering market, credit, currency and

operational risks. It is partly aligned with the Capital Adequacy Directive. Cooperation with the supervisory authorities of the countries whose banks own some of the largest banks in the country is good. With a total of 53 staff working in the banking supervision department, the capacity of the NBRM is satisfactory for proper implementation and enforcement of regulations. Application of the standardised approaches of pillar 1 of the Basel II Accord began in July 2012. The advanced approaches will be introduced from 2013, for which additional capacity will be needed. The country is well on track in the areas of banks and financial conglomerates.

There was good, but uneven, progress in the fields of **insurance and occupational pensions**. The Insurance Supervisory Agency (ISA) issued implementing legislation on accounting and financial reporting, risk-based supervision and consumer protection, thus almost completing the legal framework on insurance supervision. The preparations for the implementation of the Solvency II Directive (2009/138/EC) are ongoing. New software for off-site supervision was installed. Based on the checks performed, the ISA imposed supervision measures on insurance undertakings. The capacity of the ISA and its cooperation with the supervisory authorities of the insurance companies that have local subsidiaries are adequate. The ISA participated in three supervisory colleges for partner countries and performed two joint controls with home-country insurance regulators. It is represented in the supervision forum with the International Association of Insurance Supervisors. The capital and solvency margins are still well above the levels required and the guarantee fund against insolvency of insurers is sufficient. New registration plates were introduced to combat uninsured driving, however uninsured driving remains a challenge and the enforcement record on combating offences committed by uninsured drivers is weak. The Ministry of the Interior estimates that the number of uninsured vehicles has dropped from 17% to 10%. The provisions in the Law on Compulsory Insurance of Road Vehicles authorising the Ministry of Financial Affairs to set the premiums for motor vehicle insurance are an effective barrier to competition between insurance companies and is not in line with the EU *acquis*.

The Law on Payment of Pensions from both the mandatory (second pillar) and voluntary (third pillar) fully funded pension insurance funds was enacted. The Agency for Supervision of Fully Funded Pension Insurance (MAPAS) adopted new risk-based supervision manuals modelled on International Organisation of Pension Supervisors (IOPS) best practices for defined-contributions pension schemes. The limit of 50% on investing in non-domestic securities, which is contrary to the principles of EU law, remained. New legal provisions were introduced prohibiting pension funds to invest in bonds and other securities issued and guaranteed by the state that are not traded on the domestic market. The Law on Fully Funded Pension Insurance was amended to ensure the full independence of the MAPAS. However, its overall enforcement capacity is insufficient. The MAPAS still has limited leverage over the institutions it supervises. In the area of insurance and occupational pensions, the country is not yet sufficiently aligned with the *acquis*.

There was little progress on **financial market infrastructure**. All financial services regulators amended legislation introducing risk analysis based on international credit rating agencies' assessments, instead of EU and OECD membership criteria. Alignment with the Settlement Finality Directive (98/26/EC) and the Financial Collateral Directive (2003/47/EC), as both amended by Directive 2009/44/EC, remains pending. In the area of financial market infrastructure, the country is not yet sufficiently aligned with the *acquis*.

There has been some progress in **securities markets and investment services**. The national legislation on market abuse, markets in financial instruments, investor compensation schemes, transparency and prospectuses, is largely in line with the corresponding *acquis*. The preparations for alignment with Directive 2007/16/EC and other developments in the *acquis*

relating to activities for collective investment in tradable securities (UCITS IV package) were launched. The Securities and Exchange Commission adopted by-laws with a view to full implementation of the legislation. The frequency with which the supervisory regulations are amended has undermined legal stability for the market participants. The SEC continued cooperating with the capital market regulators from the region, with the aim of establishing a common platform for listing, trading, transparency and settlement. The number of SEC staff is sufficient for the current workload. The SEC and the Central Bank improved cooperation, exchange of information and coordination in the area of supervision of trading in securities. In the area of securities markets and investment services the country is well advanced.

Conclusion

Progress was made in the field of financial services, particularly on banking, insurance and securities markets. Alignment of the legal framework on insurance supervision with the *acquis* is very advanced. The Law on Payment of Pensions from the fully funded pension insurance funds was enacted and the MAPAS attained full legal and financial independence. However, uninsured driving remains a challenge and the enforcement record on combating offences committed by uninsured drivers is weak. Alignment with key *acquis* in the area of financial market infrastructure remains to be achieved. Overall, in the area of financial services, alignment with the *acquis* is moderately advanced.

4.10. Chapter 10: Information society and media

Good progress can be reported in the field of **electronic communications and information and communications technologies**. The Law on Electronic Communications was amended and regulations were adopted within the reporting period with the aim of improving competition in the market. The 2009 EU regulatory framework is yet to be transposed into national legislation. Responsibilities for legislation and policy-making for electronic communications and the information society were transferred to the new Ministry of Information Society and Administration (MISA). The capacity of the new ministry needs to be strengthened. The role and responsibilities of the Agency for Electronic Communications (AEC), as the national regulatory authority, were clarified in legislation. The AEC published a five-year regulatory strategy (2012–2016) and introduced regular public consultations, including on its annual plan. Progress was made with implementing competitive safeguards, such as cost-accounting obligations for fixed and mobile networks and next-generation access networks. The AEC designated universal service providers and built up its capacity on protection of consumer rights. The regulator also developed an electronic register of electronic communications infrastructure. Amendments were made to the legislation in order to adjust the regulatory fees on operators and on use of surplus funds. However, these still need to be implemented. Transferring the regulator's surplus funds to areas that fall outside the remit of electronic communications undermines the regulator's authority. The coordination of measures imposed by both the AEC and the national competition authority needs to be improved. A public call to award the development of the fourth generation of mobile telephony was made. The emergency number 112 was not introduced due to financial constraints. Preparations in the area of electronic communications and information technologies are advanced.

There was some progress in **information society services**. Further electronic government projects were initiated to expand the opportunities for citizens and businesses to interact with the public administration. A method for assessment of the value of information technology was adopted. Work on interconnection of registers and databases between state institutions is continuing. Two certification service providers are still issuing qualified electronic signature certificates. However, there is little demand for the certificates, and market access has been

made difficult as the implementing legislation requires, in practice, prior registration before certificates can be issued. The internet domain name market is not liberalised, and MARNet, remains the only domain name registry in the country. While internet penetration has grown and online social networks are becoming increasingly influential, there are still barriers to e-commerce, including the ‘threshold’ imposed on internet trading by the customs authority. Preparations in the area of information society are advanced

Little progress can be reported in **audiovisual policy**. Parliament enacted amendments to the Broadcasting Law that provide for higher broadcasting fees and extend advertising times in the public service broadcaster’s programmes. Collection rates for the broadcasting fee has started to increase and provide for proper funding of the public service broadcaster and of the Broadcasting Council. The Broadcasting Council increased its monitoring activities and the transparency of its work, but concerns about its independence remain. The total number of cases of illicit media concentration investigated increased. Efforts were made to enforce legislation on copyright and on media ownership and concentration, but these still remain insufficient. The removal of the licence for the TV station A2 did raise questions and identified weaknesses in the legal framework and practice for imposing sanctions. The Broadcasting Council needs to review its practices and legal framework in order to address these concerns. The Broadcasting Council lacks resources to monitor and enforce the law at regional and local levels. Content monitoring activities remain weak and insufficient.

The independence of the public service broadcaster (MRTV) is provided for in the Law on Broadcasting Activity. MRTV has initiated some reforms under new management to increase its efficiency and quality of the offer. Further significant efforts remain to be undertaken to ensure that the MRTV fulfils the public service mission, inter alia by providing balanced and pluralistic news coverage. The drafting process of new media legislation, aligning it with the audiovisual media services directive advanced, but the inclusiveness and transparency of the process still need to be ensured.

Preparations continued for the digital switchover to be achieved in 2013. Amendments were made to the Law on Electronic Communications, regulating the digitalisation process. There is little coordination of the switchover plan between institutions and there is no permanent mechanism for planning and supervising the digital switchover, with the participation of all stakeholders. The DVB-T network was built with the aim of broadcasting and transmitting the programmes of the public service broadcaster. A separate DVB-T multiplex operator has yet to be selected. This will digitally broadcast the programmes of the commercial television channels. Preparations in the area of audiovisual policy are at an early stage.

Conclusion

Progress can be reported on the information society and media, notably in the area of electronic communications and information society services. In the case of audiovisual policy, the activities of the Broadcasting Council increased, but a non-discriminatory approach needs to be ensured. Adoption of a media law in line with EU *acquis* remains a priority. The country partly meets its priorities in the area of the information society and media. Overall, preparations in this area are moderately advanced.

4.11. Chapter 11: Agriculture and rural development

With respect to **horizontal issues**, there was little progress. The national programme for adoption of the *acquis* established an ambitious timetable for legislative alignment in this sector. For 2012, a total of €130 million has been allocated for direct support schemes. This includes direct area and headage payments, premium payments and input subsidies for

strategically important products, and non-commodity-based payments, including support for young farmers.

There was an overall increase in staff. However, only limited implementing legislation, principally of a technical nature, was enacted in the fields of agricultural and rural development support policy, quality of agricultural products, and wine. Institutional capacity remains a significant concern.

Good progress can be reported towards setting up an integrated administration and control system (IACS). The legal basis for the land parcel identification system (LPIS) has been established and the system is in operation. Registration is ongoing and already extends to over 45% of declared holdings. The real estate register is complete for agricultural land. The farm register, with a supporting automated IT system, is fully functional. Internet and server capacity remains a concern, particularly at peak times. Although the farm register is now integrated with LPIS information, compatibility between data registers has not yet been fully achieved. A national strategy for consolidation of land parcels, including an operational plan, has been adopted following public debate and consultation. Institutional capacity to manage and maintain a functioning IACS is insufficient.

The capacity of the paying agency, the Agency for Financial Support for Agriculture and Rural Development (AFSARD), remains a cause for concern, given its wide range of responsibilities. Staff employed in the AFSARD are responsible for both national support schemes and measures under the Instrument for Pre-accession Assistance for Rural Development (IPARD). Their number remains insufficient, despite recruitment of additional staff. Establishment of the reference price database is a positive development for management of IPARD measures.

Progress has been made with development of a sustainable agricultural information system, with online data entry established plus a website that allows access to market data. Pilot farm accountancy data network (FADN) activities are continuing and now cover a larger number of farmers and farm types. Preparations in the area of horizontal issues are advanced.

In the field of **common market organisation**, there has been limited progress, principally for commodities that are of greatest relevance to the country. Harmonisation of legislation with the *acquis* is continuing for selected commodities, including adoption of implementing legislation for carcass classification. The legal basis exists for implementation of market support measures, such as optional intervention for a limited number of commodities, consumption promotion and producers' organisations. The Law on Wine was amended to ensure closer alignment with the *acquis* and implementing legislation was introduced, principally relating to registration of producers and to grapes and grape products. Alignment with the *acquis* in the area of specialised crops is on track. Compatibility with the EU common market organisation is limited to poultrymeat and eggs and to milk quality, with an ambitious timetable set for other products. Preparations in this area are at an early stage.

Little progress can be reported in the area of **rural development**. Implementation of the IPARD programme under component V is continuing for three measures. Five calls for proposals were completed and a sixth launched, with an associated commitment of €5.32 million of IPA support under component V. The absorption capacity for component V remains a significant concern. A government action plan was adopted to improve the management and control of IPARD and support greater absorption of funds. The institutional capacity of the managing authority, the Ministry of Agriculture, Forestry and Water Economy (MAFWE), was strengthened. There has been very limited progress in preparations for implementation of additional IPARD measures. Preparations in this area are moderately advanced.

There has been progress in **quality policy**. Implementing legislation to establish national marks and signs related to quality protection and to identify protected species of various commodities was introduced. Preparations in this area are on track.

There was some further progress with **organic farming**. The Law on Organic Production was strengthened, with the aim of alignment with the *acquis*. The numbers of registered organic producers and total organic production are both continuing to increase. A budget of €2.11 million was allocated in 2012 to support organic production, including top-up payments for organic producers and support for processing and trading organic products. Administrative capacity remains insufficient to meet *acquis* obligations. Preparations in this area are on track.

Conclusion

Some progress was achieved in the area of agriculture and rural development. Continuing advances have been made towards setting up the integrated administration and control system. Further alignment with the *acquis* is required. Administrative capacity remains a concern throughout the sector. Overall, preparations remain moderately advanced.

4.12. Chapter 12: Food safety, veterinary and phytosanitary policy

Good progress was made as regards **general food safety**. The Food and Veterinary Agency (FVA) adopted a single multiannual national control plan on state surveillance over food movements, a strategy paper on veterinary and plant health, and a multiannual training programme. Preparations started on a new food safety strategy (2013–2015) and a general crisis management plan. An internal system for control and auditing within the FVA was established. Preparations in this area are on track.

Good progress was made in the area of **veterinary policy**. As regards control systems for imports and requirements for imports of live animals and animal products, the FVA provides regular updates following amendments of the relevant *acquis* including the latest adopted EU safeguards measures. The system of reduced checks of consignments at the border inspection posts is not implemented yet. Activities for establishment of a system for *identification and registration* of pigs have been initiated. The database for identification and registration of animals was upgraded and is a central part of the newly integrated veterinary information system.

Good progress was made on measures to control animal diseases. The FVA is implementing a programme for oral vaccination of foxes against rabies. Surveillance programmes for rabies and classical swine fever were established. Measures to control and eradicate swine vesicular disease and certain diseases in aquatic animals were adopted with the aim of alignment with the *acquis*. The contingency plan for eradication of classical swine fever (CSF) was adopted. The FVA is implementing a programme of mass vaccination of domestic pigs against CSF. However, there are concerns about the way vaccinations are being carried out and that the immunity rate is low. The national control plan on salmonella in hens is being implemented. Some progress was made in the area of intra-Community trade in live animals, semen, ova and embryos, with the adoption of implementing legislation transposing the *acquis*. The European Commission approved the annual monitoring programme on prohibited substances and residue control. Some progress was made in animal welfare. Implementing legislation that further transposes the *acquis* was adopted. Some progress was made in the area of zootechnical issues by registration of livestock breeders and adoption of implementing legislation aiming at alignment with the *acquis*. The 2012 budget for veterinary expenditure on animal health was increased by 45% compared with 2011. However, significant delays in payment to authorised private veterinary centres for carrying out various FVA programmes are jeopardising their implementation. The capacity of the laboratories of the veterinary

faculty was strengthened, particularly on rabies and CSF diagnosis. In the area of veterinary policy, preparations are advanced.

Progress was made in the **placing on the market of food, feed and animal by-products**. Some implementing legislation was adopted on hygiene rules. The existing legislation transposes the *acquis* on specific rules for animal products, controls and specific controls for animal products. The aid schemes for hazard analysis and critical control points (HACCP) were extended to 2012 and training was provided for food business operators (FBO). FBOs do not always apply HACCP-based procedures correctly and official controls are not always conducted in accordance with the legal requirements. Planned activities for improving the quality of raw milk are not yet implemented.

Implementing rules on management of animal by-products (ABP) were adopted and preparations commenced on the ABP management strategy. The lack of a location available for disposing of or processing ABPs remains the biggest obstacle to implementing the strategy.

Progress can be reported in the **food safety rules**. Implementing legislation was adopted on the safety of food supplements, fortified foods, foods for particular nutritional uses, novel food and mineral waters; alignment remains to be confirmed. The legislation aims at further alignment with the *acquis* on labelling, food additives, extraction solvents, flavourings, food contact material, quick-frozen foodstuffs, contaminants and ionising radiation.

The annual monitoring programme for food safety was adopted and is being implemented. There are no risk-based criteria for categorisation, neither risk based criteria for inspection of establishments dealing with food of non-animal origin. The capacity of the food inspectorate was strengthened but remains insufficient in terms of control procedures and human resources. Preparations in this area are on track.

Progress was made on **specific rules for feed**. Some implementing legislation was adopted on feed additives and medicated feed. Preparations in this area are on track.

Little progress can be reported in **phytosanitary policy**. Some implementing legislation was adopted on plant health and on the quality of seeds and propagation material. No action was taken to implement the international standards for phytosanitary measures, in particular on surveillance, export certification and determining pest status in an area. Control of marketing places of plant production products is done only on a random basis and no controls of their application are carried out. Coordination between the various competent authorities for phytosanitary policy has not improved. The administrative capacity of the Phytosanitary Directorate is weak.

The capacity of the State Phytosanitary Laboratory remains under-used due to its undefined role in the national food safety monitoring system and the lack of samples received on a regular basis. Preparations in this area are not very advanced.

Some progress was observed in alignment with the *acquis* on **genetically modified organisms** by further adoption of implementing legislation.

Conclusion

Good progress was made in the area of food safety and veterinary and phytosanitary policy, in particular with respect to the institutional strengthening of the Food and Veterinary Agency and implementation of various animal disease eradication programmes. Preparations in the area of food safety and veterinary policy are well on track. Little progress was observed in the area of phytosanitary, where administration and co-ordination capacity of the competent authorities has not improved. The implementation of international standards for phytosanitary

measures has not been carried out. Preparations in the area of phytosanitary are at an early stage.

4.13. Chapter 13: Fisheries

EU requirements on resource and fleet management and inspection and control do not apply for inland fishing and are therefore not applicable, except for **control of marketing and traceability** of fishery products.

After implementing legislation was adopted, commercial freshwater fishing has restarted after a break to allow restocking with indigenous species following earlier over-fishing.

The administrative capacity of the unit for fisheries and aquaculture within the Ministry of Agriculture, Forestry and Water Economy (MAFWE) and of the relevant unit within the Agricultural Inspectorate remains insufficient. Preparations in this area are at an early stage.

Limited progress was made on **structural action**. Further implementing legislation was enacted covering control of, and procedures related to, recreational fishing.

Limited progress was achieved in **market policy**.

The register of **State aid** approved in the fisheries sector is operational. However, national schemes still need to be aligned with the EU's structural and State aid policies, in particular with regard to support for stocking fish waters.

There are no formal **international agreements**. Informal working arrangements still exist with Albania and Greece, covering management of resources in the three lakes whose waters they share.

Conclusion

There was limited progress in the area of fisheries. Administrative capacity remains insufficient. A large proportion of the fisheries *acquis* is, however, not relevant as the country is landlocked.

4.14. Chapter 14: Transport policy

Some progress can be reported in **road transport**. Implementation of the legislation on digital tachographs continued. Implementing legislation was adopted on working hours, on admission to the occupation of road transport operator and on market access. Further legislative progress needs to be made concerning access to the international market for bus services in order to align with the most recent *acquis*. The Road Safety Council worked with a reduced budget due to amendments to the Law on Insurance. As a result, the number of road safety campaigns was reduced. The administrative capacity for implementing the road safety policy needs further improvement. The state transport inspections were stepped up, but the administrative capacity of the state transport inspectorate still needs to be increased. Further alignment with recent road safety and dangerous goods *acquis* is still necessary. Preparations in the road transport sector are advanced.

Little progress can be reported on **rail transport**. The level of track-access charges levied from freight trains still has a negative impact on the competitiveness of rail against road transport and due to higher levels on the Corridor X line, discriminates against international traffic. Lengthy procedures for licensing and safety certification along with ongoing court procedures deterred railway operators from entering the market. An amendment to the law on railways to foreclose all but the state-owned rail operator until accession reversed alignment with *acquis* achieved in previous years. High charges and market closure further deteriorate the poor income situation of the infrastructure manager, without giving the aspired positive social effects on the State operator. The Safety Authority was established, but its

administrative capacity still needs to be strengthened. The procedure to establish a new accident investigation entity within the Government Secretariat-General has not been completed yet. The Joint Border Crossing Agreement with Kosovo was ratified. Further alignment with the railway *acquis* is still necessary.

In the case of **inland waterways transport** some progress was made. Safety inspections and licensing are underway. Preparations in this area are advanced.

Little progress can be reported in the area of **combined transport**. Preparation of a strategic study for multi-modal nodes started in April 2012. Preparations in this area are in progress.

Some progress can be reported in **air transport**. The Law on Aviation was amended to introduce national subsidies for operators with the aim of expanding tourism and air transport. However, the compatibility of these amendments to the provisions of the European Common Aviation area are being examined based on data collected at the 2011 assessment visit. Progress regarding the first phase of the ECAA agreement is still to be assessed on the basis of these data. Good progress can be reported as regards air traffic management. The air-navigation services provider is still understaffed. The Civil Aviation Agency, in its capacity as the independent regulatory body, continued its activities but human resources for inspections still need to be strengthened. Three members were appointed as independent investigators to investigate accidents and serious incidents. The independence of the accident investigation body still needs to be confirmed. In the area of air transport preparations are moderately advanced.

No progress can be reported on **satellite navigation**.

Conclusion

There was little new progress in transport policy. In road transport, there was some progress on *acquis* alignment, but road safety needs further improvement. The railway legislation needs further alignment with the *acquis*. A legal amendment to close the railway market for competition until EU accession reversed already achieved alignment with *acquis*. The administrative capacity of the Rail Safety Authority still needs to be strengthened. The Accident Investigation Committee for rail transport needs to become operational in order to act as an independent body. Overall, preparations in this area are moderately advanced.

4.15. Chapter 15: Energy

Little progress was made in **security of supply**. Several by-laws based on the Law on Energy were adopted, with the aim of further aligning the national legislation on security of electricity and natural gas supply. At the beginning of 2012, oil stocks increased slightly, but were still equivalent to only 34 days' average consumption. In the area of security of supply the country is at an early stage.

There was some progress on the **internal energy market**. The energy balance for 2012-2016 was adopted. To follow up the new Energy Law, the Energy Regulatory Commission (ERC) adopted a number of rulebooks covering regulated maximum income, tariff systems and prices for electricity. New market rules were adopted. The foreseen deadlines for the adoption of secondary legislation on market opening have been delayed. As a consequence, all non-household customers connected to the distribution system, who should have been eligible after the adoption of the Energy Law, remain in the regulated system and have no access to the competitive market. The electricity prices for tariff customers increased twice in 2012, in January by about 7,8% and in August by about 9,8%. In 2012, energy poverty mitigation measures totalling about € 2.4 million will be taken to subsidise the most vulnerable households. Application of the Law on Enforcement improved the collection rates for

electricity bills. The country needs to start preparations for alignment with the EU's 'third internal energy market package'.

The energy balance for 2012-2016 estimates a 4.9% increase in consumption of natural gas in 2012 as a result of the gasification at Kumanovo and Strumica and of the entry into operation of a combined heat and power facility. Under the new Energy Law, the ERC adopted rulebooks regulating the tariffs and prices for transmission, transport, distribution, supply and sale of natural gas. Following this, tariffs for transmission and operation of the transmission system were increased by about 7.5%. Further implementing legislation needs to be adopted. The dispute between the government and the private company about ownership of the gas transmission pipeline remained unresolved. The administrative capacity of the Ministry of Economic Affairs remains insufficient to address all the energy policy challenges. Statistics provided by the national authorities do not always meet the requirements of the Energy Community. In the area of the internal energy market the country is advanced.

There was some progress in the area of **renewable energy** with the adoption of the rulebook on the preferential status of producers of electricity from renewable sources and of the Decree on Feed-in Tariffs for Electricity from Renewable Sources. In 2012, 21 new concessions for small hydropower plants were granted, bringing the total number to 68. Hydro power plant 'Sv Petka', with installed capacity of 36,4MWh was put in operation and construction of a 36,8MWh installed capacity wind park started. Funds for construction of the 117.54 GWh 'Boskov Most' hydropower plant were secured via a loan from the European Bank for Reconstruction and Development (EBRD) and supported by a government guarantee. The low electricity prices for end-users and the burdensome administrative procedures for authorisation, permitting and licensing continue to be obstacles to the adequate uptake of renewables in the country. Preparations in the area of renewable energy are on track although the country's renewable energy potential is not efficiently harnessed.

Some progress was made on **energy efficiency**. The Ministry of Economic Affairs adopted a rulebook on energy consumption labelling for various appliances. The indicative energy-saving target for 2012 is set at 4.04% of the average energy consumption over the period 2002-2006. The Energy Agency issued guidelines applying energy-efficiency criteria in public procurement. The national programme for energy efficiency in public buildings has been drafted and is discussed with stakeholders. is being prepared. €100,000 were allocated for subsidies to households for solar collectors for 2012. Six municipalities benefited from energy audits and consequent retrofits of a number of buildings. The Energy Agency has limited administrative capacity to perform all the assignments under its responsibility. Overall, in the area of energy efficiency the country has started to address its objectives, but the necessary secondary legislation still needs to be put in place.

The country has no **nuclear energy**.

There was some progress in the area of **nuclear safety and radiation protection**. The Radiation Safety Directorate (RSD) issued a rulebook on the premises, equipment, qualifications and health conditions of persons working with ionising radiation sources. The RSD's strategic plan for 2012-2014 was adopted, which, *inter alia*, serve as a guide for the mid-term tasks and priorities of the RSD, while its implementation is expected to strengthen the efficiency and transparency of the RSD. A national coordination body for prevention, reduction and protection from chemical, biological, radioactive and nuclear arms and materials was established.

Conclusion

Some progress was made in the energy sector, in particular on enacting legislation implementing the 2011 Energy Law. A number of implementing acts have still to be adopted. Full liberalisation of the electricity and natural gas markets is yet to be achieved. Some progress was made on renewable energy. Preparations in this area are moderately advanced.

4.16. Chapter 16: Taxation

There was no progress on harmonisation of legislation in the area of **indirect taxation**. Legislation on VAT and excise is only partially aligned with the *acquis*. Some rates for excise remain lower than the minimum required by the *acquis*. Preparations in this field remain on track.

No progress was achieved in the area of **direct taxation**. Future alignment with the Parent-Subsidiary Directive, the Merger Directive and the Interest and Royalties Directive, have yet to be addressed. Some national provisions concerning the special zones for technological and industrial development are still not in line with the EU Code of Conduct for Business Taxation. Preparations in this field remain moderately advanced.

There was some progress in the field of **administrative cooperation and mutual assistance**. The Public Revenue Office (PRO) signed a memorandum of electronic data exchange with the Financial Police and the Financial Intelligence Unit. Operational instructions were adopted for PRO employees on the handling of exchange of information with tax authorities from other countries. The number of agreements concluded with EU Member States remains at 23. These agreements do not cover debt recovery, nor automatic exchange of information. Preparations in this area remain on track.

Some progress was made on **operational capacity and computerisation**. The mandate of the PRO was extended to cover financial aspects of the fight against money laundering terrorism as well as the supervision of gambling activities. The PRO further developed its electronic tools by extending the e-filing of tax returns for individuals, introducing the electronic archiving of VAT returns presented on paper and making the e-filing of VAT and profit tax returns mandatory from 2013. New procedures were introduced for the sale of confiscated assets. The PRO also adopted new implementing rules on profit tax, personal income tax and VAT registration of cash payments. In the area of human resources, new guidelines were issued for fighting corrupt behaviour by employees of the PRO. Performance appraisal was extended to all PRO staff. The Tax Academy launched its training programme. However, staff shortages persist, especially as regards the fight against high-risk tax fraud and tax evasion. The IT capacity of the tax administration remains weak. The efficiency of inspections, enforced collection and internal audits needs to be further strengthened. Preparations in this area remain advanced.

Conclusion

Progress has been limited in the field of taxation. Efforts are still required to harmonise the national legislation with the *acquis*, to reinforce the fight against tax fraud and tax evasion and to address IT and staffing capacity. Overall, preparations in the area of taxation are moderately advanced.

4.17. Chapter 17: Economic and monetary policy

In the area of **monetary policy**, the country is well aligned with the *acquis*. Some progress was made on strengthening the institutional capacity of the Central Bank by introducing medium-term strategic planning and upgrading the model for macroeconomic forecasting. The monetary policy instruments used by the Central Bank were further developed.

No progress can be reported in **economic policy**. The pre-accession economic programme (PEP) for 2012-2014 was submitted on time. The fiscal strategy was geared to shifting the emphasis from less productive spending to capital investment. However, this intention was reversed in the 2012 budget rebalance due to significant shortfall in revenues. With the increased reliance on foreign loans for financing the deficit, the economy became more vulnerable to external risks. No fiscal notification was submitted in 2012. The information presented in the PEP needs improvements in the substance, quantity and quality of data. In particular, more precise information beyond 2012 would add to its relevance as a core medium-term policy document. The structural part refers to a broad range of reforms, but without translating them into specific measures set in a clear conceptual framework. In spite of existing legal obligations, the Fiscal and Public Debt Strategies nor the Public Investment Programme were not updated for the period 2012-2014. The capacity for economic policy formulation and coordination remains insufficient and differs widely between the central and local levels. In the area of economic policy, preparations are moderately advanced.

Conclusion

There was little new progress in economic and monetary policy. The monetary policy-making capacity of the Central Bank was further improved. The quality of the pre-accession economic programme remains to be strengthened. The capacity for economic policy formulation and implementation still differs widely between the central and local levels. Overall, in the area of economic and monetary policy, the country is advanced.

4.18. Chapter 18: Statistics

There was progress as regards **statistical infrastructure**. The State Statistical Office (SSO) adopted the strategic plan for 2012-2014. Further progress was achieved in data dissemination. With 34 new employees, the share of the SSO's total staff from non-majority ethnic groups increased to 27%. The overall resource situation in the SSO needs to be further strengthened. Preparations in this area are advanced.

Progress can be reported on **classifications and registers**. Improvements were made to the quality of the statistical farm register and further progress was achieved towards the transition to NACE rev. 2 in business statistics. However, stronger interinstitutional coordination is necessary to improve compliance of administrative data with standardised classifications and definitions. Preparations in this area are moderately advanced.

Some progress was made in **sectoral statistics**. The population and housing census started in October 2011 but was interrupted and cancelled after the State Census Commission resigned (*See Political criteria, section 2.1. — Democracy and the rule of law*). As a result, there are no recent data on population and households. This has an impact on the accuracy and availability of a wide range of statistics.

Further harmonisation was achieved in the area of national accounts, including compilation of excessive deficit procedure tables, calculation of quarterly GDP and integration of sectoral data. Agreement was reached to hand responsibility for financial account statistics to the Central Bank. Coverage of balance of payments statistics was extended and harmonisation of statistics on external debts improved. Significant progress can be reported with regard to the production of business statistics, notably in the quantity and quality of the data transmitted to Eurostat. Methodological improvements were made in short-term statistics, transport statistics and agricultural statistics. However, further progress towards adoption of ESA 95 standards is needed in order to achieve full alignment. In the area of social statistics, new surveys were introduced. Preparations in the area of sectoral statistics are moderately advanced but hampered by the lack of up-to-date census data.

Conclusion

There was progress in the field of statistics, in particular on harmonisation of sectoral statistics and transmission of data. Full alignment with the *acquis* has yet to be achieved. The cancellation of the population census and the persistent lack of resources indicate that stronger commitment will be needed in order to make substantial progress in this chapter. The lack of up to date census data impacts on the quality and availability of data in sectoral statistics. Overall, preparations in the field of statistics are moderately advanced.

4.19. Chapter 19: Social policy and employment

There has been some progress as regards **labour law**. The Law on European Works Councils was enacted. Several amendments were made to the Law on Labour Relations with the aim *inter alia* of enhancing the effective enforcement of labour law. However, cooperation between the relevant institutions remains insufficient. Alignment with the *acquis* in this area is at early stage.

Some progress can be reported in the area of **health and safety at work**. The Law on Health and Safety at Work was amended and several rulebooks were adopted to bring the legislation further into line with the Framework Directive (Directive 89/391/EEC). A campaign was launched to raise awareness about ways to ensure greater safety for workers in the construction sector. Inspection capacity in the area of health and safety at work remains insufficient. Implementation of the strategy for occupational health and safety and of the action plan for 2011-2012 is slow and lacks coordination between the relevant authorities. The National Council for Occupational Health and Safety is not operational. Consolidated recording of data on accidents at work is still lacking. Alignment with the *acquis* in this area is moderately advanced.

There has been progress as regards **social dialogue**. The role of the Economic and Social Council as a forum for policy dialogue has been strengthened. Equal numbers of representatives from trade unions and employers' associations have been designated in the new composition of the Committee for Establishing Representativeness of Trade Unions and Employers' Associations. The first three local Economic and Social Councils in municipalities have been established. Bipartite and tripartite social dialogue has improved slightly, particularly in the private sector and especially for collective bargaining. Regular participation by social partners in the policy-making process is limited to labour legislation issues only. The capacity of social partners remains weak.

Little progress has been made in **employment policy**. A minimum wage has been adopted at national level. Unemployment was very high in 2011 at 31.4% and increased further to 31.6% in the first quarter of 2012. Employment in the grey economy has not diminished. The State Labour Inspectorate has taken some measures at central level to raise awareness of the need to combat undeclared work. Cooperation and coordination between enforcement bodies have not improved and labour market participation is still very low. Long-term unemployment, high youth unemployment and very low participation by women in the labour market are all causes for great concern. The national budget allocated to the active labour market programme is low. The Employment Services Agency has difficulties with implementing active labour market measures. Monitoring and evaluation of the active labour market programme are weak as they are based almost exclusively a basic quantitative analytical approach.

There has been little progress in preparations for participation in the **European Social Fund**. Procurement of projects co-financed under the first allocation for the Human Resources Development Operational Programme (IPA component IV) is in the final stage and

implementation of most of the projects has started. However, weak administrative capacity is having an adverse impact on the quality of project and programme management.

Little progress has been made on **social inclusion**. Appropriate institutional and financial resources are to be ensured in order to efficiently implement the policies and strategic plans already adopted. The national strategy for alleviation of poverty and social exclusion for 2010–2020 has been adjusted to EU 2020 priorities. However, a corresponding budget for implementing it is lacking. Financial support has been provided to selected municipalities to implement their local action plans for social inclusion. A national body for monitoring and evaluating implementation of the national strategy for elderly persons for 2010–2020 has been set up. The country presided over the Decade of Roma Inclusion. The strategy for Roma inclusion for 2012–2014 was also adopted. Steps were taken to address the problems of persons without documents, access to housing or education. Implementation of the national action plans and operational plans on Roma inclusion is slow.

As regards people with disabilities, the UN Convention on the Rights of Persons with Disabilities and the Optional Protocol to the Convention have been ratified. The transition from institutional to community-based care for people with disabilities has continued; there are now 15 residential units. However, implementation of the national strategy on equal rights for people with disabilities (for 2010–2018) has not progressed. Preparations in this area are progressing slowly.

Some progress can be reported on **social protection**. The Law on Social Protection was amended, further regulating inspections and supervision of the social protection system. A system for continuing education for professionals in institutions for social protection has been established. Reforms in the pension and healthcare systems are progressing. Implementation of the law on social protection as well as of the national programme for development of social protection for 2010–2021 needs to be stepped up. Administrative capacities need to be strengthened. Preparations in this area are moderately advanced.

Some progress can be reported on **anti-discrimination**. The national strategy on equality and non-discrimination and the strategic action plan for 2011–2015 of the Commission for Protection from Discrimination (CPD) has been adopted, proposing measures for improved legal framework, awareness raising, capacity building and inter-institutional co-operation. The Commission has entered into formal cooperation with other relevant bodies such as the Ombudsman, the parliamentary Committee on Equal Opportunities, and the Academy for Judges and Prosecutors. The human and financial resources of the Commission and its Secretariat remain insufficient. The staff capacity at the Department of Equal Opportunities in the Ministry of Labour and Social Policy is low. The framework law on anti-discrimination does not explicitly prohibit discrimination on grounds of sexual orientation in employment and occupation and is therefore not fully in line with the *acquis*. A structured and systematic data analysis on discrimination has not been established. Awareness raising activities on equity and non-discrimination need to be intensified.

A little progress can be reported on **equal opportunities**. Labour market indicators concerning women are stable. The female employment rate remains very low compared to the EU average. The mechanism in place within the Ministry of Labour and Social Policy to deal with complaints of unequal treatment does not function properly. There is a tendency to confuse equal opportunities with anti-discrimination issues. The national action plan for gender equality for 2008–2012 is implemented in a piecemeal approach, depending largely on external financing. The section for equal opportunities within the Ministry of Labour and Social Policy lacks appropriate human and financial resources. The capacity of the equal opportunity commissions at local level remains limited. Little was achieved to improve

women's situation in rural areas or Roma women's conditions. Support for activities to combat discriminatory customs, traditions and stereotypes remains limited.

Conclusion

Little progress has been made in achieving an efficient and inclusive labour market. Very high unemployment remains a major challenge, in particular concerning women and young people. Social dialogue has improved but the role of social partners needs to be further strengthened. Poverty remains high and inclusion of Roma, people with disabilities and other socially excluded people is limited. Further efforts on anti-discrimination are needed. The overall administrative capacity needs to be significantly strengthened in order to push implementation forward. Overall, preparations in this area are not very advanced.

4.20. Chapter 20: Enterprise and industrial policy

There was some progress in the area of **enterprise and industrial policy principles**. The 'regulatory guillotine' project continued to focus on simplification of the operating requirements for craftsmen and small businesses. 80 measures to improve the competitiveness of the local economy were adopted. Data entry and the functionality and interoperability of the Central Register were improved. The national authorities maintained close cooperation with representatives of business. The National Council for Entrepreneurship and Competitiveness was established, as a joint body of the public and private sectors. The central database of all draft legal acts is in operation; however, the level of reaction to, or comments on, legislative proposals by stakeholders using this facility remains very low.

Some progress was achieved in the field of **enterprise and industrial policy instruments**. Entrepreneurship and innovation were strongly promoted through the 'Factory of business ideas' project. About 120 companies benefited from the subsidised advisory service programme. Three new clusters were registered, bringing the total to 18. However, the budget allocated for support programmes under the SME Department and the SME Agency remains insufficient. The Law on Bills of exchange provided for improved enforcement of contracts, however it is only applicable in transactions between private entities and not between public and private. The country still shows a poor record on the number of applications submitted to, and use of the funds available under the EU Competitiveness and Innovation programme. A credit line for an additional €100 million for the private sector was agreed with the European Investment Bank. The government continued to provide subsidies in order to preserve the low interest rate for companies. The *SME portal* has yet to be established, making SME-relevant information difficult to obtain. Preparations in the area of policy instruments are moderately advanced.

There was some progress in **sector policies**. The national strategy for tourism development was adopted by the government. Intensive promotional campaigns continued and subsidies were awarded with a view to attracting foreign tourists. A number of municipalities reduced their local taxes on construction of hotels, restaurants and other facilities by up to 95%. Local craftsmanship was supported through subsidies for procurement of equipment. However, the budget allocated for the craftsmanship strategy is limited. The policy framework for green growth should be strengthened.

Conclusion

Some progress can be reported in the field of enterprise and industrial policy. Various strategies and measures were adopted, showing strong commitment to improving the business environment. However, implementation remains scattered across a number of uncoordinated and poorly funded bodies. The measures are yet to be made fully effective.

4.21. Chapter 21: Trans-European networks

Some progress was made in **transport networks**. The country continued to cooperate actively under the Memorandum of Understanding on Development of the Core Regional Transport Network. The authorities contributed to implementation of the Memorandum of Understanding on the Development of the South-East Europe Regional Transport Network which was included in the revision of the trans-European transport network guidelines proposed by the Commission in October 2011.

Reconstruction of Ohrid airport and extension of a runway at Skopje airport were completed under a concession agreement. The contract for construction of the motorway section along SEETO corridor X, from Demir Kapija to Smokvica, co-financed by IPA funds was signed and construction work started in September 2012. The missing link on rail corridor VIII towards Bulgaria, co-financed by WBIF funds, will go into detailed design phase. Administrative and technical capacity needs to be strengthened. Preparations in the area of transport networks are moderately advanced.

There was little progress in the **energy networks**. Preparatory activities related to construction of a new 400 kV electricity interconnection line with Serbia continued. Feasibility studies were drafted for construction of a new 400 kV electricity grid interconnection between Bitola and Elbasan and for development of the national gasification system. The country is moderately advanced in the area of electricity networks.

Some progress can be reported on telecommunications networks. The Memorandum of Understanding on the Information and Communication Technologies Policy Support Programme of the Competitiveness and Innovation Framework Programme was signed with the EU, opening up access to the programme.

Conclusion

In the area of trans-European networks progress was made. Overall, development of the transport, energy and telecommunications networks is continuing and the country is actively participating in the South-East Europe Transport Observatory and the Energy Community. Preparations in this area are moderately advanced.

4.22. Chapter 22: Regional policy and coordination of structural instruments

As regards the **legislative framework**, no progress was made in securing multi-annual programming, budget flexibility and co-financing capacity at national and local levels. Further efforts are needed in order to implement the cohesion policy in line with the EU rules and policies, in particular in the environment sector. In this area, preparations are moderately advanced.

There has been limited progress concerning the **institutional framework**. Considerable improvements are needed in order to increase the efficiency of the operating structures to prepare and implement projects under the precursors of the Structural Funds, IPA components III and IV. Preparation of environmental projects by the relevant ministry remains of concern. More efficient management and control systems are needed to ensure continuation of operations and payments under IPA components III and IV and prevent repetition of the previously identified deficiencies. Inter-ministerial coordination within the operating structures needs to be further strengthened. Preparations in this area are moderately advanced.

In the area of **administrative capacity**, limited progress was made. Technical support and training for institutions involved in IPA implementation have continued. Analysis of training needs was carried out by the line ministries, the National Fund and the Central Financing and Contracting Department (CFCD). The training plan was only partially implemented due to the

heavy workload. The staffing situation deteriorated after management powers were conferred on the relevant institutions in 2009 and 2010. The workload analysis identified a need for substantial strengthening of the staff capacity to implement pre-accession assistance, including relevant expertise. An effective retention policy of trained staff is of the utmost importance. Greater efforts are needed to ensure efficient management and coordination of all ongoing and planned projects. The country's administrative capacity in this area remains insufficient.

As regards **programming**, some progress was made. The Human Resources Development Operational Programme for IPA component IV has been revised to add financial allocations for 2012-2013. The revision of the Regional Development Operational Programme for IPA component III has not been completed. Identification and preparation of mature projects compatible with the objectives and means of the operational programmes, particularly in the environmental sector under IPA Component III, remains difficult. Tender documents and procurement processes need to be improved. Closer coordination and active participation by all stakeholders in the programming process are needed. Preparations in this area are advanced.

There was some progress in **monitoring and evaluation**. Sectoral monitoring committees have met regularly. The management information system (MIS) is in the process of full operational deployment and the relevant manuals of procedures and guidelines for the operating structures include a reference to the MIS. Further upgrades and continuous maintenance will be needed. The manual for programme monitoring and evaluation compiled by the national IPA coordinator has to be finalised including an efficient line of reporting. Interim evaluations on IPA components III and IV were completed. The relevant recommendations have to be followed up. The administrative capacity for monitoring and evaluation needs to be further strengthened. Preparations in this area are advancing.

In the area of **financial management, control and audit**, some progress was made. The senior management of the IPA Audit Authority was replaced in May and its budget for 2012 was slightly increased. Staff shortages in the CFCD are recurrent and need to be urgently addressed. The capacity for proper financial management will have to be further strengthened in order to ensure an efficient system for management and control of EU funds. The internal audit units in the line ministries have been formally set up and staffed, but suffer from insufficient understanding of IPA objectives and procedures.

Conclusions

Limited progress can be reported in the area of regional policy and coordination of structural instruments. Management of IPA programmes needs to be improved in order to ensure full and timely absorption of EU funds. Additional efforts are needed to address deficiencies in management, control and audit systems. In particular, staffing and qualifications within the operating structures and the CFCD need to be substantially strengthened. Overall, preparations in this area are moderately advanced.

4.23. Chapter 23: Judiciary and fundamental rights (*see also Political criteria*)

Progress was made in the area of the **judiciary** but key issues remain to be addressed.

Little progress was made as regards the *independence and impartiality* of the judiciary. Although basic safeguards are in place, including the role and composition of the Judicial Council, further efforts are needed in practice to guarantee independent, high-quality decision-making by courts. Improvements are needed in the evaluation and promotion system, where the current emphasis on quantitative rather than qualitative assessment criteria creates the risk of formalistic decision-making. The current grounds for dismissal of judges are not

sufficiently clear, precise and predictable, which could pose a potential threat to judicial independence.

As regards the professionalism and competence of the judiciary, stricter criteria entered into force for admission to initial training at the Academy for Judges and Prosecutors (AJP), relating to certified academic performance and knowledge of English. The fourth generation of nine AJP graduates completed their initial training in January 2012. The AJP also continued to provide continuous in-service training for judges, prosecutors, court staff and law enforcement, with a total of 290 different training activities being provided during the reporting period, attended by 9,571 participants. The AJP's budget for 2012 increased by 10% to around EUR 425,000; however, it still lacks adequate premises and staff, in view of the high volume of its activities.

The requirement that all newly-appointed first instance judges must have graduated from the AJP has still not entered into force. In spite of the transitional provisions stipulating that 50% of such appointments should be AJP graduates, the Judicial Council continued to give greater preference to applicants who had not graduated from the AJP. Out of 26 available basic court posts advertised during 2011, the Judicial Council appointed only 2 AJP graduates and 22 non-AJP graduates (while 2 posts were not filled), despite receiving a healthy rate of applications from AJP graduates for each post. This raises concerns about the credibility of the current provisions and the Judicial Council's commitment to merit-based recruitment.

In the area of *accountability*, nine judges were dismissed during 2011 and none were disciplined. There were no cases of revocation of judicial immunity by the Judicial Council in connection with criminal proceedings against any judges. The Judicial Council considered 2,081 complaints filed by individuals and companies against judges and courts during 2011. The most common ground was the length of court proceedings. The Ministry of Justice received 658 complaints about the length of proceedings (a decrease from 952 in 2010). The Supreme Court received 1,884 complaints during 2011 regarding unreasonably lengthy proceedings, an increase from 398 in 2010. In the same period, it upheld 195 complaints and awarded compensation in 180 cases. The total amount paid out was around EUR 136,000. The second instance council within the Supreme Court, which hears appeals in this type of proceeding, increased the awarded compensation in 17 cases.

As regards the *efficiency* of justice, greater efforts are needed to ensure collection and monitoring of the correct statistical indicators, such as the clearance rate and disposition time of courts. The 2011 Methodology for court statistics is not yet being systematically implemented and the related software is not yet operational. Training and awareness-raising are needed to ensure that all courts are using the same statistical tools. There is no monitoring mechanism covering the overall duration of court proceedings, including all stages and instances as well as enforcement, which now falls under the jurisdiction of professional bailiffs. This is an essential tool in detecting unreasonable delays and their causes. There is no system in place to identify and give priority to 'old cases' which have been in the court system for several years. Despite changes to several laws and campaigns promoting mediation, the uptake of alternative dispute resolution is still very low.

Progress has been made in reducing overall court backlogs in the country. In the last two years, the 27 first instance courts and 4 appeal courts have together disposed of a considerably higher number of cases than they have received. This has been partly due to organisational measures, such as monthly targets set by the Judicial Council. However, care must be taken to ensure that productivity is not given priority over the quality of judgments. Problems still remain at the Supreme Court and the Administrative Court, which have both been accumulating backlogs for several years. In April 2012, the Judicial Council temporarily

transferred four judges from the Higher Administrative Court to the Administrative Court in order to address the problem. The global number of pending cases in national courts at all levels at the end of 2011 was 295,769. There is currently no system in place to establish what proportion of these cases actually constituted backlogs of 'old cases' as opposed to ordinary case-flow. In view of the current disparities in the workload at the different court levels, steps are needed to ensure more efficient distribution of human resources, including judges, prosecutors and court staff, where they are most needed. In particular, future human and financial resource strategies need to take better account of the actual and projected needs of the court system and to be based on reliable judicial performance indicators.

The court budget for 2012 is around EUR 29 million (or 0.4% of GDP), of which 80 to 85% is spent on the salaries of judges and administrative staff. The current number of judges (678) is more than 50% higher than the European average in relation to the size of the population, and the court budget is one of the highest as a percentage of *per capita* GDP. Future judicial strategies need to assess the sustainability of this spending and start planning a gradual rationalisation of the court network. The budget of the Public Prosecutor's Office is around EUR 5.3 million. The majority (83%) is spent on salaries, while the remainder is insufficient to cover the necessary IT infrastructure upgrade of the prosecution service, notably its link-up to the courts' automated court case management information system (ACCMIS), which still needs to be carried out.

The courts at all levels have continued to publish judgments on their websites (over 90,000 during 2011), which is an important tool in promoting transparency and access to justice. However, the system should be made more user-friendly through the classification of judgments by subject and the inclusion of a search function.

The legal aid budget for 2012 has doubled from last year to EUR 200,000; 213 lawyers and 4 NGOs are registered to provide legal aid, however the number of cases is still very low.

There is currently no judicial reform strategy or action plan in place to follow up the previous one dating from 2004-2009. It would be advisable to develop a new overall strategy in order facilitate strategic planning, budgeting and monitoring of future developments in the sector.

Some progress was made in the area of **anti-corruption policy**.

Amendments to the Law on the Financing of Political Parties were adopted, which give the State Audit Office (SAO) a leading role in the supervision of political financing. Efforts are still needed in practice to ensure that the SAO takes a proactive approach in investigation and enforcement, as well as to ensure the mandatory auditing of political parties' annual reports and the effective application of sanctions for violations of the financing rules, in line with GRECO recommendations. The Law on the Prevention of Conflicts of Interest was amended and a bylaw adopted which set out the procedure for checking declarations made by elected and appointed public officials. The Criminal Code still needs to be amended in order to abolish the possibility for courts to return the bribe to a bribe-giver who has declared the offence before it is uncovered.

The State Commission for the Prevention of Corruption (SCPC) adopted State Programmes for Prevention and Repression of Corruption and for Prevention and Reduction of Conflict of Interest, along with a corresponding Action Plan for 2011-15, providing for anti-corruption measures in 11 corruption-prone areas which include the financing of political parties, public procurement, health and social services, customs, the mass media and the judiciary. These programmes have not, however, been adopted or endorsed at government level, which may detract from their visibility and impact.

The administrative capacity of bodies tasked with combating corruption improved slightly, with the SCPC gaining one new recruit and the Ministry of the Interior's Sector for Internal Control and Professional Standards gaining 11. The Anti-Corruption Unit of the Centre for Suppression of Serious and Organised Crime is still operating at only 65% of capacity (11 out of 17 posts are filled). In 2012, the SCPC's budget was increased by around 5% and it also procured new IT equipment.

In 2011, the SCPC received 267 complaints of corruption (40% less than in 2010), and filed 10 requests with the Public Prosecutor's Office (PPO) to initiate criminal proceedings for abuse of an official position. Following the 2011 election, the SCPC initiated misdemeanour proceedings against four election campaign organisers for failure to submit financial reports and three initiatives for criminal investigation of illegal campaign financing.

There were 125 convictions for corruption-related offences in 2011 and 74 in the first six months of 2012. Bribery offences account for less than 10% of convictions, while the majority still relate to abuse of public office. Stricter sentences for corruption-related offences were imposed by the courts in comparison with 2010. However, orders for the seizure and confiscation of assets remain exceptional. The Criminal Code provisions on extended confiscation, illicit enrichment and criminal liability of legal persons have yet to be put into practice. Special investigative measures are rarely used to detect and investigate corruption offences. Decisions by public prosecutors not to indict are still not reviewed by the courts. SCPC and SAO requests to the PPO to start criminal investigations do not result in convictions, indicating that the effectiveness of the existing referral mechanisms needs to be improved. Inadequate statistical data-gathering and sharing between different enforcement and prevention bodies hampers the identification of problem areas.

The general capacity of the courts to deal with corruption cases, in particular high-level ones, needs to be improved. Only a handful of high-level corruption cases have been prosecuted, and almost all of them remain in the court system after many years, having been returned for retrial following appeals, due to inadequate examination of evidence by the first instance court.

The Sector for Internal Control and Professional Standards in the Ministry of the Interior initiated 15 criminal proceedings for corruption related offences in 2011. The majority of charges concerned abuse of official position. The Sector initiated 530 disciplinary procedures in 2011 (compared to 556 in 2010). The Customs Administration strengthened its internal control system. In 2011, 42 disciplinary procedures were initiated against customs officers (compared to 21 in 2010). In 26 cases, disciplinary measures were applied and in 5 cases, criminal charges were brought (compared to 1 case in 2010).

As regards corruption prevention activities, the SCPC continued to conduct random checks of asset declarations. Following checks carried out in 2011, the SCPC submitted 48 requests to the Public Revenue Office to initiate property examination procedures. As a result, 10 elected and appointed officials were charged the 70% tax rate on their undeclared income. In 2011, the SCPC received 425 statements of interest. It dealt with 128 cases of possible conflict of interest, confirmed conflicts in 37 cases and issued a public warning in 8. The effectiveness of the new implementing legislation on systematic verification remains to be seen.

The Law on Free Access to Public Information remains deficient. The exceptions to access to public information are vaguely worded, leaving scope for arbitrary interpretation. The sanctions set out in the law are unclear and are not applied in practice. Political parties are excluded from the list of holders of information.

In 2011, the Academy for Training of Judges and Prosecutors carried out 15 training activities for 353 participants on combating corruption and conflicts of interest. Intensive training on the new Law on Criminal Procedure continued for judges and prosecutors.

Limited and uneven progress was made in the area of **fundamental rights**.

Some progress was achieved with regard to the *prevention of torture and ill-treatment* and the fight against impunity. Staff of the national prevention mechanism in the Ombudsman's Office conducted regular visits to detention facilities. However, the Office has yet to be provided with the necessary budget and human resources. The Ministry of the Interior's Sector for Internal Control and Professional Standards increased its capacity to investigate allegations of ill-treatment, but it has yet to be given the authority to impose effective sanctions. The lack of independence of the internal control function for the police remains a concern. In 2011, of 63 complaints concerning disproportionate or unlawful use of physical force by police officers, all of which were investigated, 8 were considered well founded and led to the imposition of disciplinary sanctions. Allegations continued regarding ill-treatment towards persons detained in police custody by crime inspectors, and by the members of the Alpha unit. In 2011, out of 14 complaints relating to Alpha unit, 7 were sent to the public prosecutor, and for 8, disciplinary measures followed.

There was some progress in the area of the *prison system*. A number of measures were adopted on re-socialisation of convicted persons. A risk assessment manual was produced, identifying risks and the needs of prison inmates. Standardised procedures were adopted regarding the management of penitentiary facilities, notably the procedures for hygiene control, admission and treatment of inmates, as well as procedures addressing violent behaviour, work, escapes and visits to inmates. Numerous training activities for prison staff took place. The implementation of a large-scale project to rebuild prisons continued. However, a comprehensive national strategy for the prison system has yet to be drafted. The administrative capacity of the Directorate for Execution of Sanctions and the penitentiary institutions is weak. Specialised treatment programmes for vulnerable groups have yet to be put into practice. Lack of financial resources continued to restrict convicted persons' access to adequate healthcare services. Vocational, educational and other rehabilitation activities for inmates remain inadequate.

With regard to *freedom of expression* and the media, the legal framework is generally in place but attention needs to be paid to ensuring that its implementation is consistent, transparent and in line with the case law of the European Court of Human Rights (ECtHR). The government has adopted proposals to decriminalise defamation through a new Law on Civil Liability for Insult and Defamation, which aims to align with the relevant ECHR principles. The Criminal Code needs to be amended in line with this approach. Training on Article 10 ECHR has taken place for the judiciary and journalists. Over 40 key ECtHR judgments relating to Article 10 have been translated and published on the websites of the Ministry of Justice and the Academy for Judges and Public Prosecutors. Further training of all judges dealing with defamation cases should continue in order to ensure that ECHR principles are applied by the courts in practice.

With regard to *freedom of assembly and association*, the overall situation is satisfactory. There were no cases of misuse of the legislation or prohibition of registration.

Freedom of thought, conscience and religion is generally ensured.

Moderate progress was made on *women's rights and gender equality*. A new Law on Equal Opportunities was enacted. The Sector for Equal Opportunities Policy in the Ministry of Labour and Social Affairs still lacks adequate expertise, personnel and budget. Local

commissions on equal opportunities also face a lack of expertise. There is confusion in practice between the concepts of equal opportunities and anti-discrimination, which is a matter of concern. Some efforts were made to address women's health needs; however, due to financial constraints only a limited number of women can benefit from improvements. Insufficient support to the National Action Plan for Roma Women renders its implementation almost impossible. Women's participation in decision-making in society remains low, especially at local level.

Some limited progress was made in the area of *children's rights*. Amendments to the Family Law and the Law on Pre-School Education provided for a strengthened legislative framework for the adoption of children and for the inclusion of vulnerable groups in education. A National Coordinative Body for child protection was established. The Centres for Social Work were equipped with a new database and case management system to improve the quality of social services delivered to vulnerable children. However, it is estimated that only 15% of children with disabilities are in education, mainly in specialised institutions. The lack of psychologists and education specialists employed in schools, and the existing discrimination against children with disabilities, prevent their inclusion in the education system. The Ministry of Labour and Social Policy started activities to ensure registration of children without documents. It is estimated that there are around 1,000 street children, almost exclusively Roma. The number of reported cases of sexual abuse and paedophilia remained constant. The Ministry of Labour and Social policy adopted a protocol on dealing with cases of paedophilia, in cooperation with the World Health Organisation.

Some limited progress can be reported in the treatment of the *socially vulnerable and/or persons with disabilities*. The UN Convention on the Rights of Persons with Disabilities was ratified. The opening of communal housing units as part of the deinstitutionalisation process for people with disabilities has continued. However, implementation of the revised national strategy on equality of rights of people with disabilities 2010-2018 is very slow. Material conditions and inhumane and degrading treatment in psychiatric institutions have not improved. Integration of people with disabilities in society remains limited.

Some progress can be reported in the area of *anti-discrimination policy*. The Commission for Protection Against Discrimination became an observer member of the European Network of Equality Bodies. The Commission signed Memoranda of Cooperation with the Ombudsman's Office, the Women's Lobby and the Academy for Judges and Public Prosecutors. The Commission issued 34 opinions in 2011, relating to complaints submitted mainly on the grounds of ethnic, political and social status in the areas of labour relations, social security and the judiciary. The Commission still lacks sufficient financial and human resources; the capacity of its secretariat is particularly weak. Awareness among the population of the Commission's work and the principles of the Anti-Discrimination Law remains very low. A decreasing proportion of its recommendations is accepted by public authorities and there are concerns over its independence. The Anti-Discrimination Law is still not fully in line with the *acquis* as it does not explicitly prohibit discrimination on grounds of sexual orientation in employment and occupation. The Criminal Code penalises offences related to racism and xenophobia. Data on occurrences of hate speech or incitement in the media is collected by the Broadcasting Council.

As regards *property rights*, the land register now covers 99.96% of the country's territory. A new Law on Expropriation was adopted which extends the scope of public interest at both national and local level. Appeals against first instance decisions on expropriation are now dealt with solely by the Administrative Court. The E-cadastral system was expanded to a further 21 towns in the country. A national positioning system (MAKPOS) was put into commercial use. Info-lines were made available to the land registry office and open days for

the public continued to be held. The process of returning property confiscated under the Socialist Federal Republic of Yugoslavia has continued. However, 168 complaints lodged with the Ombudsman's Office in 2011 for breach of property rights were linked to the process of denationalisation alone. Delays persist in the enforcement of final decisions on restitution and the backlog of property disputes continues to cause delays in the Administrative Court.

Limited progress was made as regards *respect for and protection of minorities and cultural rights*. Institutions promoting the rights of smaller communities increased their activities, particularly in the area of education. The Government adopted an action plan on Roma inclusion and some progress was made regarding the education of Roma and identification of persons without documents. However, the Secretariat for the Implementation of the Ohrid Framework Agreement continues to suffer from insufficient strategic planning capacity and internal control standards. Institutions responsible for promoting the rights of smaller communities and the Roma remain underfunded, posing a serious obstacle to the implementation of existing strategies. Inter-institutional cooperation is weak. The pace of implementation of the Roma Strategy has slowed down in the areas of health and culture. Concerns over the sustainability of several successful projects, such as the Roma Information Centres, persist. A series of violent incidents has put inter-ethnic relations under strain.

Further progress was made on *protection of personal data*. The National Strategy for data protection 2012-2016 and related action plan were adopted. The inspection capacity of the Directorate for Personal Data Protection (DPDP) increased, and it gained three new staff. Budget allocations remained at the same level as in 2011. International cooperation further improved. Various guidelines were published, targeting data controllers and processors and the general public. However, the number of confirmed violations has increased from 176 in 2010 to 319 in 2011, and various media do not respect individuals' right to privacy, leading to frequent violations.

There were no developments in relation to **EU citizens' rights**.

Conclusion

Some progress has been made in the field of the judiciary, notably in reducing the backlogs of court cases. Further improvements are needed as regards merit-based judicial appointments, precise and predictable dismissal grounds and correct use of statistical tools. In the area of anti-corruption policy, the legislative framework is in place and capacity has been strengthened slightly but greater efforts are needed to develop a track record of investigations, prosecutions and convictions as no progress has been observed in this regard. As regards fundamental rights, some progress was made in the area of freedom of expression, notably towards the decriminalisation of defamation. The relevant institutions need to become more effective in promoting and safeguarding fundamental rights in practice. The Ohrid Framework Agreement remains an essential element for democracy and rule of law in the country. Preparations in the field of the judiciary and fundamental rights are moderately advanced.

4.24. Chapter 24: Justice, freedom and security

Little progress was made in the field of **migration**. Establishment of the database for foreigners, covering asylum, migration and visas, advanced slowly and is still in the testing phase. In 2011, 469 irregular migrants were detected in the country. A high concentration of irregular migrants was reported at the border with Serbia. Strategic capacity for managing migration flows is insufficient to cope with the increasing numbers of migrants transiting through the country. A readmission agreement with Serbia entered into force and another was signed with Montenegro. The readmission agreement with the EU continues to be

implemented well. In 2011, 1,022 persons were returned under the EU readmission agreement. In this area, the country is well advanced.

Some progress has been made in the field of **asylum**. The Law on Free Legal Assistance was amended to include asylum seekers. An amendment to the Law on Health Insurance guarantees access to the public health system for persons who are granted asylum. An integration programme was adopted for 2012, ensuring state funding for housing support to persons who are granted asylum. The centre for integration continued to build up its capacity to provide services to persons granted asylum. The reception capacity of the asylum centre in Vizbegovo improved. Access to information about asylum procedures and social rights increased slightly. In 2011, 740 applications for asylum were made, a sharp increase from 180 in 2010. In this context, the capacity of the asylum unit in the Ministry of Interior remains insufficient. The asylum procedure, in particular for first instance asylum decisions, is slow and unsatisfactory. The appeal system in relation to determination of refugee status continued to improve, although decisions are still issued on procedural rather than substantive grounds. No progress was made on speeding up the process for providing asylum seekers with ID papers. Interpretation remains an obstacle. The legislative and institutional framework is overall satisfactory but implementation needs to improve. Given the recorded increase in the number of asylum seekers, more efforts are needed on strategic planning. In this area, the country is advanced.

Progress was made on **visa policy**. Implementation of the visa free regime with the EU improved. The number of asylum applications lodged by the citizens of the country in the EU decreased from 7,550 in 2010 to 5,545 in 2011. However, long-term policies to improve social and economic inclusion of the most vulnerable groups of the population most likely to migrate remain underdeveloped and underfunded. Continuous training on forged documents was provided for staff of diplomatic and consular missions. There is already a high degree of alignment with the EU positive list. Further efforts need to be made with a view to alignment with the EU negative list by the date of accession. In this area, the country is well advanced.

There was good progress in the area of **external borders and Schengen**. Legislation implementing the Law on Border Control was adopted. Protocols were signed for the establishment of joint contact centres for police cooperation with Serbia, Kosovo and Albania. Protocols on joint border patrols were implemented by mixed patrols with Bulgaria, Kosovo and Albania. Good cooperation with Frontex continued. A rulebook on risk analysis in the area of organised cross-border crime and illegal migration is being implemented. Training programmes for field officers and a specific training programme for senior and mid-level police officers has continued to be implemented. The central database for false and genuine documents and specimen travel documents was updated regularly. Further efforts are needed to complete the human resources capacity of the inland mobile unit set up at central level. Competences were transferred to an inter-agency body, the National Coordination Centre for border management, which includes a newly established National Advisory Body for Integrated Border Management, responsible for monitoring and implementation the IBM strategy and action plan. Significant additional efforts are needed to strengthen the institutional and functional capacity of these bodies, particularly for strategic planning and human resources management. Further efforts are also needed to complete the human resources capacity of the inland mobile unit set up at central level. Work continued on extending the TETRA radio communications system, which currently covers 40% of the country. Progress was achieved in the technical equipping of the border police, notably with surveillance equipment. Reconstruction and renovation of 9 out of 20 police stations for border surveillance were completed. Also, a total of 9 police stations were connected to the central database of the Ministry of Interior and the connection of others is underway.

Budgetary management of border police resources was partly decentralised. Overall, preparations in the area of external borders and Schengen are advanced.

There was some progress on **judicial cooperation in civil and criminal matters**. The appointment of two liaison officers further improved cooperation with Eurojust. In the reporting period the Ministry of Justice processed 1,017 requests on criminal matters and 3,880 on civil matters. A bilateral extradition agreement with Montenegro entered into force, and agreements with Serbia and Croatia were ratified. Application of the 2011 Law on International Cooperation on Criminal Matters was postponed as a result of the postponed entry into force of the new Law on Criminal Procedure. In this area the country is moderately advanced.

Some progress can be reported on **police cooperation and the fight against organised crime**. The international law enforcement coordination unit in charge of exchanges of police and intelligence information (ILECU) within the Ministry of Interior is now in operation and an agreement was signed on cooperation between the law enforcement agencies involved. 107 international arrest warrants were issued in the country in 2011. There was good regional and international cooperation on law enforcement through Europol and Interpol. The Sector for International Police Cooperation was designated as the National Central Unit for Cooperation with the signatories of the Convention on Police Cooperation in South-Eastern Europe. An agreement on operational and strategic cooperation with Europol entered into force, but a liaison officer at Europol remains to be assigned.

The Police Training Centre continued to provide its advanced, continuous and specialised training. Around 300 police cadet candidates were selected to receive basic training at the Centre. It now has a separate, but limited, budget line. A training strategy, defining the objectives and target groups, was adopted. However, human resources are not efficiently balanced between the different law enforcement agencies. Full implementation of the new structure for the Bureau of Public Security and the regional Sectors for Internal Affairs is still hampered by insufficient financing and staffing. A professional evaluation of Ministry of Interior staff was carried out. Professionalization of police human resources and a rigorously merit-based recruitment policy are needed in order to enhance operational capacity and the efficiency of investigations. Further police training and establishment of an independent and robust external oversight mechanism for the police services remain crucial for police reform.

Full implementation of the new Law on Criminal Procedure (LCP), which was adopted in 2010 with entry into effect postponed until November 2012, will now be postponed until December 2013 for lack of budgetary and human resources and equipment. The Investigative Centres and Judicial Police foreseen by the new LCP have not yet been established. Further efforts are needed to implement the action plan for enforcement of the new LCP, in particular in the areas of resources, organisation, equipment and training of law enforcement agents and prosecutors.

There has still been no progress on staffing the Centre for Suppression of Organised and Serious Crime, with only around 62% of the posts filled (a slight decrease from last year). The National Criminal Intelligence Database is still not operational and the National Coordination Centre for the fight against organised crime has still not been established. Efforts by the relevant law enforcement bodies (the Ministry of Interior, the Public Prosecutor's Office, the Customs Administration and the Financial Police) on fighting organised crime need to be stepped up. Structural problems persist in law enforcement agencies combating organised crime.

The Law on Interception of Communications was amended, removing the direct involvement of the Minister of Interior in the authorisation of interceptions and aiming at improved control

and supervision of the process by the public prosecutor and the relevant parliamentary oversight committee. The use of special investigative techniques still needs to be increased in practice, as does the systematic use of financial investigations. The customs administration and financial police still have limited capacity to apply special investigative measures, significantly limiting the efficiency of the fight against organised crime.

The witness protection programme was activated in two cases in 2011. The witness protection unit was granted two additional premises but still lacks adequate equipment. The implementation of legislative provisions providing for compensation to be paid to victims of organised crime needs to be improved in practice.

In 2011, the Financial Intelligence Unit (FIU) reported 22 cases of suspicious transactions related to money-laundering and 107 related to other types of economic and financial crime to investigating authorities and the prosecution service. Most of the cases processed concerned tax evasion. A total of 43 persons were prosecuted in four cases during 2011. Six persons were convicted in two cases. The level of reporting and investigation of money-laundering and financial crime remains weak. A more pro-active stance is urgently needed.

Moderate progress was achieved in addressing trafficking in human beings. Eleven victims of human trafficking were identified in 2011, down from 12 in the previous year. During the year, the Centre for Victims of Human Trafficking accommodated eight victims. Efforts are needed to ensure the Centre's sustained ability to provide comprehensive care. In 2011, 35 persons were charged on suspicion of trafficking compared with 25 in 2010 and 7 persons were convicted, down from 11 in 2010. A comprehensive, multi-disciplinary and victim-oriented approach to trafficking still needs to be developed, and proactive identification of victims of trafficking needs to be improved. The country remains a source, destination and transit country for human sex trafficking and forced labour.

The country is advanced in the fields of police cooperation and fighting organised crime.

Some progress can be reported in the **fight against terrorism**. The country became a member of the counterterrorism initiative of the Council of Europe. Bilateral and multilateral cooperation continued. A national strategy for the prevention of money-laundering and financing of terrorism for 2012-2014 was adopted. The Council for the Fight against Money-Laundering and Financing of Terrorism was established as an inter-ministerial body to improve inter-institutional cooperation. A memorandum of cooperation was signed between the FIU and the Intelligence Agency. In 2011, the FIU submitted three notifications of suspicious transactions regarding financing of terrorism to law enforcement agencies and the prosecution service. Preparations in this area are well advanced.

Little progress can be reported as regards **cooperation in the field of drugs**. The national focal point cooperated well with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) on common projects. In 2011, the quantity of drugs seized on the country's territory remained low, continuing last year's downward trend. The country remains on the main Balkan drug trafficking routes, despite several successful international police operations to cut international drug trafficking channels. The customs administration needs to put more effort into detecting and seizing narcotics at the borders. The human resources capacity of the Illicit Drugs Department in the Ministry of Interior should be strengthened. The country broadly meets *acquis* requirements.

There was good progress on **customs cooperation**. The customs administration took part in eight international operations to detect illicit trade, led by the regional intelligence liaison offices of the World Customs Organisation (WCO), the South-east European Law Enforcement Centre (SELEC) and the German authorities. Cooperation and exchanges of

intelligence with the customs authorities of neighbouring countries also continued and intensified. Preparations in this area are well on track. (See also Chapter 29 – Customs union).

For measures against **counterfeiting of the euro**, see Chapter 32 – Financial control.

Conclusion

Progress has been made in the area of justice, freedom and security, notably on external borders and customs cooperation, as well as on interception of communications. Further efforts are needed to improve the efficiency of the asylum procedure, ensure rigorously merit-based recruitment to the police, step up the fight against organised crime and improve seizure of drugs. A more pro-active stance of law enforcement agencies is urgently needed. Overall, preparations in this area are advanced.

4.25. Chapter 25: Science and research

Little progress can be reported on **research and innovation policy**. The preparations of the national programme for scientific and research activities for 2012-2016 and the strategy on innovation have advanced, but remain to be adopted. The 2012 programmes for scientific research activities, technological development and technical culture were adopted. The budget for these programmes has, however, continued to decrease since 2010. Financial resources are still limited and the capacity of the research facilities remains weak. Greater efforts are needed, in particular on the level of investment and strengthening the capacity at national level by increasing the number of scientists and modernising infrastructure. Preparations in this area are moderately advanced.

Further progress was made on participation in the Seventh **Framework Programme (FP7)**. The level of participation in FP7 continued to increase but remains uneven. The administrative capacity to organise promotion activities, workshops and conferences on cooperation opportunities under FP7 improved. Particular efforts have been made to involve SMEs and on Marie Curie actions. Further efforts are necessary, in particular in preparation for the next framework programme, 'Horizon 2020', covering the period 2014-2020. Collaboration with the Joint Research Centre resulted in the conclusion of a Memorandum of Understanding (MoU) aiming at increasing the exchange of scientists and preparing for compliance with EU standards and technical requirements. Preparations in this area are advanced.

With regard to the **European Research Area (ERA)**, steps were taken to facilitate integration into the ERA and to contribute to the Innovation Union. Procurement of equipment for scientific laboratories for public universities and research institutes allowed upgrading of several national institutes. On mobility of researchers, preparations for the national EURAXESS portal and for setting up network infrastructure are well advanced. However, the level of investment in research decreased in 2012. A lack of reliable statistics makes it difficult to monitor investments and results. Preparations on EU research and innovation policy are moderately advanced.

Conclusion

Little progress can be reported in the area of science and research. Preparations for the national programme for science, research and development activities for 2012-2016 and for the strategy on innovation have advanced, but the documents remain to be adopted. Participation in FP7 continued to be good. The administrative capacity to support participation in the framework programmes has improved, but remains weak. Little progress can be reported on future integration into the European Research Area. Overall, in the area of science and research the country partially meets its targets.

4.26. Chapter 26: Education and culture

There was some progress in the fields of **education**, training and youth. Parliament enacted amendments to the laws on primary and secondary education. University rankings are published for all 19 universities covering aspects such as teaching, research and social services. Third-cycle (doctoral) studies were launched as part of the implementation of the Bologna process in higher education. Strategies for introducing entrepreneurial and environmental education and for training gifted pupils in primary education have been designed. The licensing system for adult education activities was established. Adult education schemes are in progress providing university studies and training.

The country improved its performance on upper-secondary attainment and in areas where EU-level benchmarks were set for 2020, in particular as regards early-school leaving and tertiary attainment.

However, in general, the country remains below the EU average in education, particularly in early-childhood education. No national targets were set for educational attainment, aligned with the education and training 2020 framework to address priority areas in each of the different levels of education and training. There are limited opportunities for distance, modular or part-time learning. Austerity measures have affected overall spending on education. Regional disparities remain. Some children in rural areas do not receive primary education and the early school-leaving rate remains high, particularly among Roma. Teacher-training needs to be improved. Higher education is necessary as it does not reflect the needs of the labour market. The national qualifications framework is not developed. The overall capacities of the centre for vocational education and of the centre of adult education remain insufficient.

There was good progress as regards the country's access to the Lifelong Learning and Youth in Action programmes. The progress made towards meeting the conditions set by the EU led to the lifting of the suspension of the preparatory measures under these programmes. The system of secondary controls of the work and day-to-day management of the national agency for a European educational programme and mobility was enhanced. The national authorities took measures to remove the irregularities detected and to make sure that the national agency works properly. The country has also become part of the centralised action of the Lifelong Learning programme.

Overall, preparations in the areas of education, training and youth are at an early stage.

Some progress can be reported in the field of **culture**. The country has intensified its participation in the Culture and the Europe for Citizens programmes. New items and institutions were declared as part of cultural heritage. The government-sponsored cultural infrastructure programmes have failed to reflect the multi-ethnic composition of the country and allocations to the cultural activities of the non-majority communities remain insufficient. Preparations in the area of culture are on track.

Conclusion

There was some progress in the areas of education, training, youth and culture. The country improved its performance in relation to the Education and Training 2020 common benchmarks. The suspension of preparatory measures for the Lifelong Learning and Youth in Action programmes was lifted. Investment continued, although it has yet to be equitably applied to reflect the multi-cultural society better. In the areas of education and culture the country is moderately advanced.

4.27. Chapter 27: Environment and climate change

In the field of **environment**, further progress was made on the *horizontal legislation*. Legislation was adopted on strategic environmental assessment (SEA) and environmental impact assessment (EIA). The administrative capacity for implementing the EIA and SEA Directives was improved, but shortcomings remain, in particular at local level. The requirements for access to information and public consultations related to EIA and SEA are still not adequately applied. Implementation of environmental liability legislation has not yet begun. Preparations for alignment with the INSPIRE and the Environmental Crime Directives need to be speeded up. Preparations in this area are advanced.

Some progress was made in the area of *air quality*. Alignment with the *acquis* continued, with the adoption of implementing legislation. Good progress was made on developing an air quality monitoring system, but it was uneven, due to insufficient financial resources for operating the system. This hampers proper implementation of the legislation in this field. Preparations in this field are well underway.

Some progress was made in the area of *waste management*. The Law on Electrical and Electronic Equipment waste management was adopted. Implementing legislation was adopted and further progress was made on setting up the integrated waste management system. The administrative capacity was improved. Investments in this area are far from sufficient and need to be increased. A system to deal with data collection, registration and reporting was launched on a pilot basis. Preparations in this area are progressing.

Very little progress can be reported in the area of *water quality*. Alignment with the *acquis* is still lagging behind. The national strategy for water has not been adopted yet. River basin management structures were established, but are not yet fully operational. The administrative capacity remains insufficient at central and local levels. The insufficient coordination between the competent authorities in the water sector continues to hamper implementation of the legislation. No progress was made on addressing the gaps in the water monitoring system. Planning and preparation of infrastructure investment are lagging behind and funding is low compared with the needs in the sector. No progress was made to apply the polluter-pays principle and establish an appropriate water pricing system. This continued to hamper operation of water treatment facilities. Preparations in this area are lagging behind.

Little progress was made in the area of *nature protection*. Alignment with the *acquis* continued with the adoption of legislation implementing the Law on Nature Protection. Some progress can be reported on the development of management plans for protected areas, but requirements for public consultation with stakeholders are still not always properly applied. Implementation of these plans is still inadequate due to the lack of sustainable financing and insufficient monitoring. Work on the new national strategy and action plan for nature protection has not yet started. Preparations in this area are moderately advanced.

Little progress was made on *industrial pollution control and risk management*. Work on transposition and implementation of the Seveso II Directive is progressing. The integrated pollution prevention and control (IPPC) permit process is behind schedule. Administrative capacity needs to be significantly strengthened, in particular for permit, control and inspection activities. Preparations in this area require substantial additional efforts.

Good progress was made in the area of *chemicals*. The report on the status of chemicals and the national plan for the strategic approach to chemical management were adopted. Progress can be reported on implementation of REACH (registration, evaluation, authorisation and restriction of chemicals). The administrative capacity was improved. Preparations in this area are moderately advanced.

Very little progress was made in the area of *noise*. Administrative capacity is insufficient in terms of both staff and equipment. In this area, preparations are at an early stage.

Good progress was made on *civil protection* in the form of accession to the EU civil protection mechanism and participation in the IPA cooperation project on civil protection.

Little progress was made in the area of **climate change**. A comprehensive climate strategy is still to be developed. Climate considerations are being increasingly integrated in energy policy, but substantial efforts are required in order to fully integrate climate change into other sectoral policies and strategies. The country regularly associated itself with EU positions in the international context. While having previously associated itself also with the Copenhagen Accord, the country did not yet put forward a mitigation commitment by 2020. The country should consider taking mitigation commitments consistent with those of the EU and its Member States for the purpose of the post-2020 climate agreement to be reached by 2015.

The country took initial steps to identify stationary installations for the purpose of future implementation of an emissions trading system. The national management plan for the phase-out of hydrochlorofluorocarbons (HCFCs) was adopted in November 2011. Significant efforts are required to strengthen the country's monitoring, reporting, and verification capacities.

The country participated regularly in the climate work under the Regional Environmental Network for Accession (RENA) and a high-level event on climate cooperation was organised under the Regional Environmental network for Accession (RENA). Initiatives to raise awareness and promote cooperation between stakeholders were launched, but efforts should be intensified. In this area, preparations are at an early stage.

The **administrative capacity** for implementing and enforcing environmental and climate change legislation remains largely insufficient at both national and local levels. Coordination between administrative bodies responsible for environment-related issues is not yet effective. Environmental protection and climate change requirements are still not integrated well into policy-making and policy implementation. Involvement of stakeholders in decision-making has improved, but is still not sufficient. The environmental monitoring and information system needs further development. Investments in the sector continue to be very low.

Conclusion

Overall, limited progress was made in the environment and climate change chapter. Further progress was made on transposing the *acquis* into national legislation, in particular on waste management, air quality and chemicals. Little progress was made towards alignment with the climate change *acquis*. Significant efforts are needed in order to implement the national legislation, especially on water management, industrial pollution control, nature protection and climate change. Considerable efforts are required on awareness-raising, setting a more strategic approach for the country, aligning with and implanting EU climate *acquis*, as well as strengthening administrative capacity. Administrative capacity at both central and local levels needs to be strengthened. Investments need to be increased, especially in the waste and water sectors. Overall, preparations in the field of the environment are moderately advanced while in the field of climate change remain at an early stage.

4.28. Chapter 28: Consumer and health protection

Some progress can be reported in **consumer protection**. As regards *horizontal aspects*, the regulatory framework and the enforcement records have improved. The Organisation of Consumers has continued organising awareness raising events, education campaigns and providing advice to consumers, including in rural areas. Capacity-building events have been organised for professionals from market inspectorates, consumer organisations and relevant ministries. However, the financial support granted to the consumers' association remains

insufficient. The administrative capacity of the consumer protection department within the Ministry of Economic Affairs needs to be increased.

Some progress has been noted on *product safety-related issues*. Amendments to the rulebook on the safety of childrens' toys have been adopted. The enforcement record of the consumer protection legislation has further improved. Market inspectorates have been increasingly dealing with consumer complaints, decreasing the workload of consumer organisations. Despite some improvement, market surveillance does not yet provide for fully effective and transparent protection for consumers. The administrative capacity of the coordinating body needs to be substantially augmented.

Some progress can be reported with regard to *non-safety-related issues*. The new law on consumer protection for agreements for consumer credits entered into force and implementing regulation were adopted with a view to alignment with the *acquis*. The law provides for more information and efficient legal protection for consumers when concluding credit agreements. Preparations in the area of consumer protection are advanced.

Some progress has been achieved in the area of **public health**. Regarding *horizontal aspects*, a new law on healthcare was adopted regulating health professions and the system of accreditation of health care institutions. It also re-organises network of health facilities on geographical basis. An integrated IT system for health is being implemented including delivery of equipment. The preparations for introducing an e-health card system continued. The overall budget allocated to the health programme has doubled compared to 2011. Cooperation with the European Centre for Disease Prevention and Control (ECDC), the World Health Organisation (WHO) and the Global Fund (GF) remains very good. Preparations in this area are on track.

In the area of *tobacco control*, some progress can be reported. Enforcement of the law on protection against smoking remains at a satisfactory level and has been further reinforced with the introduction of heavier sanctions in case of repeated violations of the law. The labour and market inspectorate and the state sanitary and health inspectorate have performed joint controls in the field. Counselling services to help people quit smoking have been provided.

Limited progress has been made in the fight against *communicable diseases*. Training has been provided to health professionals and inspectors on implementation and control of immunisation as well as other issues related to control of communicable diseases. The national strategy for containment of antimicrobial resistance 2012-2016 was adopted and activities promoting awareness raisings on the responsible use of antibiotics were carried out. The strategy for fighting HIV/AIDS 2012-2016 and the national strategy on immunisation 2011-2020 have not been adopted. Preparations in this area are on-going.

There has been little progress in the area of *blood*. The institutional capacity of the national integrated blood transfusion system needs further strengthening. IPA 2009 assistance has been earmarked for this purpose. In the area of *tissues, cells and organs*, an integrated transplantation system is being developed. Training for health professionals working in this field has been provided through TAIEX. Implementing regulations need to be adopted to complete the regulatory framework in the area. Preparations in this area are on-going.

Limited progress can be reported in the field of *mental health*. The annual programme on healthcare for people with mental disabilities was adopted. Some of the mental health institutions underwent refurbishment. The facilities remain however understaffed and without adequate financial resources. The budget of the annual programme is insufficient. No progress can be reported on implementation of the action plan on mental health that aims at creating community-based mental healthcare as an alternative to institutions. Sustainability of the

existing community mental health centres is a serious concern. Preparations in this area are at an early stage.

There was some progress in the field of *drug abuse prevention*. An evaluation of the national strategy regarding illicit drugs until 2012 has commenced. Some progress has been made in capacity-building to address dependence on alcohol and illicit drugs, to provide rehabilitation and family support, and to develop substitution treatment.

There has been little progress on addressing *health inequalities*. Within the Decade of Roma Inclusion 2005-2015, sixteen Roma health mediators started providing health counselling to Roma people.

Some progress has been made in the area of reducing *alcohol-related harm*, where the introduction of a minimum age of 18 years for purchasing alcohol, and a ban on alcohol sale in night hours contributed to reduced occurrence of alcohol poisoning in all age groups.

There has been little progress in addressing *health inequalities*. Within the Decade of Roma Inclusion 2005-2015, sixteen Roma health mediators started providing health counselling to Roma people.

Some progress has been made in *cancer screening*. The government launched a yearly programme for early detection of malignant diseases; including regular cancer screenings. The cancer registry remains however only partly operational. Awareness raising activities on cancer do not receive sufficient funding.

The yearly national programme for treatment of *rare diseases* has been adopted and its budget increased. However, the budget is still insufficient to ensure full implementation. Preparations in these areas are ongoing.

Conclusion

There has been some progress in the area of consumer and health protection. Further progress in this area is undermined by the limited financial resources and weak operational structures, particularly in the field of consumer protection. Overall, preparations in this area are moderately advanced.

4.29. Chapter 29: Customs union

Some progress was made on **customs legislation**. The 2012 customs tariff was adopted in line with the latest changes in the EU Combined Nomenclature. New implementing provisions were introduced on risk management, including electronic risk management and exchange of information, use of summary customs declarations, risk analysis, the procedure for issuing and revoking authorisations for the simplified customs procedure, and exchange of information between customs authorities using IT and computer networks. Preparations in this area are advanced.

Good progress was made on **administrative and operational capacity**. Cooperation with the business community intensified and exchange of information with the customs administrations of neighbouring countries continued. Professional standards and internal control measures were implemented systematically with the aim of preventing and fighting corruption among customs officers. Operational capacity for customs controls was further enhanced. Further progress was made with developing the risk management system at border crossings, in the form of more comprehensive application of risk analysis. However, sustainable financial resources for operation and maintenance of customs control equipment need to be secured. An Information and Communication Technology (ICT) development strategy and a public relations strategy were adopted for 2012-2014. The national plan for implementing the New Computerised Transit System (NCTS) was regularly updated. A new

transit application, fully compatible with the NCTS, was developed and the necessary implementing capacity was put in place. The single window system for issuing authorisations was further upgraded. The customs administration started developing a new Customs Declaration Processing System. Further development of staff's project management and quality assurance capacity is necessary in order to minimise the risks associated with parallel implementation of a number of IT development projects and to improve project performance in general. Preparations in this area are on track.

Conclusion

There was progress in the area of customs union, in particular on administrative and operational capacity. Inter-agency cooperation, the fight against corruption in the customs administration and the capacity to tackle cross-border crime continued to improve. Preparations in the area of customs union are well on track.

4.30. Chapter 30: External relations

Progress was made in the area of the **common commercial policy**. The Republic of Macedonia continued gradually to reduce customs duties in 2012, in line with its WTO obligations. The country also ratified the regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin, which will enable it to participate in the system of diagonal cumulation of origin. The country participates in the work of the Central European Free Trade Agreement (CEFTA) bodies and continued to coordinate closely with the European Commission and to align with the policies and positions of the EU in international trade negotiations. A new list of dual-use goods and technologies was adopted and is being implemented, thus replacing the previous one from 2008. It transposes the list of dual-use goods and technologies contained in the relevant Council Regulation. Preparations in the area of the common commercial policy are moderately advanced.

As regards **bilateral agreements with third countries**, the country ratified investment protection agreements with Lithuania and Qatar. The number of ratified bilateral investment protection agreements rose to 37, of which 32 are in force and 17 are with EU Member States.

Some progress can be reported in the areas of **development policy** and **humanitarian aid**. The Ministry of Foreign Affairs coordinated the country's humanitarian aid to Turkey in the wake of the Van earthquake in 2011. The country became a member of the European Union's civil protection mechanism, which enables it to participate in the European disaster response system. Preparations in both areas are at an early stage.

Conclusion

Some progress was made in the area of external relations, notably as regards the common commercial policy. However, the country's institutional capacity is still not sufficient for it to participate fully in EU commercial, development and humanitarian policies. Preparations in the area of external relations are moderately advanced.

4.31. Chapter 31: Foreign, security and defence policy

The regular **political dialogue** between the EU and the Republic of Macedonia covers foreign policy issues on an ongoing basis. (*Concerning relations with other enlargement countries and Member States, see Political criteria, section 2.3 – Regional issues and international obligations.*)

As regards the **common foreign and security policy (CFSP)**, during the reporting period the country aligned itself, when invited, with all EU declarations and Council decisions. (*As regards the International Criminal Court, see Political criteria, section 2.3 – Regional issues and international obligations.*)

With regard to sanctions and *restrictive measures*, the country aligned itself with the restrictive measures introduced by Council decisions. Implementation of restrictive measures continued during the reporting period. The coordination body for monitoring implementation of international restrictive measures, which was recently established under the relevant law, met regularly. The register of international restrictive measures was established and is kept within the Ministry of Foreign Affairs, with sub-registers at the competent institutions.

No particular developments can be reported concerning *conflict prevention*.

With regard to *non-proliferation*, the country has begun to participate in the Wassenaar Arrangement on non-Member States' outreach activities. The Ministry of Interior eradicated its stockpile of weapons and confiscated weapons were destroyed.

The country continued to engage actively in *cooperation with international organisations* (UN, OSCE, Council of Europe, etc.).

With regard to *security measures* (classified information), draft texts of bilateral agreements with Italy and Serbia on exchanges and protection of security-classified information were agreed. The agreement with Germany was signed.

As regards the **common security and defence policy (CSDP)**, the country maintained its ongoing commitment to participate in *civil and military crisis management* operations. Currently, the country has a total of 171 personnel deployed in the ISAF mission in Afghanistan, including eight officers at the Afghan national army school for military police training in Kabul. The country continued to take part in the EUFOR Althea mission in Bosnia and Herzegovina, with an 11-member medical team at Camp Butmir and an assistant legal adviser for gender issues. It also continued to participate in the UN-led peacekeeping/UNIFIL mission in Lebanon by providing a staff officer in the joint operation centre in Nagura. As part of its contribution to the EU battlegroup for the second half of 2012, the army's general staff is participating in related training, including preparations for the European Endeavour 2012 exercise.

Conclusion

The country has maintained its high level of alignment with EU declarations and Council decisions and has continued to participate in civil and military crisis management operations. Overall, the preparations in the area of foreign, security and defence policy are well advanced.

4.32. Chapter 32: Financial control

There was little progress in the area of **public internal financial control (PIFC)**. Committees for financial management and control (FMC) and for internal audit were established. However, the medium term fiscal strategy for 2013-2015 which set out the basic parameters of the budget was not adopted, as required by the Organic Budget Law. An updated PIFC policy paper for 2012-2014 and its action plan and Law on Financial Inspection are lacking. The PIFC Law and its implementing legislation are being implemented with delays. The heads of institutions have yet to adopt managerial accountability and to authorise the delegation of responsibilities accordingly. Managerial accountability is an essential prerequisite for development of FMC and internal audit as tools for improving public management. Preparations in this field are at an early stage.

Some progress can be reported on **external audit**. The State Audit Office (SAO) is implementing a strategic development plan for 2010-2014, which was updated in 2012. In 2011, the SAO fully implemented its annual work programme with all types of audits. Since the amendment of the Law on Financing of Political Parties in October 2011, the SAO has been carrying out audits on all finances of all political parties, regardless of the source. The

IPA audit authority has been formally separated from the SAO with the creation of an independent budget line in June 2012. The SAO's functional independence still needs to be safeguarded constitutionally. Formal mechanisms for cooperation between the SAO and parliament remain to be established, especially in relation to the follow-up of audit reports. Preparations are progressing.

There was little progress in **protection of the EU's financial interests**. The Anti-fraud Coordination Service (AFCOS) prepared a national strategy for fraud prevention to protect the financial interests of the European Union covering the period 2012-2014. However, the administrative capacity of the AFCOS needs to be further enhanced, along with operational cooperation between the AFCOS and its partners, including OLAF. Preparations are at an early stage. (*See Chapter 22 – Regional policy and coordination of structural instruments – for progress on audit of EU funds.*)

Good progress can be reported on **protection of the euro against counterfeiting**. The Memorandum for Cooperation between the Ministry of the Interior, the Financial Police, the Central Bank and the Customs Administration, which regulates their coordination and their joint efforts to protect money against counterfeiting, was adopted and is being implemented. The central office for preventing money counterfeiting cooperates and participates in joint activities with international counterparts. An electronic database on counterfeit money is in place and the rulebook on use of the database is prepared. Preparations are on track.

Conclusion

Some progress was made in this chapter, notably in the areas of external audit and protection of the euro against counterfeiting. Substantial efforts are still required, especially on implementation of PIFC law, on constitutional anchorage of the state audit institution and on increasing administrative capacity for effective protection of the EU's financial interests. Overall, preparations in this chapter are at an early stage.

4.33. Chapter 33: Financial and budgetary provisions

There have been no major developments as regards **traditional own resources, VAT resource and GNI resource**. For progress on the underlying policy areas, *see Chapters 16 – Taxation, 18 – Statistics, 29 – Customs union and 32 – Financial control.*

As regards **administrative infrastructure**, institutions are in place in the underlying policy areas that directly affect the own resources system. These will need to be further strengthened for future correct calculation, collection, accounting, payment and monitoring of own resources and for reporting to the EU on implementation of the EU's own resources rules. Appropriate coordination structures to steer and streamline own resources pre-accession preparations and to establish working procedures are to be set-up. Effective tools to fight against tax evasion and fraud and to decrease the informal economy are to be further developed.

Conclusion

There has been little progress under this chapter. The institutions and administrative capacity for correct calculation, forecasting, collection, accounting, payment, monitoring and reporting of own resources will need to be developed in due course. Overall, preparations are at an early stage.

Statistical Annex

STATISTICAL DATA The Republic of Macedonia

Basic data	Note	2001	2007	2008	2009	2010	2011
Population (thousand)		2 031	2 042	2 045	2 049	2 053	2 057
Total area of the country (km ²)		25 713	25 713	25 713	25 713	25 713	25 713

National accounts	Note	2001	2007	2008	2009	2010	2011
Gross domestic product (GDP) (million national currency)		233 840	364 989	411 728	410 734	434 112	463 393f
GDP (million euro)		3 839	5 965	6 720	6 703	7 057	7 531f
GDP (euro per capita)	1)	1 890	2 921	3 286	3 272	3 438	3 661fe
GDP (in Purchasing Power Standards (PPS) per capita)		4 972	7 723	8 414	8 500	8 873	9 248fe
GDP per capita in PPS (EU-27 = 100)		25	31	34	36	36	:
Real GDP growth rate (growth rate of GDP volume, national currency, % change on previous year)		-4.5	6.1	5.0	-0.9	2.9	3.1f
Employment growth (national accounts, % change on previous year)		-1.7	4.4	6.2	2.5	1.5	:
Labour productivity growth: GDP growth per person employed (% change on previous year)	2)	-2.9	1.7	-1.1	-3.4	1.4	:
Real unit labour cost growth (national accounts, % change on previous year)		-0.8	-8.8	-2.0	9.9	1.8	:
Labour productivity per person employed (GDP in PPS per person employed, EU-27 = 100)		46.5	56.7	58.5	60.2	58.3	:
Gross value added by main sectors (%)							
Agriculture and fisheries	3)	11.8	10.6	11.6	11.1	11.5	:
Industry	3)	26.1	24.3	24.1	21.8	21.5	:
Construction	3)	6.0	6.6	5.7	6.0	6.3	:
Services	3)	56.1	58.5	58.7	61.1	60.8	:
Final consumption expenditure, as a share of GDP (%)		94.8	93.8	98.5	95.7	93.2	92.4f
Gross fixed capital formation, as a share of GDP (%)		14.8	19.6	21.0	19.9	19.1	:
Changes in inventories, as a share of GDP (%)		4.2	5.0	5.8	6.3	6.4	:
Exports of goods and services, relative to GDP (%)		42.7	52.4	50.9	39.2	46.6	54.4f
Imports of goods and services, relative to GDP (%)		56.6	70.8	76.2	61.0	65.3	73.8f

Industry	Note	2001	2007	2008	2009	2010	2011
Industrial production volume index (2005=100)	4)	96.4	110.0	115.6	105.6	100.5	103.8

Inflation rate	Note	2001	2007	2008	2009	2010	2011
Annual average inflation rate (CPI, % change on previous year)		5.5	2.3	8.3	-0.8	1.6	3.9

Balance of payments	Note	2001	2007	2008	2009	2010	2011
Balance of payments: current account total (million euro)	5)	-263	-421	-862	-457	-150	-201
Balance of payments current account: trade balance (million euro)	5)	-588	-1 181	-1 763	-1 560	-1 468	-1 682
Balance of payments current account: net services (million euro)	5)	-21	28	9	16	49	97
Balance of payments current account: net income (million euro)	5)	-30	-281	-94	-47	-99	-109
Balance of payments current account: net current transfers (million euro)	5)	377	1 012	985	1 133	1 367	1 493
of which government transfers (million euro)	5)	55	24	49	35	32	76
Net foreign direct investment (FDI) (million euro)		498	507	409	137	158	302
Foreign direct investment (FDI) abroad (million euro)	5)	1	-1	-9	8	1	2
of which FDI of the reporting economy in EU-27 countries (million euro)		:	:	:	:	:	:
Foreign direct investment (FDI) in the reporting economy (million euro)	5)	499	506	400	145	159	304
of which FDI of EU-27 countries in the reporting economy (million euro)	6)	:	355	264	131	114	168

Public finance	Note	2001	2007	2008	2009	2010	2011
General government deficit/surplus, relative to GDP (%)		:	0.6	-0.9	-2.6	-2.4	-2.6
General government debt relative to GDP (%)		48.8	24.0	20.6	23.8	24.2	28.6

Financial indicators	Note	2001	2007	2008	2009	2010	2011
Gross foreign debt of the whole economy, relative to GDP (%)	7)	44.2	47.6	49.2	56.4	58.6	64.7f
Gross foreign debt of the whole economy, relative to total exports (%)	7)	108.4	92.6	97.6	148.2	129.7	122.5
Money supply: M1 (banknotes, coins, overnight deposits, million euro)	8)	415	772	881	854	933	997
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)	8)	1 145	2 728	2 913	3 040	3 277	3 523
Money supply: M3 (M2 plus marketable instruments, million euro)	8)	1 267	2 872	3 184	3 388	3 781	4 147

Total credit by monetary financial institutions to residents (consolidated) (million euro)	9)	620	2 093	2 803	2 913	3 102	3 367
Interest rates: day-to-day money rate, per annum (%)	10)	11.7	3.6	4.1	6.0	3.8	2.2
Lending interest rate (one year), per annum (%)	11)	23.0	7.5	8.5	10.0	5.5	5.5
Deposit interest rate (one year), per annum (%)		:	:	:	:	:	:
euro exchange rates: average of period - 1 euro = ... national currency		60.913	61.184	61.265	61.273	61.515	61.529
Effective exchange rate index (2005=100)	12)	88.6	99.8	100.8	106.8	106.3	107.2
Value of reserve assets (including gold) (million euro)	11)	844	1 524	1 495	1 598	1 715	2 069

External trade	Note	2001	2007	2008	2009	2010	2011
Value of imports: all goods, all partners (million euro)		1 893	3 834	4 664	3 637	4 137	5 038
Value of exports: all goods, all partners (million euro)		1 293	2 477	2 698	1 937	2 535	3 198
Trade balance: all goods, all partners (million euro)		-600	-1 356	-1 967	-1 700	-1 602	-1 841
Terms of trade (export price index / import price index)		97.1	109.3	93.1	98.3	101.5	92.7
Share of exports to EU-27 countries in value of total exports (%)		53.5	65.3	59.5	56.4	61.8	60.6
Share of imports from EU-27 countries in value of total imports (%)		59.5	49.8	48.2	52.2	53.2	54.4

Demography	Note	2001	2007	2008	2009	2010	2011
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)		5.0	1.5	1.9	2.3	2.5	1.6
Infant mortality rate: deaths of children under one year of age per 1000 live births		11.9	10.3	9.7	11.7	7.6	7.6
Life expectancy at birth: male (years)		70.8	71.9	72.1	72.5	72.7	:
Life expectancy at birth: female (years)		75.6	76.1	76.3	76.7	77.0	:

Labour market	Note	2001	2007	2008	2009	2010	2011
Economic activity rate (20-64): share of population aged 20-64 that is economically active (%)		:	68.5	69.4	70.1	70.4	70.1
* Employment rate (20-64): share of population aged 20-64 in employment (%)		:	45.0	46.3	47.9	48.1	48.4
Employment rate male (20-64) (%)		:	54.0	56.2	58.4	58.4	57.8
Employment rate female (20-64) (%)		:	35.8	36.2	37.1	37.5	38.8
Employment rate of older workers (55-64): share of population aged 55-64 in employment (%)		27.7	28.8	31.7	34.6	34.2	35.4
Employment by main sectors (%)							
Agriculture	13)	25.0e	17.4u	18.9u	18.5be	19.1e	18.1u
Industry	13)	29.3e	25.2u	25.2u	23.3be	22.6e	24.1u
Construction	13)	6.0e	6.5u	6.5u	6.5be	6.4e	6.2u
Services	13)	39.8e	50.8u	49.5u	51.7be	51.9e	51.6u
Unemployment rate: share of labour force that is unemployed (%)		30.5	34.9	33.8	32.2	32.0	31.4
Share of male labour force that is unemployed (%)		29.5	34.5	33.5	31.8	31.9	31.8
Share of female labour force that is unemployed (%)		32.0	35.5	34.2	32.8	32.2	30.8
Unemployment rate of persons < 25 years: share of labour force aged <25 that is unemployed (%)		56.1	57.7	56.4	55.1	53.7	55.3
Long-term unemployment rate: share of labour force that is unemployed for 12 months and more (%)		26.5	29.7	28.7	26.3	26.7	25.9

Social cohesion	Note	2001	2007	2008	2009	2010	2011
Average nominal monthly wages and salaries (national currency)		10 552.0	14 584.0	16 096.0	19 957.0	20 553.0	20 847.0
Index of real wages and salaries (index of nominal wages and salaries divided by the CPI/HICP) (2000=100)	14)	98.1	124.5	126.9	158.7	160.8	157.0
* Early school leavers - Share of population aged 18-24 with at most lower secondary education and not in further education or training (%)		:	19.9	19.6	16.2	15.5	13.5

Standard of living	Note	2001	2007	2008	2009	2010	2011
Number of passenger cars per 1000 population		152.1	121.9	128.6	137.7	151.0	152.1
Number of subscriptions to cellular mobile telephone services per 1000 population		109.0	884.2	1 223.4	948.4	1 098.2	1 104.9e

Infrastructure	Note	2001	2007	2008	2009	2010	2011
Density of railway network (lines in operation, per 1000 km ²)		36.0	36.0	36.0	36.0	36.0	36.0
Length of motorways (km)		145	221	237	251	251	259

Innovation and research	Note	2001	2007	2008	2009	2010	2011
Spending on human resources (public expenditure on education in % of GDP)		3.6	3.1	3.3	3.6	3.7	:
* Gross domestic expenditure on R&D in % of GDP		0.30	0.17	0.23	0.20	0.19	:
Percentage of households who have Internet access at home (%)		:	16.5e	29.0e	42.0e	46.0	55.0

Environment	Note	2001	2007	2008	2009	2010	2011
* Greenhouse gas emissions, CO2 equivalent (tons, 1990=100)		92.0	:	:	:	:	:
Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)		720.4	646.5	613.9	575.7	580.4p	:
Electricity generated from renewable sources in % of gross electricity consumption		9.2	11.2	9.3	15.4	28.0p	:
Road share of inland freight transport (% of tonne-km)	15)	87.0b	88.4	84.3	89.0	89.0	:

Energy	Note	2001	2007	2008	2009	2010	2011
Primary production of all energy products (thousand TOE)		1 642	1 504	1 624	1 607	1 616p	:
Primary production of crude oil (thousand TOE)		0	0	0	0	0	:
Primary production of hard coal and lignite (thousand TOE)		1 419	1 254	1 378	1 293	1 194p	:
Primary production of natural gas (thousand TOE)		0	0	0	0	0	:
Net imports of all energy products (thousand TOE)		1 011	1 461	1 404	1 273	1 274p	:
Gross inland energy consumption (thousand TOE)	16)	2 677	3 033	3 023	2 810	2 882p	:
Electricity generation (thousand GWh)		6.4	6.5	6.3	6.8	7.3p	:

Agriculture	Note	2001	2007	2008	2009	2010	2011
Agricultural production volume index of goods and services (producer prices, previous year=100)		90.2	98.1	104.5	102.9	107.7	96.8
Total utilised agricultural area (thousand hectare)		1 244	1 077	1 064	1 014	1 121	1 120
Livestock: cattle (thousand heads, end of period)		265	254	254	253	260	265
Livestock: pigs (thousand heads, end of period)		189	255	247	194	191	197
Livestock: sheep and goats (thousand heads, end of period)		1 286	944	950	849	854	839
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		201	374	368	343	347	376
Crop production: cereals (including rice) (thousand tonnes, harvested production)		474	469	613	606	539	552
Crop production: sugar beet (thousand tonnes, harvested production)		38	8	0	0	0	0
Crop production: vegetables (thousand tonnes, harvested production)		667	698	728	804	887	845

: = not available
 - = not applicable
 p = provisional
 e = estimated value
 b = break in series
 u = unreliable or uncertain data
 f = forecast
 * = Europe 2020 indicator

The balance of payments sign conventions are used for FDI. For FDI abroad a minus sign means investment abroad by the reporting economy exceeded its disinvestment in the period, while an entry without sign means disinvestment exceeded investment. For FDI in the reporting economy an entry without sign means that investment into the reporting economy exceeded disinvestment, while a minus sign indicates that disinvestment exceeded investment.

Footnotes:

- 1) Estimated using the GDP in euro and population as of 1st January.
- 2) GDP in constant prices of the previous year.
- 3) 2003 - 2008, data according to Nace Rev. 1.1.
- 4) Data are recalculated according to NACE Rev.2 for the period from 2005 to 2010.
- 5) 2001 - 2002 - Values in Euro are calculated using the annual average exchange rate. From 2003 onwards, the values in Euro are calculated on the basis of the current exchange rate.
- 6) Data on FDI flows by countries for 2011 are produced only for the categories Equity capital and the Loans component of Other capital. Data for reinvested earnings and the remaining components of FDI flows, based upon the Annual FDI Survey, are available within t+270 days.
- 7) 2001 - 2003, external debt data are calculated on the old methodology, with partial data coverage. Since 2004, Gross Foreign Debt Data are prepared according to the External Debt Statistics Guide, with full data coverage.
- 8) From 2003, data series for money supply are revised to include data for saving houses
- 9) From 2006, data cover bilateral transactions over night [2003] - Starting from 2003, the category Total credits by MFIs is expanded with loans granted by saving houses.
- 10) 2001 - 2006, end of year; until 2005 data cover transactions with all maturities concluded on the Institutionalized Money Market; from 2006, data cover bilateral transactions over night.
- 11) End of year.
- 12) NEER (nominal effective exchange rate).
- 13) Data are provided according to NACE Rev 1.1
- 14) A new concept of the gross income was implemented in 2009.
- 15) Break in series: 2004-2008 revised data (included transport for own account); 2005 - 2010 - Break in series: 2005-2010 revised data (included pipeline transport)
- 16) 2001 - 2009, to compute gross inland energy consumption the primary production, net imports and stock change data were used.