

# WHITE BOOK 2018



Foreign  
Investors  
Council

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within Economic Chamber of Macedonia

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## 1. FOREWORD

### Stefan Peter, President of the FIC



Since the last edition of the White Book, Macedonia has undertaken major steps towards the EU and NATO integration and the membership negotiation process should start very soon in the following period. The FIC has been a long-standing advocate of Macedonia's economic integration within these associations. We think that, despite all difficulties the EU is currently undergoing, it remains center of gravity in Europe and the accession process is a unique opportunity for Macedonia to accelerate reforms and remain committed to the adaption of clear legal framework to the needs of a competitive economy.

To obtain a positive decision either from NATO or the EU, the Government showed courage and determination

regarding the accession process. It will have to continue to demonstrate these qualities in order to implement the reforms that remain necessary to allow the Macedonian economy to enjoy a solid and sustainable growth.

Evidently, Macedonia has a lot of work ahead to secure a stable economic environment and approximation to the EU. By taking the next step in resolving the relations with Greece, the Macedonian Government has created the impetus for this process and for opening negotiations on the first EU accession chapters in the first half of the next year.

Despite the first signs of acceleration after the long-lasting political crisis, the economic environment of the country remained difficult. Economic agents adopted a "wait-and-see" attitude

since the last White Book edition, particularly in the period of the elections. This environment has led to volatile ups and frequent downs in certain sectors of the economy. Thus, it needs to take decisions without any delay, even some difficult ones that will boost the economy and as a consequence lead to an increase of employment and productivity hand-in-hand with a necessary restructure of the unemployed labour force.

The reform of the public administration is a big project that lies ahead. This should not be only about cutting numbers and lay off state employees, but primarily about raising the quality of services provided by the State to its citizens and the business sector as well. In an era when everything is digital, the Government should enforce the use of electronic platforms and ensure more transparency, consistency and quality in its work.

Then we come to the issue that has been at the core of all our business advocacy efforts over the past few years – the proper and sustainable implementation of necessary laws and bylaws. In the absence of well-educated state administration, clear procedures and methodologies, the risk for overburdened regulations is evident.

Rebuilding the investors' confidence is a priority for the Government and this entails convincing the business community that a dynamic, business-friendly Macedonia exists. The State should focus on maintaining macro-economic stability and establishing a stable, predictable, and competitive

environment. The continuation of the fight against corruption and upholding of the rule of law would foster a much better business environment, conducive to new investments. Decisive actions are also needed both in restructuring public companies and efficient usage of scarce public resources. Not only would that enhance competition, but also strongly contribute to the expected Government efforts in reducing public deficit – both through deep structural reforms on the spending side, as well as continuous work on improving collection of revenues, and shrinking the grey economy.

It is a matter of fact that the Government has recognized these key problems and shown its openness to launch a dialogue in the process of addressing them. It is now time to accelerate the reforms and to make sure that new laws are properly enforced through better coordination and supervision of the public administration.

During the important and exciting period for Macedonia that will start with the negotiation process for EU accession, the FIC - with its more than 130 members - will remain committed to be a valuable partner to the Government and all other stakeholders: serious, vigilant, and supportive of all positive changes in the business environment. We will dedicate the resources and the know-how of our members to help improving the business climate in Macedonia and contributing to make this process a successful one.

## 2. Foreign Investors Council

### About the Foreign Investors Council

The Foreign Investors Council was established on 27 February 2006 with a Decision on the Establishment of a Foreign Investors Council adopted by the President of the Economic Chamber of Macedonia.

FIC is a voice of business community, established with the goal to make Macedonian economy more attractive for investments by simplified rules and increased predictability. Promoting solid business ethics and high corporate governance principles is also high on FIC agenda.

Currently the FIC consists of more than 130 companies with foreign capital in the country.

#### **Aims of the Foreign Investors Council:**

- Improvement of the investment and business development climate in Macedonia by making concrete reform proposals;
- Stimulation of foreign direct investments;
- Promoting the communication between the Foreign Investors Council and the Macedonian authorities;
- Assistance in overcoming the differences which may exist in the relations with foreign investors;
- Link with other foreign investor organizations across the SEE region to benefit from sharing the best practices;
- Studying specific means to facilitate regional operations;
- Facilitating the flow of information between the members of the Foreign Investors Council and the Government;

#### **The key roles of the Foreign Investors Council:**

- to contribute positively to the improvement of the Macedonian legal framework regarding commercial and tax matters;
- to promote a sound business ethics;
- to project a good image for foreign investment and the business in general.

### **ORGANISATION**

The FIC is established as a business association of foreign investors within the Economic Chamber of Macedonia.

The main bodies of the Council are the Assembly, the Management Board, the President and the Deputy Presidents.

## **The FIC is organised in the following manner:**

- o Assembly
- o Management Board
- o President
- o Deputy Presidents
- o Working Groups
- o FIC Office

## **FIC Working Groups**

The Working Groups within the FIC gather members' representatives eager to engage in analyzing regulatory areas of their interest, initiate advocacy for the improvement of business framework and monitor implementation of laws. Texts of the White Book - FIC platform for advocacy, also result from the working groups' work and expertise.

There are five Working Groups:

- o *Working Group of Human Resources*
- o *Working Group of Property Regulation*
- o *Working Group of Legal and Administration Matters*
- o *Working Group of Tax and Finance*
- o *Working Group of Health, Safety and Environment*

## **Main projects and events**

***The White Book edition*** offers a set of priorities in economic policy, as seen by the foreign investors, but additionally reveals suggestions for ease of doing business in specific business areas, in order to stimulate more dynamic investment of foreign capital in the country.

***The Reality Check Position Paper*** – This document is envisaged as a useful tool to remind the authorities about the recommendations from the latest White Book and assess status of their implementation.

***The World Picnic*** - This event is a great possibility to celebrate the long-term dedicated work of the Foreign Investors Council and a promise for further successful projects, events and happenings that will confirm their social responsibility.

## **FIC MISSION is:**

***„To actively promote and develop predictable, competitive, and sustainable business environment, through open dialogue with the Authorities and other relevant stakeholders.“***

## 3. SUMMARY

### The White Book

The White Book is the most recognised publication of the FIC.

The main purpose of the White Book is to serve as a platform for communication with the Government and other relevant stakeholders, and is actively used by the FIC and its members in public-private dialogue in that regard.

Its key goal is to help the improvement of the business environment in the country through various recommendations provided by our members.

### More precisely, the White Book:

- Provides an overview of the current situation of the legislative framework in many different domains,
- Monitors developments in all segments of the regulatory framework relevant to our members, and
- Gives practical recommendations for the improvement of the business climate.

The concept of the White Book 2018 is to give a comprehensive overview of the business environment in the Republic of Macedonia and provide concrete recommendations on how to improve it.

The White Book is a mechanism to create a consensus amongst FIC members around those topics that they find relevant. FIC working groups serve as the main forums for defining this consensus, which is subsequently approved by the FIC Management Board. Thus, members are involved in each step of the long process of preparing the White Book.

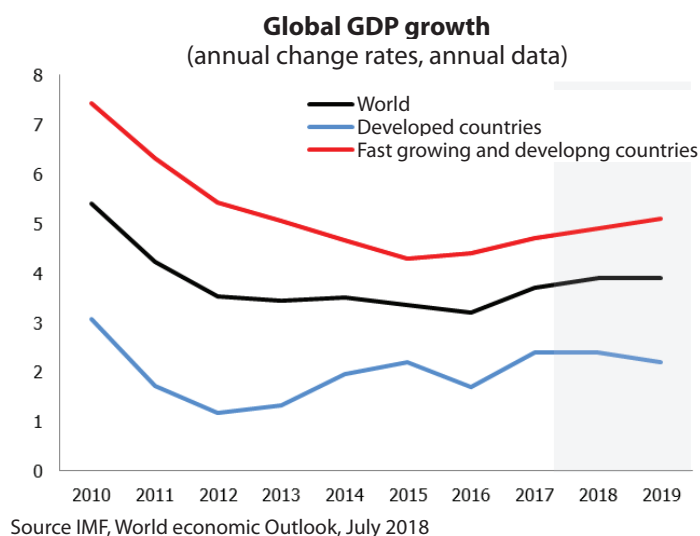


**FOREIGN INVESTORS COUNCIL**  
within Economic Chamber of Macedonia



## Chapter I: INTERNATIONAL ECONOMIC ENVIRONMENT

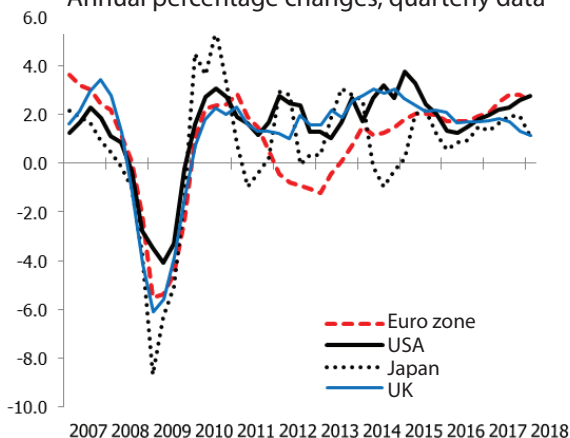
The growth of the global economy continued in the first quarter of 2018, supported by the positive results both in the developed countries and in the developing countries. Acceleration of the economic activity was perceived in the US, and it is expected the announced expansive fiscal policy to further encourage the American economy in the forthcoming period. A solid growth rate of 2,5% was achieved in the Eurozone, which is a slight deceleration, compared to the previous quarter. Nevertheless, a slight deceleration of the global economic activity is expected in the medium-term, and the risks continue to be unfavourable and are related to the growing protectionism in the trade, a possible restrain of the global financial conditions, the reforms taking place in China, as well as the possible consequences from the exit of Great Britain from the EU. In the first quarter the inflation slowed down at a global scale, to a certain extent due to a lower inflation rates in the fast-growing economies. Conversely, it is expected that the growth of the price of the oil in the following period and the large usage of the economic capacities of numerous countries to lead to an acceleration of the global inflation.



The global economy had solid results in the first quarter of 2018. Solid growth rates were perceived both in the developed and in the developing countries. Within the Eurozone, in the first quarter of 2018, the growth rate of the real GDP at an annual level was 2,5 percent, which is a slight deceleration compared to the growth of 2,8% in the fourth quarter of 2017. The stable personal consumption and the investments are stated as main propellers of the growth, in a situation of favourable movements in the labour market, favourable financing conditions and a stimulating monetary policy of the ECB. The growth rate of the real GDP in the US was 2, 8% on an annual basis (2,6% in the fourth quarter of 2017), which is a slight acceleration that is mostly due to the fiscal impetus to the American economy. On the other hand, however, further deceleration of the economic activity is perceived in Great Britain, which is related to the uncertainty regarding the consequences of the exit from the EU. In the first quarter, the developing countries maintained the relatively high growth rates and the growth was accelerated in India and Russia, while the economy in China continues to grow with the

### Real GDP growth in developed countries

Annual percentage changes, quarterly data



Source: OECD

same pace as in the previous quarter. On the other hand, in Brazil, in the first quarter, the economic growth slowed down that indicates to the relatively slow recovery after the long economic crisis that took place in this country.

In the short-term, it is expected for the sound achievements of the global economy to continue, but in the medium-term, nevertheless, it is expected for the growth to slow down. The positive achievements in the short-term will be largely encouraged by the financial stimulus in the American economy and of the favourable financial conditions and the stimulating monetary policy. The growing

protectionism in the trade and the geopolitical tensions will be the main unfavourable risks. Furthermore, the possible tightening of the global financial conditions, the reforms in China and the uncertainty related to the Brexit.

## Chapter II: REGIONAL ECONOMIC OUTLOOK

According to the World Bank's Regular Economic Report of the Western Balkans, regional growth was stimulated by higher public investment and consumption. Driven by tax reforms and faster growth, higher tax revenues created fiscal space, which some countries rushed to use for current spending and capital investment.

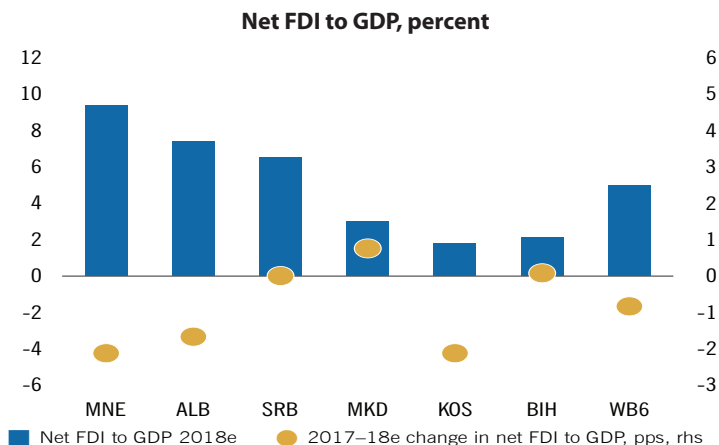
The growth in the Western Balkans has strengthened to an estimated 3.5 percent. In most of the region, growth projections for 2018 have been revised upward. Kosovo and Albania are expected to grow at 4 percent this year. At 3.8 percent, Montenegro's growth is projected to be 1 percentage point higher, although still lower than last year. Growth in Bosnia and Herzegovina continues to be stable at an estimated 3.2 percent. Serbia's economy has rebounded to 3.5 percent growth after last

### Real GDP growth, percent

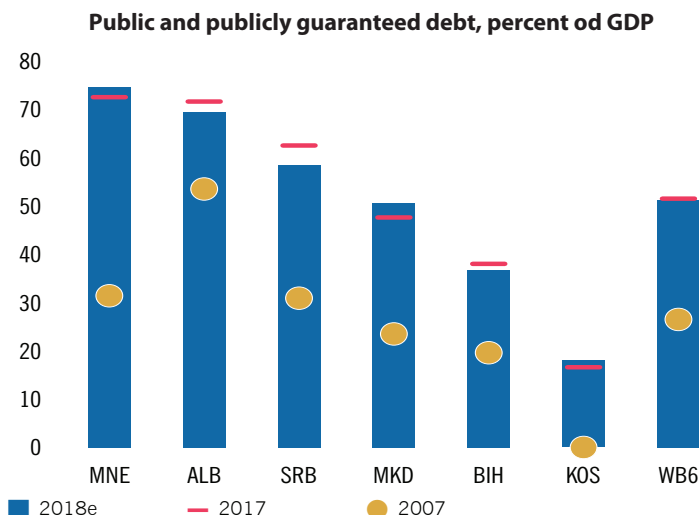


year's weather-related slowdown. Macedonia's growth also rebounded to 2.5 percent, as investor confidence was restored. Countries with higher growth rates boosted them mostly by investment and exports.

In the first half of 2018 over 90,000 jobs were created, with new employment mostly in industry and services. In some countries, inactivity and emigration rather than new job creation explain the fall in unemployment.



The risks clouding the positive growth outlook are both external and internal. A possible tightening of the financing conditions in international capital markets is a downside risk, especially in countries that have external and fiscal imbalances. Robust growth in the region also depends heavily on domestic and regional political stability, which define the speed of structural reforms.



The growth in the Western Balkans is projected to accelerate, reaching 3.5 percent for 2018. In most of the region growth will be higher in 2018 than it was in 2017. Growth in Macedonia is expected to rebound to 2.5 percent, supported by improved investor confidence and rise in consumption and exports.

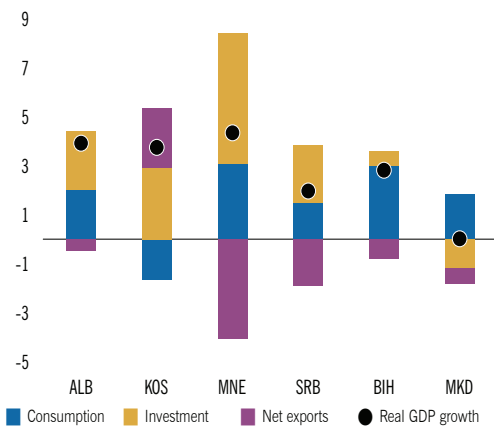
### Growth rates, 2017 - 2020f, percent

	2017	2018e	2019f	2020f
Albania	3,8	4,0	3,6	3,5
Bosnia and Herzegovina	3,0	3,2	3,4	3,9
Kosovo	3,7	4,0	4,5	4,5
Macedonia	0,0	2,5	2,9	3,2
Montenegro	4,3	3,8	2,8	2,5
Serbia	1,9	3,5	3,5	4,0
<b>WB6</b>	<b>2,4</b>	<b>3,5</b>	<b>3,5</b>	<b>3,8</b>

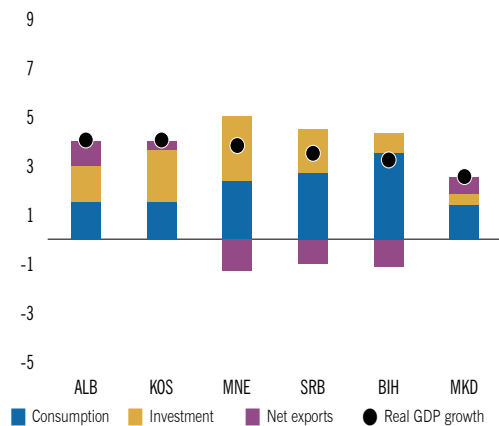
In 2018 consumption continues to underpin economic activity, supported by the growth in wages and employment. In all six countries higher public investment is expected to make a positive contribution to growth.

### Higher spending supported consumption and investment growth in 2018

Factors in real GDP growth, percent  
2017



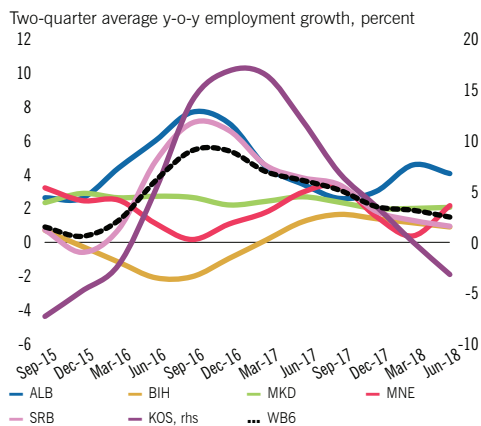
2018e



Source: National statistical offices; World Bank estimates.

Employment rose in almost all countries but more slowly than in 2017. Only 91,400 new jobs were created in the Western Balkans in the first half of the year, compared to 214,000 a year ago. Most of the new jobs are in industry or services. In most Western Balkan countries, unemployment hit a new low, and a total of 9,000 unemployed young people found jobs. By June 2018, unemployment declined to historical lows of 21.1 percent in Macedonia, 14.4 percent in Montenegro, 12.4 percent in Albania and 11.9 percent in Serbia.

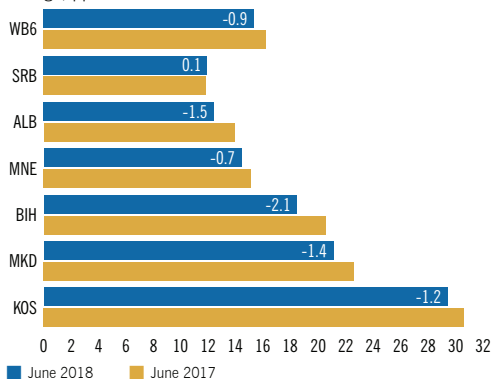
### Employment has responded slowly to growth



Source: National statistics offices and World Bank staff estimates.

### In all Western Balkans countries except Serbia, unemployment declined in 2018

Unemployment rate, 15+ years, percent, and 2017–2018 change, pp

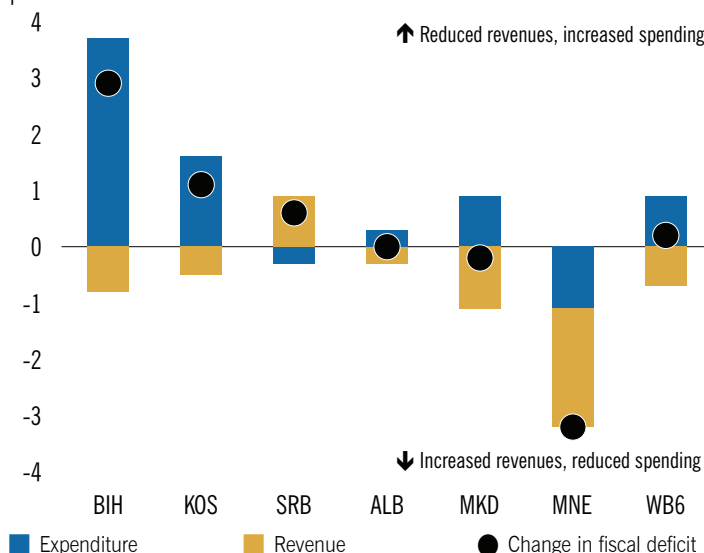


Source: National statistics offices and World Bank staff estimates.

Revenues continue to grow, driven by tax reform and heightened economic activity. Revenue-to-GDP ratios are projected to increase in Montenegro (2.1 pp of GDP), Macedonia (1.1 pp), and Bosnia and Herzegovina (0.8 pp), with smaller gains in Kosovo and Albania.

### Revenue gains helped finance higher spending in most of the region

Contribution to change in the fiscal deficit, 2018e, percent of GDP



In countries where consolidation is mature, debt continues to fall; in the others, public and publicly-guaranteed (PPG) debt has edged up.

In most of the Western Balkan countries, the high and growing public debt is accompanied by fiscal and external disbalances, making the prospects vulnerable to the

increase of the financing costs if the financial markets are tightened. Therefore, the maintenance of a long-term growth asks for reforms that free the private investments and the exports.

### Public debt-to-GDP ratios fell in Serbia, Albania, and Bosnia and Herzegovina

Public and publicly guaranteed debt, percent of GDP



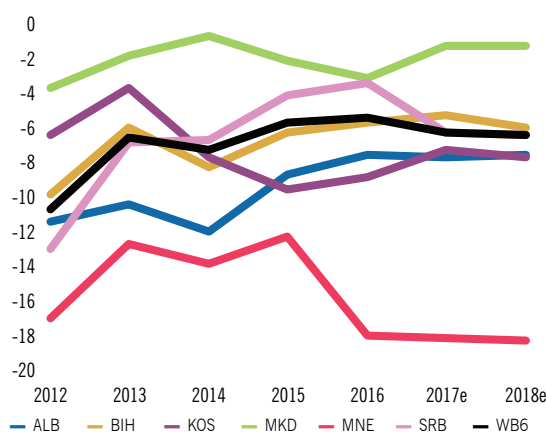
Sources: National statistical offices and Ministries of Finance; World Bank estimates.

Banks in the Western Balkans remain well-capitalized, though further bank consolidation is still expected. Diversifying financial systems is important to open up access to financing and the availability of term financing to foster investments—and ultimately economic growth.

External deficits are expected to remain stable but elevated in most countries. The slight rise in external debt in 2018, in most countries from an already high base, implies that some countries continue to depend on external financing.

### External deficits in the region have held steady

Current account balance, percent of GDP



## Western Balkans` FDI structure

FDI can facilitate the economic growth through productivity spillovers, job creation, and upgrading the export basket.

Policymakers in developing economies often provide incentives to attract FDI expecting that not only will it bring, but it will also bring new technologies, marketing techniques, and management skills. In fact, FDI is considered to be a major channel for technology transfers to the developing countries.

Spillovers occur when local firms copy technologies either through observation or by hiring workers trained by companies with foreign parents. FDI has also been seen to raise the quality of the services offered in backbone service sectors.

### **But not all FDI are equally effective in speeding up growth**

Analysis of sectors receiving FDI provides information about the productivity potential of technology spillovers through backward links to domestic suppliers or forward links to domestic industries. FDI in car manufacturing, for instance, has been shown over time to provide productivity spillovers to domestic suppliers of car parts. Similarly, productivity spillovers have been associated with FDI in backbone service sectors like ICT, finance, or hotels and tourism, and downstream in manufacturing. Investments in real estate and mining, however, have few links with the domestic economy, especially once construction ends, and little potential for productivity spillovers.

### **Foreign direct investment (FDI) in the Western Balkans is quite limited**

In 2017, the average investment rate in the region was 23 percent of the GDP, the third lowest rate of the medium income- average of the country.

The average FDI stock per capita in the Western Balkans (€2,600 in 2015) is less than half of the FDI stock per capita in Eastern European EU members, and just one-seventh of the EU average. Montenegro has the highest FDI stock per capita (€6,700), followed by Serbia (€3,700), which has enjoyed fast growth in greenfield FDI. FDI stock per capita of the other Western Balkan countries is at €2,000 or less.

### **In Macedonia and Kosovo, except for a few exceptional years, net FDI flows have been mostly below 5 percent of GDP.**

In Albania, net FDI, mainly for hydropower projects, reached 9 percent of GDP in 2017. In Serbia, between 2009 and 2017 annual FDI inflows averaged 5 percent of GDP. In the same period, FDI in Montenegro, though quite volatile, averaged 15 percent of GDP but mainly targeted tourism and real estate.

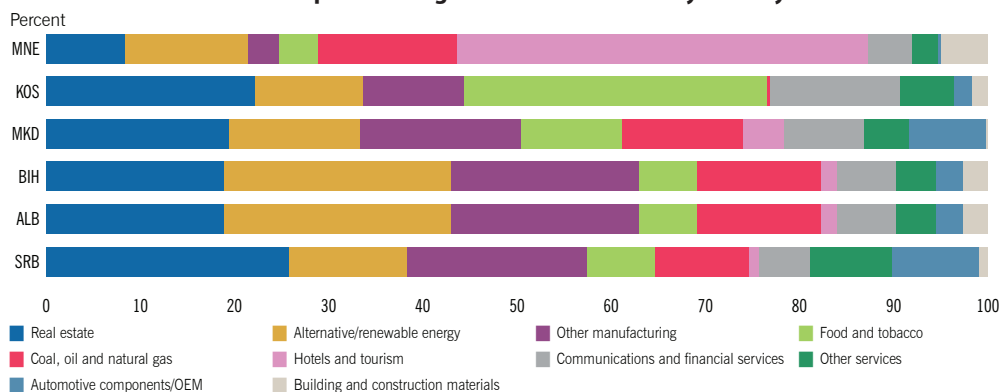
**Greenfield FDI in the Western Balkans has mainly originated from EU-28 countries like Italy, Austria, Germany, Slovenia, and the Netherlands, but also contributing were investors from Russia, the United Arab Emirates, the USA, and Turkey.**

Similarly, when all FDI stock is considered, most originate from the Netherlands, Austria, Cyprus, Greece, Italy, and Switzerland. Intra-regional FDI is quite limited, which suggests that there is a room for regional integration. Automotive components and original equipment manufacturing, which have greater productivity spillover potential, account for only 6 percent of FDI. Since Macedonia and Serbia receive the largest shares of manufacturing FDI, which goes into areas like automotive components and food products, they are better positioned to benefit from long-term productivity spillovers from foreign companies to domestic suppliers.

Among factors that foreign investors consider in their investment decisions are political stability and security, a business-friendly legal and regulatory environment, infrastructure quality, labour talent and skill, and low costs for labour and inputs.

But, while some Western Balkan countries make extensive use of tax holidays to attract FDI, these are typically not among the top five considerations of foreign investors in the region—only one in five investors considers that the absence of investment incentives to be critically important. There is, however, evidence that countries can maximize the benefits of FDI only if they have well-developed financial markets. And investors strongly value the quality of local suppliers. The availability of human capital is central to repatriating the benefits of FDI. Improving the business environment and investing in human capital are thus a priority for attracting and maximizing the benefits from FDI in the Western Balkans.

**The composition of greenfield FDI inflows by country**



Source: FDImarkets and World Bank staff calculations. See also Arnold, J., B. Javorcik, M. Lipscomb, and A. Mattoo, 2012, "Services Reform and Manufacturing Performance - Evidence from India," Policy Research Working Paper 5948, World Bank, Washington, DC; Javorcik, B., 2004, "Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages", *American Economic Review* 94 (3): 605-627; and Rodrik, Dani, 2008, "Normalizing Industrial Policy," Commission on Growth and Development Working Paper 3, World Bank, Washington, DC; Jirasavetakul, L. F., J. Rahman, 2018, "Foreign Direct Investment in New Member State of the EU and Western Balkans: Taking Stock and Assessing Prospects", WP/18/187 International Monetary Fund, Washington DC.



## **Greater regional economic integration means higher growth and more jobs**

Economic integration can facilitate access to a larger consumer base, a greater pool of qualified workers, additional sources of financing, and new technologies. A larger market with an even playing field for both domestic and international firms can strengthen the competition, shake up sclerotic industries, and encourage innovation. This is particularly important for small economies in Europe and Central Asia, where domestic markets alone are not large enough to justify development of complex value chains and where local closely connected political and business elites can sometimes prevent the emergence of domestic competition.

According to the World Bank report, the best connected sub-regions of Europe and Central Asia are Western Europe, followed by North, Central and South Europe. Western Balkans, Central Asia and South Caucasus have the lowest level of overall connection.

While the Western Balkans has made major progress toward opening their economies, they continue to trail regional peers. For instance, while the average ratio of goods and services exports to GDP in the Western Balkans rose from about 30 percent in 2010 to about 40 percent in 2017, that is still behind the levels achieved by the regional peers like Latvia (about 60 percent), Cyprus (about 65 percent) and Estonia (about 80 percent)—all of which have significantly higher income per capita even with populations similar to or smaller than the Western Balkan economies. In part, this reflects the legacy factors in the Western Balkans—such as a relatively limited productive base that now needs to be gradually nurtured and a recent history of regional ethnic tensions that has limited both intra- and inter-regional trade. However, in part this situation also calls for further policy action. In 2017, recognizing the growth opportunities that can come with economic integration, the Western Balkans initiated a joint Multi-Annual Action Plan (MAP) to develop a Regional Economic Area. This initiative promotes regional economic integration among the Western Balkan countries, but also aligns regional legal frameworks and infrastructure with the requirements for eventual EU accession, to help full integration into the EU value chains.

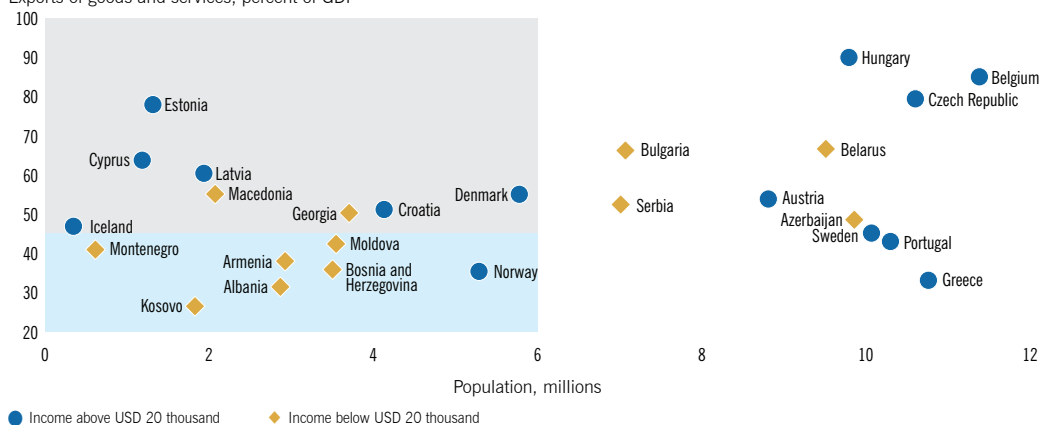
The MAP covers four dimensions of economic integration: trade, investment, mobility, and digital integration. Much has already been achieved: For instance, the Central European Free Trade Association (CEFTA) Additional Protocol 5 on trade facilitation has entered into force, a Regional Investment Reform Agenda (RIRA) has been endorsed, and a Digital Reform Agenda has been launched. Building on this momentum, the region now has a unique opportunity to move forward to greater regional and global economic integration. This comprehensive approach to regional integration is necessary to facilitate the transfers of knowledge and technology that are critical to sustained high economic growth and shared prosperity. Critical connections between the Western Balkan countries through trade, FDI, migration, telecommunications, and transportation, among others, complement each other. The internet and efficient transport links, for example, are both necessary to boost exports, in goods as well as services. And both are necessary for successful e-commerce to reap the benefits from the digital revolution. Moreover, technology transfers emerge from FDI linking domestic firms to global value chains, creating local knowledge spillovers. And they are greater from countries that themselves have strong links to third countries.

Therefore, a balanced approach to increasing all dimensions of connectivity is desirable. The stakes are high, but economic integration may be the key to the higher living standards the Western Balkans aspire to. Income per capita in the Western Balkans is still only 28 percent of Germany's; at current growth rates, it will take five decades for the region to reach Germany's current standard of living and eight decades to catch up with Germany. New opportunities are needed to speed up growth - which means overcoming small and fragmented national markets. The process will be helped by the non-competing nature of countries' exports with a shared vision to ensure macroeconomic stability, carry bold reforms beyond borders, and enhance economic integration; the Western Balkans can accelerate growth, improve living standards, and reap the benefits of the new global economy.

*The "Western Balkans Six/WB6 initiative" strengthened the EU integration process. Connectivity and the regional cooperation agenda are also highlighted in the Western Balkans Strategy. The development of transport and energy infrastructure is a precondition for regional connectivity. By bringing economies and people closer connectivity boosts overall socioeconomic development. The EU allocated a billion euros in grants for the 2014-2020 period, through the Western Balkan Investment Framework, to finance infrastructure connectivity projects under the WB6 initiative.*

### Among small countries in Europe and Central Asia, high income per capita is closely correlated with trade openness

Exports of goods and services, percent of GDP



Source: World Development Indicators 2017; European and Central Asia (ECA) economies with population less than 12 million; excluding Luxembourg; income is measured as GDP per capita, PPP (constant 2011 international \$).

## FIC Comments and recommendations

- The Western Balkan countries have more or less the same challenges, but the biggest common challenge that unites them is the sustainable road to an economic development, and, in that direction, the good neighbourly relations and the political stability of the region are a part of the key prerequisites. The establishment of a common regional market of over 20 million will make both the region, and each of the countries, more competitive. A common market means creating new jobs, reducing the costs, faster flow of goods and people and more foreign direct investments.
- A regional investment approach will reduce obstacles to investor entry, better protect the investors, streamline policies for attracting investors, and, perhaps most important, better position the region for integrating into global supply chains.
- The international connection via the trade, investments, migration, communication and transport is of crucial importance for the economic development of the Western Balkan countries. With joint action, these connections help the companies to become productive via transfer of knowledge and technology, which is of essential importance for the support of a long-term development and shared prosperity. However, via providing alternative sources of foreign demand and financing, the different connections can reduce these risks and help the countries to manage both the internal and external shocks.
- The only source for sustainable and inclusive growth of the Western Balkan countries that will bring them closer to the EU member states is the intensified regional economic integration and the increase of the trade and economic cooperation within the region. In order for the planned growth rates to be achieved, the Macedonian economy has to increase its productivity by using the economy of scale with greater regional and international integration and these activities should be continuously directed towards strengthening the regional cooperation.

## Chapter III: REPUBLIC OF MACEDONIA, ECONOMIC OUTLOOK

- *Growth is projected to rebound to 2.5 percent in 2018, driven by consumption and an investment recovery based on investor confidence, which rose as political stability was restored.*
- *Labour market performance improved, and unemployment fell to a historical low. Although higher than in most Western Balkan countries, by EU standards employment and labour force participation rates are low.*
- *The fiscal deficit narrowed, largely due to the significant under-execution of capital spending. Nevertheless, by June 2018, public debt had gone up.*
- *Accelerating and sustaining the growth without jeopardizing fiscal sustainability should be a priority. This will require a credible fiscal strategy to prevent more growth in public debt and structural reforms to bring about long-term employment gains through higher productivity, improved human capital, and enhanced quality of public services.*
- *Risks to the outlook are moderate. Externally, slow growth in the EU and accession prospects, possible tightening of financing conditions for emerging markets, as well as regional political situation are the main downside risks.*

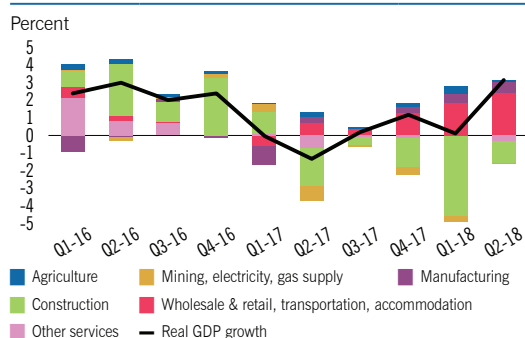
According to the World Bank Report, in 2018 the Macedonian economy is rebounding from stagnation as exports, consumption, and investments recovery. Manufacturing grew by 5.6 percent y-o-y in the first six month of 2018, largely in FDI intensive sectors. Meanwhile, local industries like mining, apparel, metal, and non-metal products declined. Continuing its negative trend, construction fell by more than 25 percent y-o-y in real terms as road construction slowed. However, private investments (proxied by civil engineering works) started growing after 12 consecutive months of decline. Propelled by rising wages, pensions, and household lending, retail trade continued growing and tourism had a record-breaking year. With investment and consumption recovering, by year-end growth is projected to jump from zero in 2017 to 2.5 percent.

The labour market continued to improve, helped in part by the employment subsidies. In the first half of 2018, employment grew by 2.1 percent y-o-y. Most of the jobs created were in manufacturing and food and accommodation services, followed by construction and professional services. The subsidies for the Employment Program, including subsidizing the rise in minimum wages, almost doubled by July 2018 compared to the same period last year. Even though the employment rate improved to 44.9 percent in the second quarter, more than half of Macedonians of working-age are either still unemployed or are not looking for work. The unemployment rate fell to a historical low of 21.1 percent in June and is projected to decline further, to 20.4 percent,

for the year. The share of long-term unemployed at 78 percent (81 percent in 2017) reflects structural issues in the labor market. Youth unemployment (age 15– 24) was 47.6 percent, up slightly from a year ago. Led by the rise of the minimum wage in September 2017, net wages rose by an average of 5.5 percent y-o-y. The largest increase, over 10 percent, was in low-earning labour-intensive sectors.

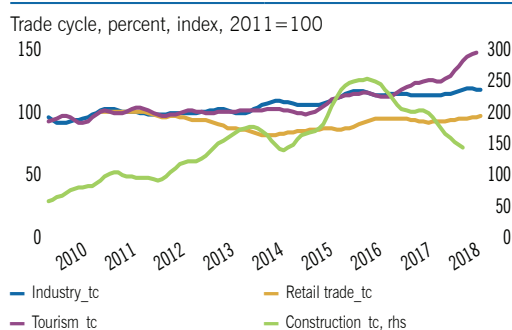
The fiscal deficit is expected to decline in 2018 as revenue grows and capital investment drops. By July 2018, revenues had gone up by 4.6 percent y-o-y, paced by social contributions, excises, and higher corporate and personal income tax receipts. Net VAT revenues also went up, despite a surge in VAT refunds to clear arrears to the corporate sector. Spending increased by only 1.3 percent y-o-y, largely driven by the drop in capital spending, despite the already low 2017 base. On the other hand, current spending increased by 5.7 percent y-o-y, led by social transfers and employment subsidies to firms to compensate for the rise in the minimum wage. The budget deficit declined to 2.1 percent of GDP (on a 12-month rolling basis) compared to 2.7 percent in 2017. The expected deficit for 2018 is 2.6 percent—or 3.2 when the finances of the Public Enterprise for State Roads are included. Despite the lower deficit, new borrowing pushed up the public debt. Public and publicly guaranteed (PPG) debt had risen from 47.6 percent in 2017 to 49.1 percent by June 2018. The increase is due to issuance of a new Eurobond—at the historically-best terms for a 7-year €500 million bond of 2.75 percent— that fully covers government borrowing requirements for 2018. On the other hand, guaranteed debt declined as a percent of GDP from 8.2 to 8 percent as disbursements of the Chinese loan for constructing highways slowed. PPG debt is expected to reach 50.6 percent of GDP by yearend.

### Economy started recovering by mid-2018...



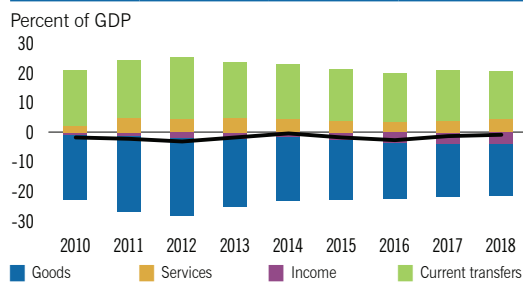
Source: State Statistics Office.

### ...and should further strengthen as suggested by high-frequency indicators.



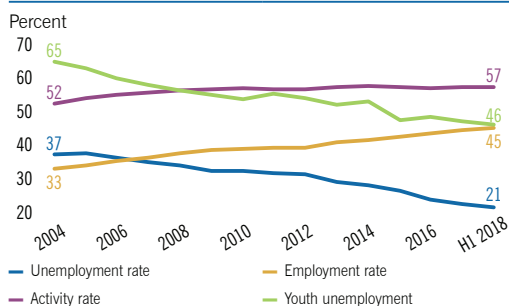
Source: State Statistics Office and World Bank estimates.

## External deficit narrowed due to surge in exports.



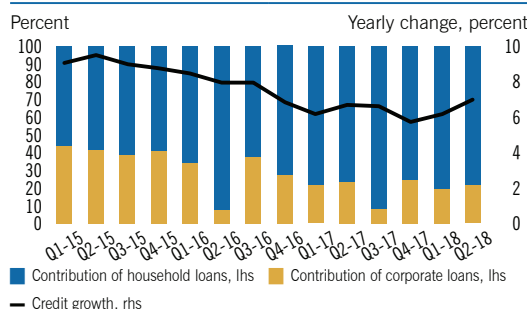
Source: National Bank data.

## Labor market improved, with unemployment at a historic low.



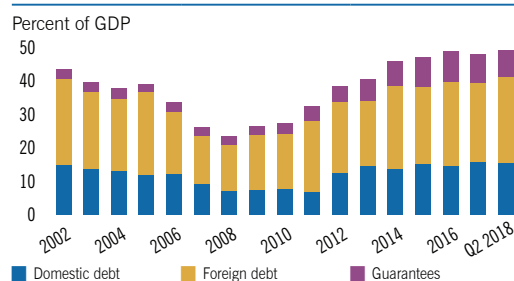
Source: State Statistics Office.

## Continued credit expansion is mainly targeted to households.



Source: National Bank data.

## Although the deficit declined, public debt resumed growth.



Source: Ministry of Finance and World Bank estimates.

The monetary policy has become even more accommodative. During 2018, the Central Bank lowered the key interest rate by 25 bps in two consecutive steps, bringing it down to 2.75 percent. The interest rate cut reflects favourable changes in the foreign exchange market, led by an improved external position, a rise in deposits, and economic stagnation in early 2018 despite the positive expectations of economic agents. Inflation has risen in 2018, reaching 1.5 percent y-o-y by July, as prices went up for food, beverages, and energy (including oil). Core inflation was still low at 1.3 percent y-o-y in July, which suggests that economic activity is still below potential. Credit grew in 2018, mostly targeted to households. By July household credit had grown by 10 percent y-o-y; with the economy still recovering, corporate lending grew by 2.6 percent. Recent improvements in bank assets, with corporate nonperforming loans (NPLs) having declined from 9.8 percent in 2017 to 7.8 percent in July 2018, while all NPLs dropping from 6.2 to 5.1 percent, which helped spur lending. The survey of credit activity reports lower credit requirements and higher credit demand from companies. The external balance is still stable. The current account deficit (CAD) is expected to decrease marginally from 1.3 percent of GDP in 2017 to 1.2 percent. The solid performance of car-parts exports, along with iron and steel, furniture, and tobacco, left the goods and services trade deficit largely unchanged, even though imports have risen by double digits. Net private inflows went up sufficiently to cover the entire goods and services trade deficit. The deficit in the primary income balance widened marginally due to interest payments and repatriated profits.

FDI is projected to increase from 2.3 percent of GDP in 2017 to 3.0 percent in 2018.

<b>MACEDONIA</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018<sup>e</sup></b>	<b>2019<sup>f</sup></b>	<b>2020<sup>f</sup></b>
Real GDP growth (percent)	3.6	3.9	2.9	0.0	2.5	2.9	3.2
Composition (percentage points)							
Consumption	2.0	3.7	2.5	1.8	1.4	1.2	1.0
Investment	2.9	2.6	4.4	-1.1	0.4	1.5	2.1
Net exports	-1.3	-2.5	-4.0	-0.7	0.7	0.2	0.1
Exports	7.3	4.2	4.2	5.0	5.0	4.9	4.9
Imports	8.7	6.7	8.3	5.7	4.3	4.7	4.8
Consumer price inflation (percent, period average)	-0.2	-0.3	-0.2	1.3	1.6	2.0	2.0
Public revenues (percent of GDP)	29.7	31.0	30.3	30.9	32.0	32.7	32.8
Public expenditures (percent of GDP)	33.9	34.4	33.0	33.7	34.6	35.3	35.4
Of which:							
Wage bill (percent of GDP)	7.0	7.0	6.8	6.6	6.9	6.9	6.7
Social transfers (percent of GDP)	15.3	15.3	15.3	15.8	15.7	15.8	15.8
Capital expenditures (percent of GDP)	4.2	4.2	3.8	4.1	3.7	4.1	4.3
Fiscal balance (percent of GDP)	-4.2	-3.4	-2.7	-2.8	-2.6	-2.6	-2.6
Overall Fiscal Balance with the Public Enterprise for State Roads included	-5.3	-4.1	-3.8	-3.4	-3.2	-3.1	-3.1
Primary fiscal balance (percent of GDP)	-3.2	-2.3	-1.5	-1.5	-1.2	-1.1	-0.9
Public debt (percent of GDP)	38.1	38.1	39.6	39.3	42.4	43.5	44.2
Public and publicly guaranteed debt (percent of GDP)	45.7	46.6	48.4	47.6	50.6	55.7	58.3
Of which: External (percent of GDP)	32.1	31.6	33.9	31.9	36.3	43.1	44.7
Goods exports (percent of GDP)	32.5	33.6	35.7	40.4	42.7	44.6	46.3
Goods imports (percent of GDP)	54.2	53.7	54.3	58.2	60.3	62.3	63.8
Net services exports (percent of GDP)	4.5	3.8	3.6	4.0	4.3	4.6	4.9
Trade balance (percent of GDP)	-17.2	-16.2	-15.0	-13.9	-13.3	-13.1	-12.5
Remittance inflows (percent of GDP)	2.4	2.3	2.0	1.9	1.9	1.9	1.9
Current account balance (percent of GDP)	-0.5	-2.0	-2.7	-1.3	-1.2	-1.4	-1.5
Net foreign direct investment inflows (percent of GDP)	2.3	2.2	3.3	2.3	3.0	3.1	3.2
External debt (percent of GDP)	69.6	68.5	72.0	72.7	77.4	78.2	78.9
Real private credit growth (percent, period average)	8.5	9.4	7.8	4.2	n.a.	n.a.	n.a.
Non-performing loans (percent of gross loans, end of period)	11.1	10.6	6.4	6.2	n.a.	n.a.	n.a.
Unemployment rate (percent, period average)	28.0	26.1	23.7	22.4	20.4	19.4	18.0
Youth unemployment rate (percent, period average)	53.1	47.3	48.3	46.8	n.a.	n.a.	n.a.
Labor force participation rate (percent, period average)	57.5	57.2	56.8	57.2	n.a.	n.a.	n.a.
GDP per capita, PPP (current international \$)	22,002	22,514	22,998	23,493	23,998	24,514	25,041
Poverty rate at US\$5/day, PPP (percent of population)	24.8	23.2	21.9	21.0	20.7	20.5	20.5

Sources: Country authorities, World Bank estimates and projections.

Notes: Poverty rates are based on Macedonia survey on income and living conditions (SILC).

## Outlook and challenges

The economic outlook is positive, and it is expected that, by 2020, growth will have gradually risen to 3.2 percent. Spurred by recovering investments, an improved political climate, and the end of technical difficulties that interrupted the construction of two highways, construction is expected to recover. Manufacturing is also expected to grow, propelled by external demand. Private consumption is projected to rise with higher wages and employment, rising credit to households, and also, as the new authorities indicated, a rise in social transfers. This baseline scenario is conditional on the success of the agreement with Greece on resolution of the country's name dispute and revival of the NATO and EU membership processes. Externally, slow growth in the EU and accession prospects, possible tightening of financing conditions for emerging markets, as well as regional political situation are the main downside risks.

Political stability and related business optimism give policymakers an opportunity to tackle critical longer-term development priorities. The current government, in office since June 2017, has embarked on a new reform program and has already made progress in implementing a Public Financial Management Reform Strategy, making public finances more transparent and deregulating the energy sector. However, EU accession negotiations will require a broad-based reform effort if Macedonia is to catch up with the frontrunners. Accelerating and sustaining growth without jeopardizing fiscal sustainability is critical. Credible medium-term fiscal consolidation is necessary to reduce the fiscal deficit and stabilize the public debt-to-GDP ratio. The country's growth strategy must move away from reliance on fiscal stimulus to support individual firms and make structural reforms that produce long-term job gains by boosting human capital and firm productivity. To mitigate medium and long-term demographic pressures, reforms of pensions and health care are needed to overcome the structural challenges both systems must deal with. Finally, public spending must be made more efficient so that better public services can be delivered more effectively.



### **FIC Comments and recommendations:**

- According to the macroeconomic indicators, the growth of the industrial production, which is higher than five percent, and the exports with a two-digit growth rate, and the other indicators, in the past year the Macedonian economy experienced growth, first and foremost, due to the private sector, the movements of the economy and due to the exports, unlike previously, when the state intervention in capital investments was the generator of the growth.
- The focus of the macroeconomic policy of the Government in the next period should continue to be directed towards the development of the economy and raising the standard of living of the citizens, via supporting the domestic enterprises, attracting and supporting foreign investors, increasing the employment in the economy through active employment measures, further fiscal consolidation performed through gradual reduction of the budget deficit, and maintaining the price stability by maintaining the stable foreign exchange rate regarding the euro.
- The governmental economic measures and policies in the following medium-term should be dedicated to creating functional and competitive market economy, while the structural reforms should be directed towards strengthening the human capital, stimulating the innovation and creativity, further improvement of the transport and energy markets and trade facilitation. The implementation of these measures, along with the active labour market measures, should contribute to increasing the competitiveness of the Macedonian economy, creating jobs and reduction of the unemployment rate.
- A new political crisis will destroy the economy that tries to recover after the last year's deep political uncertainty. Preserving the political and economic stability will be a key challenge for the forthcoming period, having into consideration that in unpredictable conditions, the postponed institutional activity and the reserved economic operators will increase, while, on the other hand, the efficiency of the institutions and of the economic policies created by the policymakers will reduce their efficiency as well. In the past it was registered, as shown by all statistical indicators, that in a situation when elections are being held and certain crisis are taking place, the economy is not immune and is either collapsing or stagnating.
- The next important step is strengthening of the Macedonian economy, while the promotion of its competitiveness, resilience and attraction of the foreign investors should increase the growth rate in the next period. In order to accelerate the trend of the growth, Macedonia has to implement necessary structural reforms that will significantly increase the efficiency and productivity of the overall economy and will create a business environment in which equal rules are being established for all actors, and, at the same time, it will contribute to further strengthening of the private market.

## Chapter IV: BUSINESS CLIMATE AND KEY SECTORS OF INTEREST 1.1.

- Foreign Direct Investment
- Export and Export Potentials
- Infrastructure
- Industry
- Labour Force and Employment
- Capital Investments
- Digitalisation

Even though the average growth of the Macedonian economy from 2009 until 2016 is 2,2% and is above the regional average of 1,5%, the growth rates are nevertheless relatively low and reflect the low productivity that is mostly due to the low investments of the private sector, the low activity of the labour force and the insufficient quality of the education. Additionally, the promotion of cheap labour force does not lead to achieving high results, even though the number of over 17.000 employments in the foreign companies from TIRZ cannot be neglected, having into consideration that Macedonia still has an unemployment rate of over 20%. The effect of the foreign companies was not sufficiently copied in the domestic economy via transferring modern technology, employment of highly educated staff, transferring of knowledge and greater connection with the domestic companies.

In the past few years, the pressures increase due to the deteriorated fiscal discipline and the growing public debt. Apart from the fact that the country has one of the lowest state debts in Europe, that in 2015 was 39% of the GDP, Macedonia has one of the fastest growing debts, which has doubled since 2008 because the fiscal policy in the past years was used to provide a stimulus for a short-term growth. In order for the standard of living in the Republic of Macedonia could be convergent to the one of the member states of the EU, the real growth of the GDP will have to be accelerated to about 4,5% in the next 20 years.

The further improvement of the business environment and the conditions for the growth led by the private sector are of crucial importance for maintaining the growth and creating jobs. Macedonia achieved significant progress in the improvement of the business environment because of which it was ranked on the 10th place of a total number of 190 economies pursuant to the report of the World Bank "Doing Business 2019".

To create conditions for long-term economic growth, the European Commission recommends an establishment of a medium-term budgetary framework, fiscal consolidation and central spending, improvement of the legislation, reduction of the informal sector, strengthening the labour market and providing conditions for greater employability, particularly of women and youth.

The increase of the competitiveness of the Macedonian companies and the creation of qualified staff are undoubtedly the main challenges and priorities of the economic policy, while the increase of the competitiveness of the private sector should be looked within another

development model of the Macedonian economy.

Nevertheless, the long-term competitiveness cannot come from a low-qualified and cheap labour force for a country that is facing a reduction of the number of the population capable to work. Even though the export is good, it has not made a significant contribution to the growth due to the low added value. For the competitiveness to be preserved and to attract high-quality investments, the Republic of Macedonia will have to invest resources and efforts to improve the education and the skills, and to provide better logistical support for the trade and for the investments.

#### 4.1. Foreign Direct investment

The most recent data of the National Bank, according to which in the first semester of 2018, there is a record-breaking entrance of foreign direct investments in the amount of 327 million euros, which is three times more compared to the same period, last year, when the level of investments was 105 million euros. Most of the investments, 25 million euros, came from the Bahamas, followed by Germany with 19,6 million euros, Turkey with 17,3 million euros, Austria with 12,6 million euros and Luxembourg with 8,7 million euros.

#### Scope of FDI in the period 1-6.2018

In mill. euros

Quarter I	Quarter II	Total
236,99	90,58	327,57

Source: NBRM

#### Most FDI per country 1-6.2018, expressed in millions of euros

Top 10 countries	Total
The Bahamas	25,20
Germany	19,65
Turkey	17,28
Austria	12,59
Luxembourg	8,75
Italy	7,21
France	7,01
Hong Kong	5,21
Bulgaria	3,65
Slovenia	3,64
<b>Total per country</b>	<b>63,15</b>
Undistributed-reinvested profit and part of the debt instruments	<b>264,42</b>
<b>Total DI in the country</b>	<b>327,57</b>

## FDI per activity in the period 1-6.2018

In mill. euros

Activity	Total
AGRICULTURE, FORESTRY AND FISHERY	1,70
MINING AND EXTRACTION	8,16
PRODUCTION	-7,40
ELECTRICITY, GAS, STEAM AND COOLING APPLIANCES	9,09
WATER SUPPLY, SEWERAGE, WASTE MANAGEMENT AND INTERMEDIARY ACTIVITIES	0,52
CONSTRUCTION	-7,70
TOTAL SERVICES	59,30
RETAIL AND WHOLESALE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	1,08
TRANSPORT AND STORAGE	0,69
ACCOMMODATION AND CATERING	1,00
INFORMATION AND COMMUNICATIONS	2,68
FINANCIAL AND INSURANCE ACTIVITIES	14,04
REAL ESTATE-RELATED ACTIVITIES	2,73
PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	30,25
ADMINISTRATIVE AND ADDITIONAL ACTIVITIES	4,05
EDUCATION	2,39
HEALTH AND SOCIAL PROTECTION	-0,05
ART, ENTERTAINMENT AND LEISURE	0,39
OTHER SERVICES	0,04
Unallocated economic activity	-0,52
Total	63,15
Undistributed-reinvested profit and part of the debt instruments	264,42
<b>Total DI in the country</b>	<b>327,57</b>

Analysed per activity, most FDIs, about 59,3 million euros, were invested in services, 8,2 million euros were invested in mining, in the real estate-related activities a bit more than 2.7 million euros were invested, 4 million euros in administrative and additional activities, 14 in financial and insurance activities, 2,7 million euros in information and communications, 30,2 million euros in professional and scientific activities and 2,4 million euros in education.

## Foreign direct investments 2010-2017

in mill. euros

2010	2011	2012	2013	2014	2015	2016	2017
160.5	344.4	111.2	252.2	205.1	216.7	338.4	181.7

Source: NBRM

In 2017 there was a negative trend regarding the entrance of foreign direct investments (FDIs) and the net inflow of FDIs was 181,7 million euros, or 46,2% less than in 2016. In 2017 a lower amount of foreign direct investments of 2,3% of GDP was perceived on the financial account, which mainly reflects the reservation of the investors and they were lower compared to 2016 (3,3% of GDP).

The efforts of the Government to reform different aspects of the business surrounding improved the perception for the country as a favourable destination for foreign direct investments. Currently, 25 foreign companies function in the technology and industry development zones- TIDZ.

It is true that subsidies help to entice some major investors, but all experience shows that serious economic growth is based on providing good conditions for doing business for all, and so we return to the issue of the quality of the business climate. At the time when investment subsidies were introduced, Macedonia had comparatively little foreign direct investment and a high unemployment rate, so the primary goal was to attract investors and to create jobs. In that sense, they were successful– recent analysis showed that subsidies contributed to the creation of jobs which would otherwise not have been created.

In addition, Macedonia is now definitely on the map as an investment destination and is in fact among the top ranked countries in Europe in terms of FDI jobs created per capita. When considering subsidies, we should target not only job creation, but rather also incentivise investors to integrate into the local economy more and facilitate the linking of domestic companies with regional and international value chains. This makes for better quality jobs and more growth opportunities across the economy.

The development of backward linkages between foreign investors and potential domestic suppliers has been limited so far, largely owing to the inability of local producers to meet the technical and safety requirements relatively low level of productivity, corporate skills, technology capacities, business sophistication, with limited opportunities to integrate with the FDI's supply chains.

Because Macedonia receives the largest shares of manufacturing FDI, which goes into areas like automotive components and food products, they are better positioned to benefit from long-term productivity spillovers from foreign companies to domestic suppliers. Examples of successful integration of domestic firms into the global supply chain suggest the need for skilled labour and availability of production network.

### FIC Comments and recommendations

- Policymakers should keep in mind the fact that foreign investors typically base decisions to invest in a country on a whole range of factors, such as political stability, transparent legal and regulatory systems, adequate infrastructure and a skilled workforce, while subsidies and other incentives are usually far from being the most important driver.
- Maintaining macroeconomic and financial stability, as well as political stability, are critical preconditions, but are not enough in and of themselves. In order to achieve faster and more sustainable growth, Macedonia needs to fully implement a structural and institutional reform agenda. Efforts should focus on addressing the key constraints that limit the Macedonian economy's production capacities — i.e. a low stock of capital per worker, high structural unemployment and low productivity.
- Policy priorities should include measures to ease public and private investment, improve the business climate, reduce informality and boost productivity, whilst ensuring transformation from an economy that relies too much on a large and inefficient public sector to a fully-fledged market economy led by a dynamic private sector. Concrete steps that would signal improvement in the judiciary and the rule of law would improve the image of the Republic of Macedonia as a place to invest and to work.
- There is a need of diversification in the attraction of foreign investors in different economic sectors in order for a more significant multiplicative effect to be achieved not only by hiring the workforce, but also for creating added value by establishing connections and cooperation with the domestic companies as their local suppliers.
- In order to enhance the spillovers of the FDI-led export sectors to the domestic economy it is necessary to develop measures to link foreign direct investment with local companies. In the longer run, the innovative capacity of Macedonian domestic firms needs to be strengthened. Government-sponsored R&D facilities should invest more in applied research and to develop mechanisms to transfer knowledge and technologies so as to increasing the productivity and competitiveness of the local suppliers.
- We welcome the new measures incorporated in the Plan for economic growth that are equal both for foreign and domestic companies through which FDIs will be stimulated to increase the procurements of products and services from local SMEs, while the local companies to introduce new technologies and innovative processes in the production.

## 4.2. Export and export potentials

According to the previous data of the State Statistical Office, the overall value of the export of goods from the Republic of Macedonia, in the period January- August, 2018, is 3 699 926 thousand euros, which is an increase of 14.9% compared to the same period in the previous year.

The value of the imported goods, in the same period, is 4 911 941 thousand euros, which is 11.8% more compared to the same period in the previous year. The trade deficit in the period January-August, 2018, is 1 212 015 thousand euros. The coverage of the import with the export in the period January-August, 2018, is 75.3%.

In the period January-August, 2018, according to the overall scope of the foreign trade exchange, the Republic of Macedonia traded the most with Germany, Greece, Great Britain, Serbia and Bulgaria.

Scope of the exchange 01-08 2018	Coverage of the import with the export
529 805 372 thousand denars	75,3 %
8 611 867 thousand euros	75,3 %
10 314 611 thousand US dollars	75,2 %

Source: Statistical office

The total value of the export of goods from the Republic of Macedonia for the whole 2017 is 5 007 196 thousand euros, which is an increase of 15.7% compared to the same period in the previous year. The value of the imported goods in the same period is 6 824 916 thousand euros, which is 11.8% more compared to the same period in the previous year. The trade deficit in the period January-December, 2017 is 1 817 720 thousand euros.

In the period January-December 2017 compared to the total scope of the foreign trade exchange, the Republic of Macedonia traded the most with Germany, Great Britain, Greece, Serbia and Bulgaria.

Scope of exchange I-XII 2017	Coverage of the import with the export
728 587 461 thousand denars	73,4%
11 832 112 thousand euros	73,4%
13 391 318 thousand US dollars	73,5%

Source: Statistical office

In the course of the past decade, Macedonia aimed to attract direct foreign investments so that it modernizes and enriches its export capacity.

As a small economy Macedonia has to develop competitive exchangeable goods with a higher value that will stir the export up. In the past decade the structure of the Macedonian export significantly changed in a positive direction with a more important participation of products with a higher degree of finalization and of technological level.

If the most exported products were previously the steel, oil derivatives, textile products, now, after the entrance of the foreign companies, Macedonia exports the most automotive

parts, i.e. catalysts and cleansing filters, car conductors, busses, chemicals, car seats. At the same time, the export of traditional goods, such as ores and agricultural products that are largely subject to external shocks due to the change of the prices and the climate change, reduces.

The foreign direct investments that mostly export in the European countries fully changed the structure of the Macedonian export. The exchange started more balanced and the country delivers abroad products with higher added value.

With the growth of the zones, the work of the foreign investors in TIRZ had their own input in the overall economic growth. In the period January-July 2018 compared to the same period, last year, it increased to 17%. The value of the export made in the first three months of 2017 of the companies that currently work in the free economic zones is half a billion.

### **FIC Comments and Recommendations:**

- As a small and open economy, in order to maintain a long-term growth, the country will have to rely on the import and on the increased competitiveness and the economic reforms should be focused on the growth of the export, for which a more effective reduction of the key disparities in the Macedonian economy (the disparities between the production and the consumption, the disparity between the export that takes part in the GDP with about 50% and the import with about 70%) is to be achieved.
- Therefore, a state financial support of the export oriented companies is necessary and that would lead to:
  - a change of the structure of the export from being dominated by products with a lower production stage to being dominated by products with higher production stage;
  - a geographic diversification of the export by conquering new markets;
  - an increase of the number of companies that will be export oriented.

*Part of these measures are incorporated in the Law on the financial support of the investments and FIC welcomes the progressive measures for the increase of the export potentials both of the domestic and of the foreign companies in Macedonia.*

### **4.3. Labour Force, Employment and Formal Educational System**

According to the data of the State Statistical Office, in the II trimester of 2018, the active population in the Republic of Macedonia was 957 471 persons, 755 073 of whom are employed and 202 398 are unemployed.

The activity rate in this period is 56.9, the employment rate is 44.9 and the unemployment rate is 21.1.



T-01: Labour force and activity rates <sup>1)</sup>

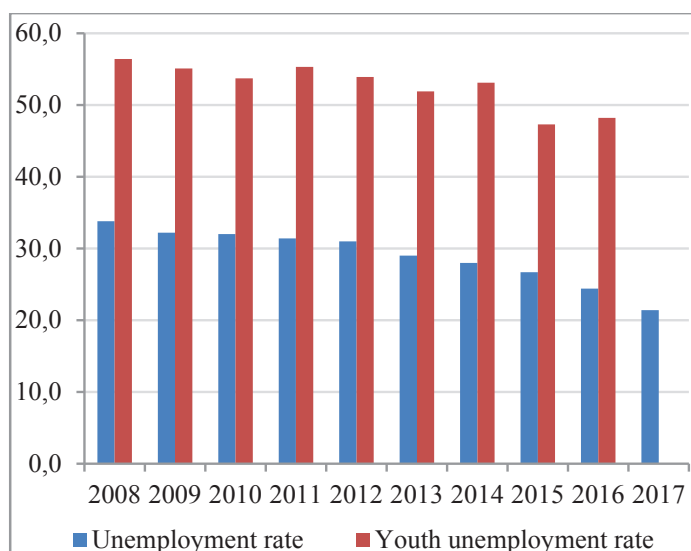
	Total working age population	Labour force			Activity rate	Employment rate	Unemployment rate
		Total	Employed	Unemployed			
2017	1 679 935	954 212	740 648	213 564	56.8	44.1	22.4
II 2017	1 679 525	955 699	739 892	215 807	56.9	44.1	22.6
I 2018	1 682 229	956 640	749 892	206 748	56.9	44.6	21.6
II 2018	1 682 533	957 471	755 073	202 398	56.9	44.9	21.1

<sup>1)</sup> Because of calculations of the sample and rounding up calculated results to one number, sometimes deviations are possible in the total of the results that are obtained by summing up individual items.

The foreseen growth of the economic activity in the next medium-term period is expected to be accompanied by the growth of the employment, encouraged via active employment measures and programs, the support of the domestic and foreign companies to create new jobs, as well as other measures for the reduction of the unemployment, and as a result, it is expected that in 2020 the unemployment rate reaches 19,5%.

According to the report of the World Bank, the increase achieved in the past period contributed to the job creation in Macedonia, but 80 percent of them are with active policies of the Government that has fiscal implications, and the employments in the foreign direct investments are also subsidized. The reduction of the unemployment was partially explained by the low rate of participation of the work force that at the beginning of 2018 was about 57%, which is the lowest rate since 2012.

### Unemployment in the former Yugoslav Republic of Macedonia (% of Active population)



Source: EUROSTAT, national sources

The Macedonian educational system in the past years was a subject to many transformations with the objective to satisfy the general education criteria and people to be educated in accordance with the needs of the state and the business sector. But, today, it is an indisputable fact that there is a discrepancy between the demand and supply on the labour market, which is not an insurmountable obstacle. One factor that leads to this discrepancy is the slow reaction of the formal educational system, having into consideration that the formal system should satisfy the needs of a more comprehensive social, developmental and cultural aspect.

If the labour market is analysed, it can be perceived that in the last few years more jobs have been created in the sector of the processing industry, construction, transport and storage, the administrative and catering services and art, entertainment and leisure. About 53% of the new jobs are related to secondary vocational education and 34% are related to the lower degrees of education. In the future, more jobs will be created in the processing industry and in the commerce, with a secondary/vocational education (62%) and higher education (10%).

According to the EU Commission Report, the educational system is slow in addressing the skills mismatch. While public expenditure on education, at about 4 % of GDP, is only slightly lower than the EU average, enrolment and completion rates in secondary (about 87 % completion rate) and post-secondary education have risen only marginally in the past five years, and remain below EU average. The gap between the skills of graduates and the needs of private companies narrows only slowly. The required move from traditional facts-based learning to the acquisition of general, transversal skills necessitates wider inclusion of the business sector in profiling and implementing programmes. The government has adopted many strategic documents addressing these challenges, but implementation remains partial.

The quality of education continues to be a challenge at all levels. According to the 2015 OECD Programme for International Student Assessment (PISA) assessment the country ranks fourth from the bottom of the list of over 70 countries tested.

Consequently, the focus of the educational system in the following period should be put on the vocational education and training, regardless whether it concerns the formal or the informal system of education. Having into consideration that the practical lectures are not corresponding to the new production processes, and therefore, the companies lose certain means while their employees achieve the necessary level of skills and knowledge, the commitments of the Foreign Investors Council are directed to introducing a model of secondary vocational education in which the transition from school to a real working environment will be far easier and that is offered via the dual education model. Via a combined realization of the educational process in school and in a company, pursuant to a determined curriculum the transition from school to the working environment will be made easier and there will be a possibility for faster reaction to the needs of the labour market.

### FIC Comments and Recommendations :

- Macedonia's economy needs to be transformed deeply, to be ready to compete in the single market when it accedes to the EU. And this includes the single labour market. Macedonia needs to keep moving towards a dynamic, private-sector driven, skills-based economy; otherwise it will risk falling back to dependence on remittances, as dynamic workers with marketable skills abandon the country to pursue better prospects elsewhere in the EU. To achieve these goals, Macedonia needs to promptly implement the comprehensive structural and institutional reform agenda to the labour market and the educational system.
- The educational system should be promoted and better connected with the business community. In this way, the gap between the education and the employers' needs would narrow down, and the image of Macedonia as a favourable investment destination would improve. It is necessary to highlight the negative demographic trends, the reduction of the birth rate and the migration of the labour capable population. The development of the human capital is one of the most important tasks and has a huge influence on the progress of the country and therefore all stakeholders should be committed to this. The decision of some company to invest in certain country is based on the quality and structure of the workforce on the market.
- Through dialogue with the business community proper measures are to be created that will balance the supply and demand on the labour market. The structural reforms should be accompanied by the increase of the investments in the public education, and a far more serious attention should be paid to the improvement of the qualifications of the teachers, and to stimulating the learning via practical lectures in the secondary vocational education. The policies referring to the labour market should reduce the high structural unemployment and to increase the participation of the women in the work force, that currently is among the lowest in Europe.
- Encouraging the cooperation of the educational institutions with the industry with the objective to create a high quality and qualified workforce that is currently one of the more serious problems in almost all economic sectors.

#### 4.4. Industry and re-industrialisation

In the development of the overall Macedonian economy, the industry takes one of the most important places. The fast development of the industry is one of the basic propellers of the whole economic development, of the change of the social and economic relations, of the mode of living of the population, of the increased interest in the technical progress, etc.

Just as an illustration about the significance of the industry, we mention several facts, for example, the industry sector takes part in the GDP with 17,3%, while the processing industry participates in the GDP with 12,2% (2016), employs 19% and takes part in the number of active companies with 10% and the greatest part of the export, or 87% of the export is created by the

companies working in the industry sector. About 40% of the overall foreign investments in the country are working in the processing industry, 75% of which are concentrated in 3 sectors: transport and equipment; basic and processed materials and food processing.

In the past 27 years, since Macedonia declared its independence and establishment of the market system of economy, we have witnessed a negative trend of deindustrialization (the relative participation of the industry in the GDP reduced from 32% in 1992 to 15% in 2016) without any significant changes in the rather unfavourable inherited industrial and export structure (dominant labour-intensive and some capital-intensive sectors with a relatively low productivity).

On the other hand, the most recent global experiences of the fast growing countries say that the key for the economic success of one country lies in the re-industrialization process and in the structural changes of the industry and of the export. Hence, Macedonia, as a small and open economy, sees its only alternative for greater growth in the modern re-industrialization, i.e. increased participation of the processing industry in the GDP via redirecting the resources towards the industrial branches, sectors and subsectors that have higher added value and a higher level of productivity and export diversification, i.e. an increase of the number of export products that have a higher degree of finalization and a complexity degree, raise of the number of export-oriented companies and increased number of countries the country exports to.

The problems with which the industry faces encompass the dependence on the import of raw materials and intermediary goods, export of products where the price is the only engine of the competitiveness, insufficient development of the managing and marketing skills, etc.

Even though in the past period several industrial capacities were opened in the country, mainly FDI, with which the industrial production diversified, nevertheless, the spillover in the domestic economy is limited and the expected multiplication effect of cooperation with the domestic companies is still rather low.

### **FIC Comments and Recommendations:**

- For a faster economic growth and integration with the regional and global supply chains of the Macedonian companies, a redesign of the economic and industrial policies directed towards accelerating these processes the targets of which is the increase of the participation of the processing industry from the current 12% to more than 16% is necessary by reconstructing the processing industry with a higher added value and an increase of the participation of the export from the current 55% to more than 70% via increasing the number of exported products with higher degree of finalization.

## 4.5. Infrastructure

The Republic of Macedonia is a country without a sea and therefore it is particularly dependent on the well-developed transportation network. One of the main challenges of the country is to reduce the distance to the exporting markets and to reduce the transportation costs that come from the bad state of the transport corridors and the great halts on the border crossing points.

Better transportation, energy and telecommunication networks would help the Western Balkan countries to increase the productivity, to be better integrated in the blood stream of the global trade and to improve the attractiveness of the region for the foreign investments. The IMF's analysis on the infrastructure of Western Balkans shows that the regional coordinated pressure on the public infrastructure, along with the better management of the concrete project, would be able to significantly increase the income per capita. The long-term gain of the real GDP per capita can reach 3-4 percentage points" – states the analysis.

Macedonia is in the group of countries that lag behind the European average regarding the degree of infrastructure investments, but it is stated that achieving the European level is not going very smooth due to several reasons such as lack of finance, i.e. budget resources and the lack of strong institutional frameworks that regulate the selection, performance and monitoring of the projects.

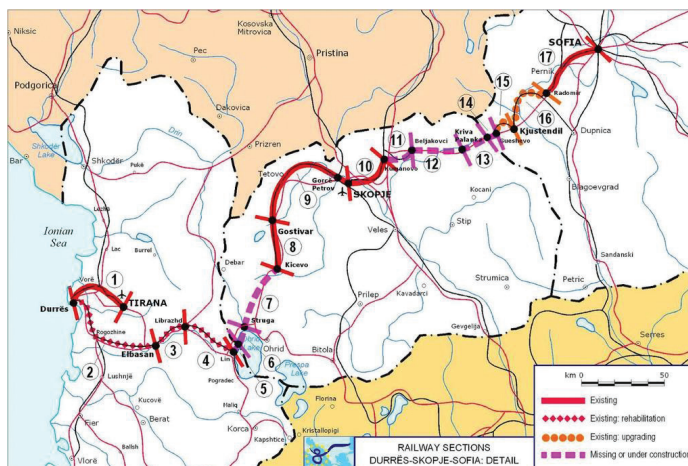
The rail transport towards Greece was one of the most used destinations by the Macedonian economy and of huge importance for the business, and now, it is facing huge challenges regarding its regular functioning.

Due to the weakened concrete pillars on one of the rail bridges over Crna Reka, near the archaeological site Stobi, the rail transport from Veles towards Gevgelija and Greece was fully stopped. Each halt of the cargo traffic that disables timely delivery of goods to the final destination, due to any reason, is a significant problem for the current work of the companies that have regular export-import activities and has a negative effect on the economy as a whole. This, of course, is a huge burden for the Macedonian companies, that, because of the halt of the rail transport towards the Thessaloniki port, suffer huge losses.

This rail section is of huge importance for the Macedonian economy because it is the only rail connection with the Thessaloniki port, which is a main transit destination for the Macedonian export. The port has a total surface of 1,5 million square meters, and in 2017 3.569.045 tons of goods passed through this port, more of one-fourth of which was dedicated for the export and import in the Republic of Macedonia. Of the total number of containers made at the Thessaloniki port, about 7 percent are for Macedonia.

One of the most significant priority investments in the country at an economic level in the next period should be the investments made long the Corridor 8 that connects Turkey, Bulgaria, Macedonia and Albania. The datum that the three countries of this region, along with the Republic of Macedonia in 2017 had a mutual total value of the commodity exchange of 1,2 billion US dollars, which is 9,4% of the value of the overall commodity exchange of the Republic of Macedonia with other countries, says a lot about the significance of the Corridor

8. Regarding total amount of the exchanged goods with the three Balkan countries from the Corridor 8 (Albania, Bulgaria and Turkey), the exchange in 2017 participated in the total scope of commodity exchange with other countries with 22,1%. When it comes to the total road infrastructure of Corridor 8, of a total road network of 960 km, about 315 km pass through the Republic of Macedonia.



At the beginning of this year the Ministry of Transport of Macedonia received a financial aid in the amount of 108.1 million euros from the European Union for the construction of the rail connection Bulgaria- the section from Kriva Palanka to Dever Bair. It is planned for the construction to be completed in 2025. The Bulgarian side obliged to complete the line from Kystendil to Gjusevo by 2027.

Furthermore, the capital investments should be fully realized, in accordance with the plan of the Government for the period 2017-2021, to construct the expressway Rankovce-Kriva Palanka and the motorway Kriva Palanka- Deve Bair that is actually the most frequent road towards Bulgaria.

**The investment cycle announced by the Government of the Republic of Macedonia for the improvement of the overall road infrastructure in the country by building new motorways, new express and regional roads and the reconstruction of the damaged ones in the amount of 270 million euros encompasses:**

- completion of the construction of the two motorways: Demir Kapija- Smokvica and Miladinovci – Shtip and
- putting into function the motorway Demir Kapija- Smokvica;
- continuation of the construction of the motorway Kichevo- Ohrid in the following period;
- reconstruction of the motorway section Negotino- Demir Kapija in the both directions;
- completing the full reconstruction of the section Miladinovce- Kumanovo, as well as the section Smokvica- Gevgelija;

- starting the construction of three new expressways: Shtip- Radovich, the second stage of the road Prilep- Gradsko and from Rankovce to Kriva Palanka, investments in the amount of 100 million euros;
- other investments in the road, energy and rail infrastructure.

### **FIC Comments and recommendations:**

- The infrastructure connection of Macedonia with the countries from the region and Europe should be a top state and strategic priority. The long-term investments in a proper infrastructure are one of the conditions for stimulating the growth of the country and boosting the competitiveness of the Macedonian economy. The development of the infrastructure, particularly of the transport infrastructure, will contribute to having a better connection to the markets of the EU and access to the near sea ports in Greece and Bulgaria, for which a priority is given to the pan-European transport Corridors VIII and X.
- In order for the accession to the European Union of all the Western Balkan countries is accelerated and to improve the cooperation, activities have been initiated in the infrastructure sector within the so called Berlin Process the tangible results of which are expected to be seen.
- The public investments have the highest multiplier, i.e. the highest effect on the GDP. For a greater economic the lowest allocation and reallocation of the means for other purposes.

## **4.6. Capital investments**

The total public debt of Macedonia at the end of the second quarter of 2018 is 48,8% of the GDP, which is an increase of 0,6 percentage points compared to the previous quarter, as shown by the data of the National Bank.

Apart from this indebtedness, the low level of the realization of the capital investments continues in 2018 as well.

The data of the Ministry of Finance show that in the first half of this year, only 65 million euros were realized, which is 16,5 percent of the capital investments planned for the whole year, which is convincingly the lowest level in the last decade. In the course of the 9 months of this year, 27,4% of the planned projects were realized, i.e. 107 million euros. 329 million euros of capital investments were planned for this year. The reply of the Government was that this under-realization is due to the necessary reviews and audits for eliminating potential disputable moments of the capital projects so that the efficiency of the money spent is increased.

What does the structure of the budgets of our country point out to in the past years? For example, if we take a look in the expenditure sin the budget for 2018, 11,5% go to salaries and contributions, 18% to procurement of goods and services, 31,3% to social benefits and 10,5% to capital expenditures. This means that the social transfers and the salaries of the public



administration have always been a priority.

Each year, the capital investments are realized in about 70%, which leads to the conclusion that the capital spending should be sort out into priorities and the capacities for their realization should be strengthened. With the announced re-balance of the budget, 92 million euros of the money dedicated to capital investments will be reallocated. The biggest part of this money, about 50 million euros, will be reallocated by the state for covering the debts of the municipalities, and 29 million euros will go to the Funds for pension and health insurance.

With the budget for 2018, 400 million euros are planned for the capital incomes, which is 5,7% compared to last year. The investments in the road and rail infrastructure are a significant part of the capital investments covered by the state.

The transportation arteries are crucial for the development along with the investments in the energy and telecommunications, state the international institutions and recommend for the countries of the Western Balkans to rely on external financing when it comes to investments in the infrastructure, leaving the domestic financial resources to serve them for the needs of the private sector.

### **FIC Comments and Recommendations:**

- The capital investments are important for the economic growth and for the increase of the competitiveness of the Macedonian economy. The unrealized state investments postpone the economic growth.
- There is a need of reinforced dynamics of the realization of the capital projects in the following period, a medium-term planning of the capital projects and strengthening of the realization capacities.
- A better balance should be found between the good public finance management on one side and putting the financial flows in circulation and perking the economy up in terms of big projects, infrastructure and capital investments in general, on the other.
- The realization of the projects that will give additional added value and relieving the burden of the non-efficient projects for the citizens and for the private sector is a priority.
- The government should initiate a consulting process about what kind of capital investments are needed, to prioritize and to determine the financing sources. If all of this is adequately planned and programmed, then the practice of having huge failures in the realization will be avoided.



## 4.7. Digitalisation

The creation of a digital economy based on innovation and knowledge is imposed as an obligation if Macedonia wants to take pace with the developed countries and modern trends of economic development. Digital transformation is a chance for domestic entrepreneurship to strengthen its competitiveness because, thanks to the digital infrastructure, every business has the chance to win the global market. The main precondition for Macedonia to take an even more decisive step forward with the flows of the fourth industrial revolution is to educate managers in companies to recognize global trends in digitization, investing in youth education and training staff for new occupations, and encouraging users to use online services with more confidence.

The Macedonian economy is about to be digitized. Until now, no progress has been made in this direction. The first step is raising the awareness of the population and of the business sector that this process does not only include creating web-pages and enabling e-purchasing, but it also means an application of the state-of-the-art systems of integration solutions in the overall technological process of the companies.

On a global scale, the remote sale is more frequent and accepted by the end users, each year it becomes more massive, and the turnover made by the “online” commerce is ever-growing. This trend will undoubtedly affect our country as well. The Macedonian companies should be ready to answer the new challenges so that they can expand their market, to acquire new business partners and consumers both in Macedonia and abroad.

The digitization opens a huge opportunity for the development of the local economies and communities and a synchronized action of the economy and education is necessary for the citizens of the region are enabled to be part of the global economy and professionals to be produced for the new jobs created in the IT industry.

The digitization means a reduction of the costs from different points of views, via the cross-border trade and customs, efficient storage and logistics.

### FIC Comments and Recommendations:

- The private sector is predominantly profit driven, so these companies by default focus on increases in productivity and growth. In the modern world, business competition is often global and digitalised, so they must also be globally competitive.
- Digitalisation is a hot topic in the business world right now. Many businesses are now transitioning online in a bid to streamline the management and day to day running of operations. This shift is being powered by a new wave of technology that allows companies of all shapes and sizes to be more strategic and efficient. This trend is set to continue as more businesses understand the benefits of digitalisation and move to capitalise on them. However, in order for Macedonian companies to take the right path with the global trends need to raise the awareness and to utilise of the endless possibilities of digital technologies into all areas of business in order to build more sustainable relationships and better understand the needs of customers.

## Chapter IV: BUSINESS CLIMATE AND KEY SECTORS OF INTEREST 1.2.

In the following medium-term period, the Republic of Macedonia should continue to stay committed to creating a functional and competitive market economy.

The structural reforms should be directed towards strengthening the human capital, stimulating innovativeness and creativity, further improvement of the transport and energy market and trade facilitation.

The improvement of the business environment and the increase of the competitiveness of the Macedonian economy should be one of the main priorities of the economic policies of the Government of the Republic of Macedonia. Through the series of measures undertaken in the past years Macedonia strengthened its business surrounding, but, nevertheless, there is a room for further improvement. The need to undertake concrete measures for the improvement of the situation in this sphere is particularly located in the following areas:

- Fiscal and parafiscal burden
- Implementation of contracts
- Corruption and informal economy
- Access to finance
- E-services

### 4.8. Fiscal and parafiscal burden

The non-fiscal and parafiscal costs are additional costs for the businesses that are often hidden, not transparent and cannot be easily planned, which can cause precarity in the business planning. They can be the direct reason for the reduced competitiveness, and may be transmitted to the price of the final products and/or services, which leads to higher market prices.

In 2016, over 251,5 million euros entered in the budget on the basis of charged non-fiscal and parafiscal costs, and just to compare, the same year, 230 million euros entered the budget on the basis of personal income tax and 175 million euros on the basis of personal gains tax.

In short, in the period from 2008 to 2016, a total number of 84 new costs have been introduced that are paid to the budget account (18 types of costs are included in the so called other taxes, 41 types of non-fiscal costs and 25 new fines) with which additional burden has been imposed to the legal entities and natural persons at an annual level in the amount of about 20 million euros. With the different laws referring to different sectors, bylaws, local decisions, decisions of managing boards of the agencies or the public enterprises' boards, the tax system in Macedonia has been given an unlimited room to introduce different costs that are difficult to control, and, consequently, the Ministry of Finance, cannot have a full image or any type of control over this system in our country.

The business entities do not get any additional rights, services or goods in return from the public sector regarding a part of these obligatory non-fiscal and parafiscal payments, or they have some benefit that is not proportional with the financial burden of the cost.

### FIC Comments and Recommendations:

- If Macedonia is to be promoted as a country that has flat and relatively low tax rates, it is necessary for an assessment to be made of the justification and adequacy of the existence and introduction of certain compensations and costs at a national and local level with the objective for the companies to have a precise estimation of their investments and operating costs.
- It is necessary for a precise classification and distinction of all fiscal forms that exist in the tax system to be made and only those costs that possess traits of a tax cannot be called taxes, which is not the case with the compensations or fees for certain goods and services.
- The Ministry of Finance, as a coordinator of the activity together with the business sector should start a procedure for establishing a Registry of non-fiscal costs that exist in Macedonia.
- A systematic review of gradual reduction of the parafiscal costs to take place in order to be assured that they are rational and righteous and that they are not too big of a burden for the business.

## 4.9. Corruption and informal economy

According to the EU Report 2018, as regards the fight against corruption, the country has achieved some level of preparation. The legislative and institutional framework is in place, as well as a track record on both prevention and prosecution, although final court rulings on high level corruption cases remain limited. Corruption remains prevalent in many areas and continues to be a serious problem. The capacity of institutions to effectively tackle corruption has shown structural and operational deficiencies. Political interference remains a risk.

In the coming year, the country should in particular:

- reaffirm its political will to fight corruption by providing institutions active in the prevention and repression of corruption with the necessary autonomy, resources and specialised staff hired on the basis of merit;
- further improve its track record on investigations, indictments and final convictions in high level corruption cases, including through financial investigations in line with Financial Action Task Force on money laundering standards and the seizure and confiscation of criminal assets.

The existence of an informal sector creates unequal conditions for the companies that pay taxes and social contributions and adhere to the legal regulations.

The shadow economy remains a large obstacle to business. The informal share of the economy remains large, impacting on the competitiveness of the formal private sector, although it is declining in terms of gross value added and employment. In surveys, the

informal economy is consistently referred to as an obstacle to doing business in the country. Estimates on its size range from some 20% of total output (State Statistical Office) to about 40%, depending on the method applied. This creates obstacles to investment and serious problems of competition for registered companies. Employment in the informal economy is declining, but remains high. According to the national Statistical Office, about 18 % of total employment in 2016 took place in the informal economy.

#### **FIC Comments and Recommendations:**

- The shadow economy continues to have a significant presence, which is why it is necessary, on the one hand, to harmonise sector-specific laws with the Law on Inspection Oversight and introduce risk analysis as the basis for targeting inspection oversight, while on the other hand it is necessary to implement a number of operational measures – from harmonising the number of inspectors and ensuring their professional training, to better coordinating the work of inspections and other state bodies, including prosecutors and courts.
- Instruments to fight and reduce tax evasion, fraud and the informal economy need to be further strengthened in order to ensure fair competition on the market on any level.

#### **4.10. E-services**

Digitisation and the creation of a fully functional e-government system should be obvious choices. Fast and secure digital connectivity is an essential element for creating a market- and investment-friendly environment. The new Strategy for the public administration reform will give the citizens and the business a possibility to faster get digitized and cheaper services.

#### **FIC Comments and Recommendations:**

- Emphasising the importance of further harmonisation with EU legislation and practises, it should be taken fast track on stronger law enforcement, tax reforms, further modernisation of the labour law and continuous energised work on digitalisation and e – Government.
- The digitization of the public administration is one of the key processes that influence the efficiency and professionalism of the public administration, which will lead to the reduction of the corruption.
- The development of the national e-services portal following the one stop-shop principle that will provide faster and simpler services via the creation of a single contact point between the citizens and business (e-service users) and the service providers and via the implementation of a solution that will enable electronic exchange of data between the institutions for accelerating

the process of delivery of e-services.

- The one stop-shop principle should be expanded to a whole series of services both at national and at local level.
- A single electronic system should be introduced that will connect all state institutions. This electronic system will be used by all applications for providing public services that the country offers to the citizens and to the public sectors.

## Chapter V: ASSESSMENT OF THE REGULATORY ENVIRONMENT

- Predictable Business Environment
- Process of adopting and implementing the laws
- Efficient Public Administration
- Consultation with the business community

### 5.1. Predictable Business Environment

For any economy to attract investments, it must earn and maintain investor trust. Investors gain confidence to trade in a business environment that guarantees a stable and predictable macroeconomic framework for businesses.

Rule of Law remains a crucial precondition for progress in all areas, including for maintaining an attractive business and investment environment.

First requirement set by market participants, including the Foreign Investors Council, regarding the legal environment is certainly the stability and the durability of the legal framework. In practical terms, this means that the “rules of the game” on the market, which are shaped in certain legal norms, must be known and predictable for all market participants. Furthermore, regulations must be clear or unambiguous in terms of the contents of the norms that comprise them. This enables all market participants to properly plan their operations. Frequent amendments to laws always have an adverse impact on the stability of the legal framework. Moreover, the adoption of new regulations and amendments to existing one must be preceded by a public debate.

## 5.2. Process of adopting and implementing the laws

### FIC Comments and Recommendations:

- Reduction of the application of the urgent procedure when the laws are adopted and full use of the Unique National Electronic Register of Regulations (ENER) so that adequate and systematic consultation of the stakeholders is provided.
- The urgent parliamentary procedures of adopting the laws create legal uncertainty and regulatory chaos for the enterprises to become an exception and special limitations to be determined for these procedures. Periods of adjustments for the enterprises to the new changes to the laws should be introduced.
- The introduction of the Unique National Electronic Register of Regulations (ENER) has been greeted and welcomed by the business sector as a step forward to the increase of the public comment on the draft-laws, something that has been acknowledged by a lot of factors. Positive steps for more frequent use of the platform have been registered by the ministries regarding the planned changes to the legislation, and the deadline for giving comments has been extended from 10 to 20 days.
- Introducing reforms to the mechanism for the assessment of the impact on the regulations (ex-post) with an obligatory participation of the business community.
- The key institutions that have an influence on the business climate should start publishing official and legally binding manuals for the application of the laws in their area. They will have to publish all relevant laws, bylaws and internal procedures on their webpage.
- All unnecessary documents asked by the institutions in the administrative procedures should be eliminated. In this way the additional costs will be reduced and the total price of the services will be clearly stated. Previously, the institutions should consult the business community regarding the most problematic or the longest procedures.
- The 50 most frequently issued certificates or documents should be issued in an electronic manner, and for each procedure the steps included in it and which public officials are responsible for those procedures should be publicly announced.

## 5.3. Efficient public administration

It is important to continue with the reform of the public administration, targeting improved efficiencies, thus creating a business climate supported by the rule of law.

According to the EU Commission Report 2018, concerning public administration reform, there was good progress over the reporting period. The Public Administration Reform Strategy

and Action Plan for 2018-2022 and the Public Financial Management Reform Programme 2018-2021 were both adopted. Concrete efforts have been made towards increasing transparency and accountability and involving external stakeholders in policy-making.

This increased commitment on public administration reform should contribute to strengthening the principle of merit-based recruitment and tackling the de-politicisation of public administration.

The capacity of the Ministry of Information Society and Administration to drive and coordinate public administration reform needs to be improved. Strong political commitment to guarantee the professionalism of the public administration, especially on senior management appointments, and the respect for the principles of transparency, merit and equitable representation in line with the spirit and the letter of the law, remains essential. User-oriented administration has not been developed in the past few years. This is mainly due to a lack of coordinated efforts and political commitment for government-wide reforms.

In the coming year, the country should in particular:

- Start to implement the public administration reform strategy and the public financial management reform programme, and ensure a coordinated monitoring and reporting system, which systematically engages with external stakeholders.
- Provide extensive training to central and local government administrations and raise public awareness to ensure implementation of the Law on General Administrative Procedures.
- As part of the new public administration reform strategy, the government should prepare and implement a review to assess the effectiveness of the organisation of the Macedonian public administration.

The Public administration reform is a continuous process of reorganization of the institutions in the public sector and the promotion of their capacity. It is one of the key priorities in the process of the integration of Macedonia in the EU, as a main focus of the new Strategy for the public administration reform and the Action Plan adopted in February, this year.

### **FIC Comments and recommendations:**

- The professional, politics-free, efficient public administration should be a real service of the economy and a serious partner of the business, with which the joint objective both of the state and of the business for a dynamic economic development will be achieved.
- An efficient public administration is one of the basic prerequisites for a good business climate. In the past years, a step forward has been made in the direction of improving the mode of functioning, reduction of the unproductive costs, raising the quality of the services provided to the users. New electronic

solutions have been achieved that both for the citizens and for the business provide facilitated access to the necessary information, reduced costs, saving of time and money and elimination of the bureaucratic procedures.

- Years back, the business community urged for the unnecessary bureaucracy to be reduced and to introduce a public administration reform.

The Foreign Investors Council greets the commitments of the Government to solve the problem with the inefficiency of the public administration and to improve the transparency, consistency and the quality of the public services via innovations and digitization.

#### 5.4. Consultation with the business community

The development of the public private partnership in all the segments of the economic life is a significant factor for a positive economic growth, so the economic policy maker in the state should be given a maximum attention by creating measures of the economic policy.

The vigorous contribution of the private sector to the mutual dialogue with the Government, its participation in the creation of the economic policies, the commitment to the improvement of the quality of the presentation of the business should be a prerequisite for good governance, sustainable reform changes and a basis for an economic progress.

#### FIC Comments and Recommendations:

- An introduction of regular channels of communication between the business community and the government due to regular communication and consultations in the preparation of the laws and bylaws.
- Systematic and open dialogue with the business community means a full application of the Unique National Electronic Register of Regulations (ENER).
- Promotion of the public-private dialogue at the highest level and the improvement of the mutual communication at different levels, which will be in the direction of encouraging the efficiency and update of the public and state officials and reduction of the administrative barriers.

## Chapter VI: ASPIRATIONS FOR JOINING NATO AND THE EUROPEAN UNION

Macedonia is a candidate country for becoming a member of the European Union and expects a start of the membership negotiations. The next stage in the accession process is to get a negotiation date for becoming a member of the Union.

The negotiation process for membership in the European Union for the Republic of Macedonia will mean finalization of the process of getting closer to the Union, acquisition of



its benefits and values, as well as full adjustment of the Macedonian institutions to the mode of functioning of the EU's institutions. Moreover, the negotiations will signify the creation of the basic and preparation for the future successful functioning of the Republic of Macedonia as a candidate country for entering the Union.

The Western Balkans Strategy (February) and the Sofia summit (May) expressed unequivocal support for the European perspective of the region, as a political, social and economic geostrategic investment in a stable, strong and united Europe. This strong message remains fully valid. In parallel, the EU is also continuing its reform process. This was also mentioned in the Western Balkans strategy. The European Commission anticipated a number of proposals being launched before the end of the year.

The EU member state responded positively to the agreement concluded between Skopje and Athens and determined a clear way for opening the accession negotiations with Macedonia in June, 2019, settling a clear vision for the forthcoming year and after. The European Commission already started the necessary preparatory work for June, 2019, including the future negotiation framework.

### **FIC Comments and Recommendations:**

- The Foreign Investors Council greets the serious determination and commitment of the Government of the Republic of Macedonia for the country to become part of the European and NATO integration that, through democracy, rule of law and the respect of the human rights and freedoms that are a special guarantee for the stability and assurance of the prosperity that ensure good investment climate and development of the economy. The active process of implementing the reforms initiated by the Government should be a signal for Europe and NATO that the citizens of the Republic of Macedonia deserve to be part of these two biggest international democratic organizations.
- The benefits of the initiated process for integrating Macedonia can already be felt and will be further intensified by the entrance of Macedonia in NATO and the initiation of the negotiations with the EU, which will increase the trust in the Macedonian economy and will bring more foreign investments and will create new jobs. The membership in the EU and NATO will bring Macedonia positive prospects, particularly for the business sector, by establishing the European standards and an easier access of the companies to the EU market. The biggest trade partners of the country are members both of the EU and of NATO.
- The stability, seen from every point of view- political, economic, social and environmental, is a benefit that, by default, is significant for the Macedonian companies to be presented as reliable partners for cooperation at any level and for a greater inflow of foreign direct investments that is expected to take place via the EU and NATO integration processes.

## Chapter VII: Reports and Ranking of the Republic of Macedonia from the international institutions and bodies

*INTRODUCTORY NOTE: having the intention to provide within the White Book a broader overview of business environment and to summarize the data collected from other relevant sources, we will present in the following section the data taken from the published and publicly available local and international reports which might be useful to the readers of this edition. Those data do not represent the opinions of the Council Members or the official positions of the Council as organization – the data were not subject of our research in the format in which it is presented here. We would like to use this opportunity to thank the organizations from which the data were taken.*

### 7.1. Report of the European Commission for the Republic of Macedonia 2018

#### Key findings- political criteria

- The country is partially ready with the reform of its public administration. Good progress has been made with the adoption of the Strategy for the public administration reform and the Program for the public finance management reforms. Concrete efforts have been made to increase the transparency and responsibility and to include external stakeholders in the policy creation process. The strong political commitment to guarantee the professionalism of the public administration, particularly for high management appointments and the respect of the principles of transparency, merit and equitable representation according to the spirit and the letter of the law remains crucial.
- The judicial system of the country reached a certain level of preparation and a good progress has been achieved, particularly in the second part of the reporting period. The lag behind from the previous years started to change via determined steps undertaken in the past months, particularly to be able to start the renewal of the independence of the judiciary.
- When it comes to the fight against the corruption, the country achieved a certain level of preparedness. The corruption remains widely spread in many areas and continues to be a serious problem. The capacity of the institutions for the efficient tackling of the corruption showed structural and operational deficiencies. The political interference remains a risk.

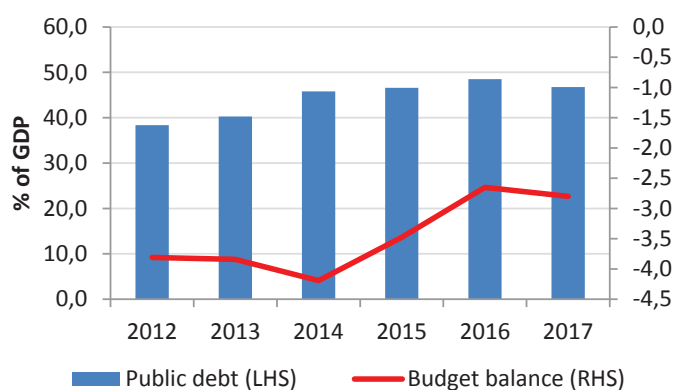
#### Key findings- economic criteria

- The Republic of Macedonia achieved certain progress and has a good level of preparedness for the development of a functional market economy. Apart from the political dead-end in the first half of the year, improvements have been perceived, particularly in the public finance management and the transparency. The key weaknesses of the economy remain. They include deficiencies of the business environment, such as the weak implementation of the contracts (related to the efficiency and impartiality of the judicial system) and the huge informal economy.

The structural problems on the labour market reflect the low activity rate and the high unemployment rates.

- The economy achieved a certain progress and is partially ready to handle the competitive pressures and the market forces within the EU. Further progress was achieved in the direction of the diversification of the export and the production with higher added value in the production sector. The trade and investment relations with the EU continued to be intensified. The economy still suffers from weaknesses in the educational curricula, the low level of innovations and the significant drawbacks in the investments, including particularly the infrastructure.
- The government remains committed to market-based economic policies even though it is now embarking on fiscal stimuli to subsidise investment and employment. Economic policy continued to focus on export growth through (i) foreign direct investment; (ii) raising private sector competitiveness through public infrastructure spending, and (iii) boosting employment through active labour market policies and employer subsidies. The new government, which came to power in June 2017, remains committed to these three policy pillars. It is also redesigning a number of them to improve their effectiveness. In particular, the government plans to increase subsidies for investment and employment in the private sector, and to apply a “same subsidy” policy to foreign and domestic companies alike. It also intends to expand the range and coverage of active labour market policies, and to increase social transfers. It has raised minimum wages. The Government continues to be dedicated to the market economy policy, even though now it offers fiscal stimulations so that it can subsidize the investments and employment.
- The monetary policy stance remained appropriate, and supported price stability and the currency peg.
- Sustainable fiscal consolidation measures are needed. In 2017, the general government fiscal deficit remained at about pre-year level (2.8 % of estimated GDP).

### The former Yugoslav Republic of Macedonia: fiscal developments –EU report



Source: EUROSTAT, national sources

- The government is committed to improving the transparency and management of public finances. Public information on the fiscal situation in terms of extent and quality of data and timeliness has been enhanced noticeably since the new government took up office.

### *Business environment and market institutions*

- Contract enforcement remains problematic but the government is taking steps to improve it. Institutional capacity to enforce the law remains weak, and resolving a commercial dispute through a court is time-consuming and costly. In recent years, the legal infrastructure has been improved and the number of cases handled by the courts has gone up. However, political interference with the courts frequently led to inefficient outcomes and has undermined trust. Non-transparent inspections and para-fiscal fees remain an issue.
- The shadow economy remains a large obstacle to business. The informal share of the economy remains large, impacting on the competitiveness of the formal private sector, although it is declining in terms of gross value added and employment. In surveys, the informal economy is consistently referred to as an obstacle to doing business in the country. Estimates on its size range from some 20% of total output (State Statistical Office) to about 40%, depending on the method applied. This creates obstacles to investment and serious problems of competition for registered companies.

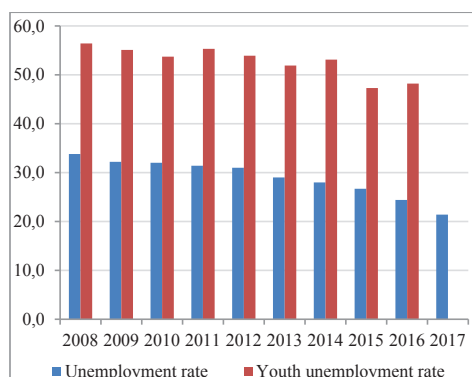
### *The financial market*

- The banking sector remains well-funded, liquid and profitable, but the share of non-performing loans remains elevated. The level of financial intermediation increased further with assets, credit and deposits rising as a share of GDP. Commercial bank loans remain by far the main source of financing for small and medium-sized businesses, which are generally hesitant about funding their financial needs on the capital markets.

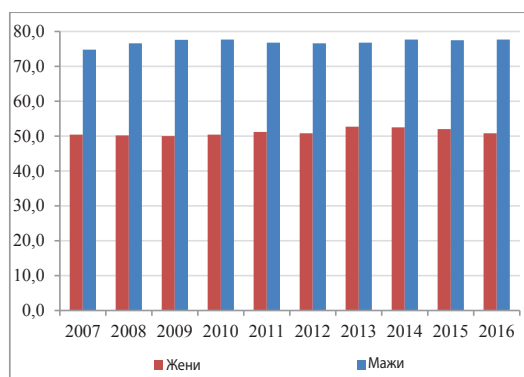
### *The labour market*

- The economy has created a large number of jobs in recent years. Driven by vast government employment programmes, the labour market has posted solid, though decreasing employment gains, amounting to some 2.8 % on average each year between 2012 and 2016. In the last quarter of 2017, employment increased by 1.9 % in annual terms.

### Unemployment in Republic of Macedonia (% from active population)



### Participation rates in Republic of Macedonia (% from labour force)



Source: EUROSTAT, national sources

- But labour market distortions restrain growth potential. The decrease in unemployment partly reflects the low and declining activity rates. Large-scale emigration of skilled workers and low levels of enrolment in post-secondary education have left the economy struggling to rebuild a qualified young workforce. This holds back potential growth and delays the structural transformation of the economy, as it impedes the reallocation of resources towards sectors with higher productivity.

### *Education and innovation*

- The educational system is slow in addressing the skills mismatch. While public expenditure on education, at about 4 % of GDP, is only slightly lower than the EU average, enrolment and completion rates in secondary (about 87 % of completion rate) and post-secondary education have risen only marginally in the past five years, and remain below EU average. The gap between the skills of graduates and the needs of private companies narrows only slowly.
- Innovation rates in the private sector remain low. Expenditure on research and innovation remains modest, compared to the EU average, at 0.4 % of GDP (2015), only slightly higher than in 2010. The bulk of this expenditure is accounted for by public spending, which has increased in recent years. Even though the share of technology-intensive products in exports has risen (due to production by established foreign companies), innovation and technological development in private companies remains at a low level.

### *Physical capital and quality of infrastructure*

- Weaknesses in the economy's capital stock are hampering competitiveness. Private and public investment spending remains insufficient in view of the shortcomings in the country's infrastructure and production potential. Investment expenditure has remained largely constant at around 24 % of GDP between 2012 and 2016. Some 70 % of investment was carried out by private enterprises (domestic and foreign), while the remainder is public investment financed via the general government budget, international financial institutions and public enterprises.

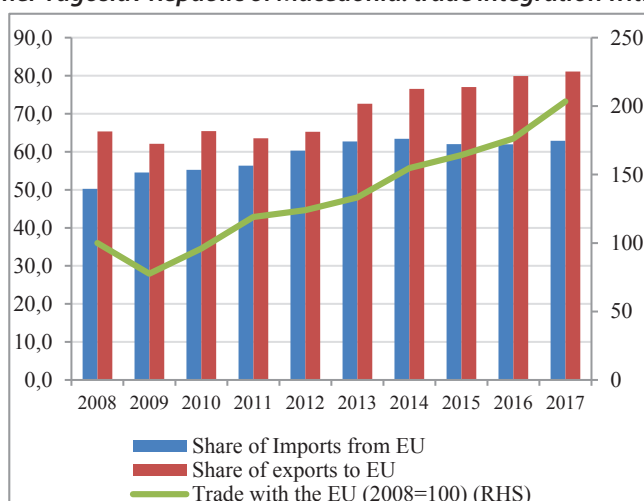
### *Sectorial and enterprise structures*

- The structural transformation of the economy has been slow and has remained driven by foreign investment. The sectorial structure of the economy has remained largely unchanged in the past five years. At some 60 % of estimated gross value added, services accounted for the largest share of gross value added also in 2017 (-5pps compared to 2012), with agriculture adding over 10 %. Industry contributed 19.5 % (+1.5pps compared to 2012). Mainly on account of foreign companies, the share of higher-value manufactured goods (machinery and equipment, chemical products) in industry output rose at the expense of basic manufactured goods such as iron, steel and clothing. Services provide half of the economy's jobs, followed by industry and construction (27 %) and agriculture (24 %), without significant changes since 2012. Over 99 % of all companies are SMEs, providing over 76 % of value added and an almost equal amount of employment.

### *Economic integration with the EU*

- The importance of the EU as a trade and investment partner continues to grow. The value of merchandise trade with the EU has increased progressively in the past decade and amounted to 71 % of the country's total trade in 2017. EU member states received 81 % of the country's exports in 2017 (+1.2 pps y-o-y), and provided 63% of the country's imports (+0.9 pps y-o-y). FDI stock per capita remains low. The development of a Regional Economic Area based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth.
- As regards its ability to assume the obligations of membership, the country is moderately prepared in most areas, including in the areas of competition, transport and energy. The country shows a good level of preparation in areas such as company law, customs union, trans-European networks and science and research.

### *The former Yugoslav Republic of Macedonia: trade integration with the EU*



Source: EUROSTAT, national sources

#### **FIC comments:**

- Regarding the economic criteria, EC acknowledges the progress and significant improvements in the public finance management and the transparency, among other things by publishing the civil budgets for 2017 and 2018. The adoption of the Public Finance Management Program is welcomed.
- The key weaknesses stated in the Report refer to the business environment, as well as the structural problems of the labour market, that are reflected by the high unemployment rate. Generally, the EC thinks that the country has made a certain progress and has a good level of preparedness to develop a functional market economy which, in fact, is stagnation compared to 2016. It is recommended that the country should prepare sustainable consolidation measures. As stated above, the EC determines that the economy has achieved a certain level of progress and is moderately prepared to handle the competition and the EU market forces. The EC sees drawbacks in the education curricula that do not correspond to the market needs.
- The report gives a realistic image about the situation of the Macedonian economy, perceiving certain level of progress. Compared to the assessment of the previous report, the efforts and the moves of the economic policy-makers are more positively appreciated. However, it is important for the limited space dedicated to the economy (especially when compared to the space dedicated to the political criteria) as well as the expression used such as “certain progress”, “the key weaknesses remain” and the emphasized lack of long-term moves in the economic decisions, show that the progress made in the economic policies and reforms is insufficient.

## 7.2. Global Competitiveness Report by World Economic Forum

Macedonia was placed on the bottom in Europe, according to the Global Competitiveness Report by the World Economic Forum. The country is on the 84th place. Only Moldova and Bosnia and Herzegovina of this continent are worse ranked than Macedonia, while Bosnia and Herzegovina moved for one place to the 91th position with a result of 54,2 points.

According to the Report published on the official internet page WEF, Serbia, with 60,9 points was 1,7 points better than last year.

Slovenia is the best ranked from all the former Yugoslavia countries and is on the 35th place, with a result of 69,6 points.

Croatia fell for two places, on the 68th position (60,1 point), while Montenegro went two positions up, on the 71st place (59,6 points).

Global Competitiveness Index 4.0 2018 edition

Rank in 2017 edition: n/a

### Performance Overview 2018

Key ◇ Previous edition △ Upper middle income group average □ Europe and North America average





Index Component	Value	Score *	Rank/140	Best Performer
<b>Pillar 1: Institutions 0-100 (best)</b>	-	<b>50.6</b>	<b>85</b>	<b>New Zealand</b>
1.01 Organized crime 1-7 (best)	3.2	37.0	131	Finland
1.02 Homicide rate /100,000pop.	1.6	96.3 =	51	Multiple (9)
1 03 Terrorism incidence 0 (very high) -100 (no incidence)	99.9	99.9	60	Multiple (24)
1.04 Reliability of police services 1-7 (best)	3.5	41.3	110	Finland
1.05 Social capital 0-100 (high)	48.2	48.2	90	Australia
1.06 Budget transparency 0-100 (best)	61.5	61.5 =	49	Multiple (2)
1.07 Judicial independence 1-7 (best)	2.3	22.3	128	Finland
1 08 Efficiency of legal framework in challenging regulations 1-7 (best)	2.2	20.7	129	Finland
1.09 Freedom of the press 0-100 (worst)	32.4	67.6	89	Norway
1.10 Burden of government regulation 1-7 (best)	2.9	31.3	109	Singapore
1.11 Efficiency of legal framework in settling disputes 1-7 (best)	2.3	21.3	129	Singapore
1.12 E-Participation Index 0-1 (best)	0.70	70.2	68	Multiple (3)
1.13 Future orientation of government 1-7 (best)	2.9	31.3	120	Singapore
1 14 Incidence of corruption 0-100 (best)	35.0	35.0	91	New Zealand
1.15 Property rights 1-7 (best)	3.5	41.1	126	Finland
1.16 Intellectual property protection 1-7 (best)	3.0	33.7	133	Finland
1.17 Quality of land administration 0-30 (best)	25.0	83.3	19	Singapore
1.18 Strength of auditing and reporting standards 1-7 (best)	3.7	45.0	122	Finland
1.19 Conflict of interest regulation 0-10 (best)	8.0	80.0 =	11	Multiple (2)
1.20 Shareholder governance 0-10 (best)	8.0	80.0 =	5	Kazakhstan
<b>Pillar 2: Infrastructure 0-100 (best)</b>	-	<b>64.5</b>	<b>80</b>	<b>Singapore</b>
2.01 Road connectivity index 0-100 (best)	47.8	47.8 =	98	United States
2.02 Quality of roads 1-7 (best)	3.4	39.3	97	Singapore
2 03 Railroad density km of roads/square km	26.6	66.4 =	31	Multiple (20)
2 04 Efficiency of train services 1-7 (best)	2.0	17.1	116	Switzerland
2 05 Airport connectivity score	5,203.2	25.7	115	Multiple (8)
2 06 Efficiency of air transport services 1-7 (best)	4.3	54.5	85	Singapore
2.07 Liner Shipping Connectivity Index 0-157.1 (best)	n / a	n / a	n / a	Multiple (4)
2 08 Efficiency of seaport services 1-7 (best)	2.2	19.2	133	Singapore
2 09 Electrification rate %pop.	100.0	100.0 =	1	Multiple (66)
2.10 Electric power transmission and distribution losses %output	12.7	91.0	84	Multiple (9)
2.11 Exposure to unsafe drinking water %pop.	6.0	95.9 =	33	Multiple (23)
2.12 Reliability of water supply 1-7 (best)	4.7	62.0	72	Switzerland
<b>Pillar 3: ICT adoption 0-100 (best)</b>	-	<b>54.0</b>	<b>70</b>	<b>Korea, Rep.</b>
3.01 Mobile-cellular telephone subscriptions /100pop.	101.9	84.9	100	Multiple (68)
3 02 Mobile-broadband subscriptions /100pop.	63.9	n / a	78	United Arab Emirates

Index Component	Value	Score *	Rank/140	Best Performer
3 03 Fixed-broadband Internet subscriptions /100pop.	18.6	37.1	51	Switzerland
3 04 Fibre Internet subscriptions /100pop.	1.0	n / a	58	Korea, Rep.
3 05 Internet users %pop.	72.2	72.2	51	Iceland
<b>Pillar 4: Macroeconomic stability 0-100 (best)</b>	<b>-</b>	<b>74.6</b>	<b>70</b>	<b>Multiple (31)</b>
4.01 Inflation annual % change	0.6	100.	0 1	Multiple (74)
4 02 Debt dynamics 0-100 (best)	49.3	49.3	84	Multiple (36)
<b>Pillar 5: Health 0-100 (best)</b>	<b>-</b>	<b>80.0</b>	<b>71</b>	<b>Multiple (4)</b>
5 01 Healthy life expectancy years	65.6	80.0	70	Multiple (4)
<b>Pillar 6: Skills 0-100 (best)</b>	<b>-</b>	<b>59.0</b>	<b>81</b>	<b>Finland</b>
6 01 Mean years of schooling Years	9.8	65.3 =	63	Finland
6 02 Extent of staff training 1-7 (best)	3.0	33.2	134	Switzerland
6 03 Quality of vocational training 1-7 (best)	3.1	35.3	130	Switzerland
6 04 Skillset of graduates 1-7 (best)	3.5	41.4	114	Switzerland
6 05 Digital skills among population 1-7 (best)	3.6	43.6	106	Sweden
6.06 Ease of finding skilled employees 1-7 (best)	3.3	38.2	129	United States
6.07 School life expectancy Years	13.3	74.0 =	81	Multiple (9)
6 08 Critical thinking in teaching 1-7 (best)	2.7	27.5	121	United States
6.09 Pupil-to-teacher ratio in primary education Ratio	14.4	89.0 =	42	Multiple (6)
<b>Pillar 7: Product market 0-100(best)</b>	<b>-</b>	<b>51.5</b>	<b>107</b>	<b>Singapore</b>
7 01 Distortive effect of taxes and subsidies on competition 1-7 (best)	3.3	37.8	109	Singapore
7.02 Extent of market dominance 1-7(best)	3.0	32.9	124	Switzerland
7 03 Competition in services 1-7 (best)	4.3	55.8	119	Hong Kong SAR
7 04 Prevalence of non-tariff barriers 1-7 (best)	4.1	52.2	99	Singapore
7 05 Trade tariffs %duty	4.96	66.9	63	Hong Kong SAR
7 06 Complexity of tariffs 1-7 (best)	4.9	65.4	86	Hong Kong SAR
7 07 Efficiency of the clearance process 1-5 (best)	2.5	36.3	93	Germany
7 08 Services trade openness 0-100 (worst)	n / a	83.2	n / a	Ecuador
<b>Pillar8: Labour market 0-100(best)</b>	<b>-</b>	<b>58.1</b>	<b>78</b>	<b>United States</b>
8.01 Redundancy costs weeks of salary	13.0	81.3 =	47	Multiple (8)
8.02 Hiring and firing practices 1-7 (best)	3.7	44.6	85	Hong Kong SAR
8 03 Cooperation in Labour-employer relations 1-7 (best)	3.6	42.7	126	Switzerland
8 04 Flexibility of wage determination 1-7 (best)	4.3	55.5	114	Hong Kong SAR
8 05 Active Labour policies 1-7 (best)	3.1	35.0	74	Switzerland
8 06 Workers' rights 0-100 (best)	73.2	73.2	54	Multiple (4)
8 07 Ease of hiring foreign labour 1-7 (best)	3.7	44.2	108	Albania
8 08 Internal Labour mobility 1-7 (best)	4.2	52.8	98	Guinea
8 09 Reliance on professional management 1-7 (best)	3.4	40.5	120	Finland
8 10 Pay and productivity 1-7 (best)	3.6	44.1	88	United States

Index Component	Value	Score *	Rank/140	Best Performer
8.11 Female participation in Labour force ratio	0.73	65.7	70	Multiple (4)
8.12 Labour tax rate %	0.0	100.0 =	1	Multiple (26)
<b>Pillar 9: Financial system 0-100 (best)</b>	<b>-</b>	<b>55.6</b>	<b>80</b>	<b>United States</b>
9.01 Domestic credit to private sector %GDP	49.3	51.9	75	Multiple (29)
9.02 Financing of SMEs 1-7 (best)	3.2	37.3	114	United States
9.03 Venture capital availability 1-7 (best)	2.2	20.6	120	United States
9.04 Market capitalization %GDP	22.0	22.0	72	Multiple (12)
9.05 Insurance premium %GDP	1.3	22.4 =	85	Multiple (16)
9.06 Soundness of banks 1-7 (best)	4.6	59.9	85	Finland
9.07 Non-performing loans % loan portfolio value	6.3	88.3	80	Multiple (2)
9.08 Credit gap percentage points	- 6.9	100.0 =	27	Multiple (97)
9.09 Banks' regulatory capital ratio ratio	16.0	98.0 =	73	Multiple (72)
<b>Pillar 10: Market size 0-100(best)</b>	<b>-</b>	<b>39.2</b>	<b>109</b>	<b>China</b>
10.01 Gross domestic product PPP\$billions	28	n / a	115	China
10.02 Imports % GDP	78.3	n / a	18	Hong Kong SAR
<b>Pillar 11: Business dynamism 0-100 (best)</b>	<b>-</b>	<b>61.2</b>	<b>57</b>	<b>United States</b>
11.01 Cost of starting a business %GNI per capita	0.1	100.0 =	3	Multiple (2)
11.02 Time to start a business days	7.0	93.5 =	41	New Zealand
11.03 Insolvency recovery rate cents/\$	47.7	51.3	42	Norway
11.04 Insolvency regulatory framework 0-16(best)	15.0	93.8 =	1	Multiple (5)
11.05 Attitudes toward entrepreneurial risk 1-7 (best)	2.9	32.2	136	Israel
11.06 Willingness to delegate authority 1-7 (best)	3.7	45.6	118	Denmark
11.07 Growth of innovative companies 1-7 (best)	3.5	42.0	110	Israel
11.08 Companies embracing disruptive ideas 1-7 (best)	2.9	31.1	133	United States
<b>Pillar 12: Innovation capability 0-100 (best)</b>	<b>-</b>	<b>31.1</b>	<b>98</b>	<b>Germany</b>
12.01 Diversity of workforce 1-7 (best)	3.9	48.6	110	Canada
12.02 State of cluster development 1-7 (best)	3.2	37.0	108	United States
12.03 International co-inventions applications/million pop.	0.13	3.9	77	Multiple (7)
12.04 Multi-stakeholder collaboration 1-7 (best)	3.0	32.6	126	United States
12.05 Scientific publications H Index	93.0	67.3	98	Multiple (7)
12.06 Patent applications applications/million pop.	0.46	6.9	74	Multiple (8)
12.07 R&D expenditures %GDP	0.4	14.8	69	Multiple (7)
12.08 Quality of research institutions index	0.00	0.4	98	Multiple (7)
12.09 Buyer sophistication 1-7 (best)	2.7	28.0	119	United States
12.10 Trademark applications applications/million pop.	783.55	71.7	51	Multiple (7)

\*Scores are on a 0 to 100 scale, where 100 represents the optimal situation or 'frontier'.

The bad assessments in the Report refer to the handling organized crime, weak protection of the intellectual and property rights and the inefficiency of the laws. The bad infrastructure is also mentioned; we have a weak ranking when it comes to the connection and the quality of the roads, services of the rail, as well as the transport from and to the airports. In the part dedicated to education and business, the respondent in Macedonia complained that it is very difficult to find qualified workers, that the staff is rarely trained and that the cooperation of the owners with the trade unions is very low. The US, Singapore and Germany are on the top of the Global Competitiveness Report.

Due to insufficient information last year Macedonia was not ranked on this list.

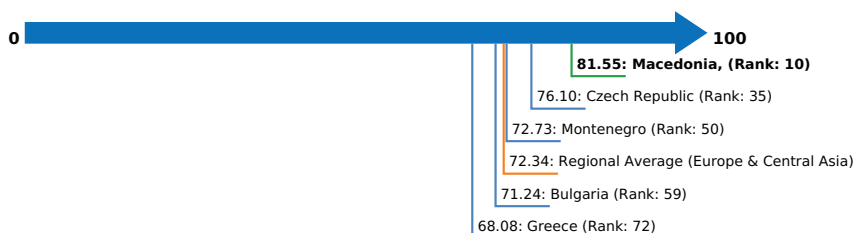
### 7.3. Doing Business 2019 by World Bank

The country continues to score exceptionally well in the World Bank's Doing Business report rankings. In the most recent report "Doing Business 2019" by the World Bank, Macedonia is ranked on the 10th place, which is an improvement for one place compared to the previous year.

The ranking is made on the basis of 10 criteria including 190 countries in the world.

Macedonia is best placed, on the seventh place, according to the criterion protection of the minority investors, while its worst ranking is in the field of criteria for registering property and starting business, i.e. at the 46th and 47th place, respectively.

#### DB 2019 Ease of Doing Business Score



Note: The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The ease of doing business ranking ranges from 1 to 190.

Macedonia is the best ranked country in Southeast Europe (SEE) in the most recent "Doing Business" report by the World Bank, apart from the comeback in the top 10 in the world according to the number of reforms implemented in several categories. In fact, Macedonia is the only medium-developed economy in the top 20 in the world according to this year's ranking.

In the "Doing Business 2019" report, Macedonia is ranked at the highest position compared to the other countries in the region. Slovenia is on the 40th place, Kosovo on the 44th, Serbia on the 48th, Montenegro on the 50th, Croatia on the 58th, Bulgaria on the 59th, Albania on the 63th, Greece on the 72nd and Bosnia and Herzegovina on the 89th.

## Economy Rankings – Europe and Central Asia

Economy	Rank
Georgia	6
Macedonia	10
Azerbaijan	25
Kazakhstan	28
Russian Federation	31
Belarus	37
Armenia	41
Turkey	43
Kosovo	44
Moldova	47
Serbia	48
Montenegro	50
Romania	52
Cyprus	57
Croatia	58
Bulgaria	59
Albania	63
Kirgizstan	70
Ukraine	71
Uzbekistan	76
San Marino	88
Bosnia and Herzegovina	89
Tajikistan	126

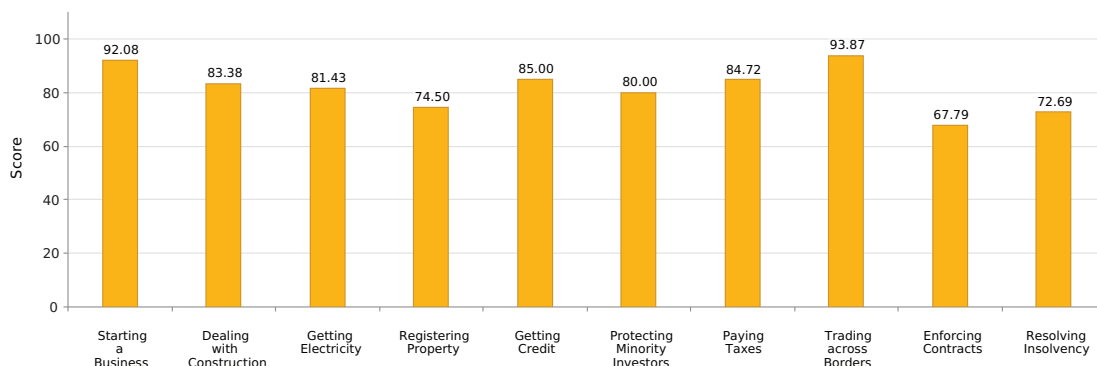
Some of the points made this year state that 14 days are needed to start a business in Macedonia, with an initial capital of zero denars and cost of 0,9 percent of the annual gross domestic product per capita.

91 days and nine procedures are needed for obtaining a construction permit, 97 days and 196,1 percent of the annual GDP per capita for a connection, and to acquire a property one needs seven procedures, 30 days and a tax of 3,2 percent.

40,7 percent of the entities pay a loan, regarding the trade with securities we have the lowest mark about the (un)availability for purchasing shares, and we have the best mark about the transparency. The companies set apart 13 percent of the profit, lose 119 hours per year for seven taxes (costs).

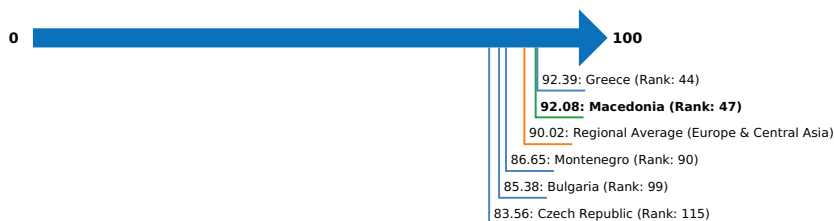
The waiting time at the border for getting the documentation is two hours, while the tax clearance takes nine hours. 634 days are needed for the implementation of the contracts. To solve the insolvency one needs one and a half year, and “sacrificing” 10 percent of the property value.

### Rankings on Doing Business topics - Macedonia



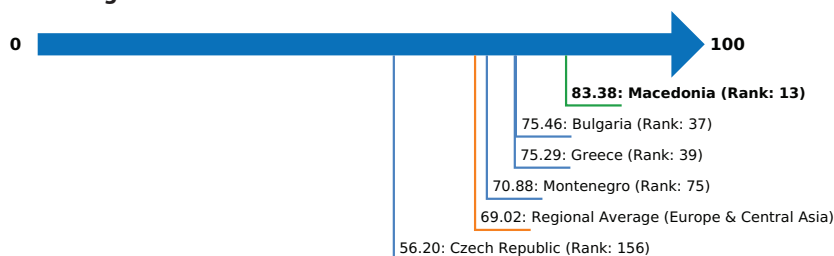
According to “Doing business 2019” New Zealand is the best in the world, and apart from Macedonia the other countries enlisted in the top 10 are: Singapore, Denmark, Hong Kong, South Korea, Georgia, Norway, the US and Great Britain.

### Starting a Business in Macedonia and comparator economies – Ranking and DTF



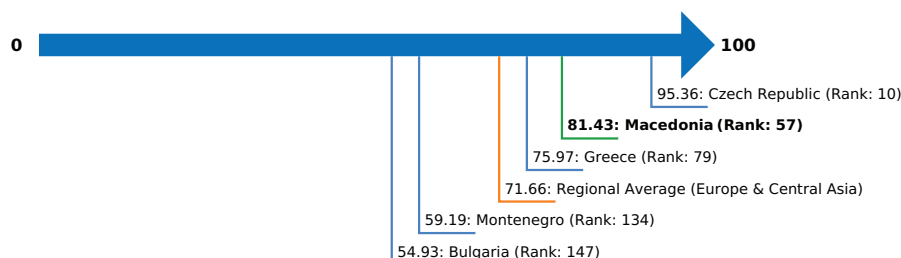
Note: The ranking of economies on the ease of starting a business is determined by sorting their distance to frontier scores for starting a business. These scores are the simple average of the distance to frontier scores for each of the component indicators.

### Dealing with Construction Permits in Macedonia and comparator economies Ranking and DTF



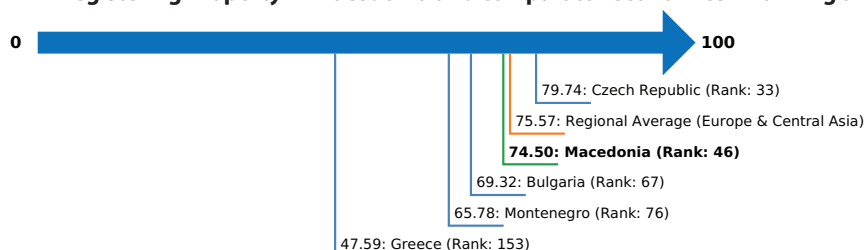
Note: The ranking of economies on the ease of dealing with construction permits is determined by sorting their distance to frontier scores for dealing with construction permits. These scores are the simple average of the distance to frontier scores for each of the component indicators.

### Getting Electricity in Macedonia and comparator economies – Ranking and DTF



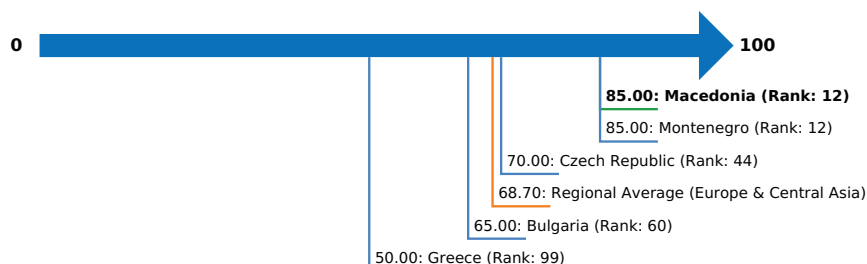
Note: The ranking of economies on the ease of getting electricity is determined by sorting their scores for getting electricity. These scores are the simple average of the scores for all the component indicators except the price of electricity.

### Registering Property in Macedonia and comparator economies – Ranking and DTF



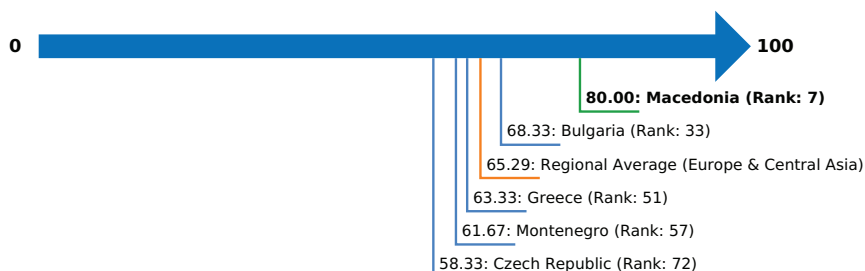
Note: The ranking of economies on the ease of registering property is determined by sorting their scores for registering property. These scores are the simple average of the scores for each of the component indicators.

### Getting Credit in Macedonia and comparator economies – Ranking and DTF



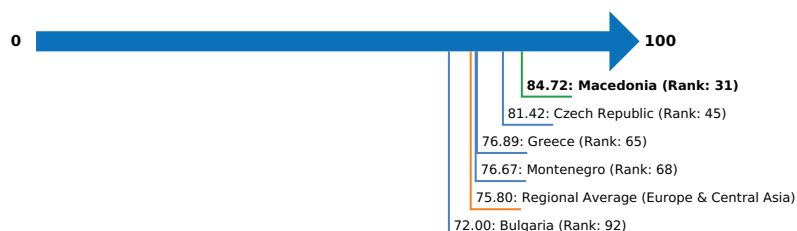
Note: The ranking of economies on the ease of getting credit is determined by sorting their scores for getting credit. These scores are the sum of the scores for the strength of legal rights index and the depth of credit information index.

### Protecting Minority Investors in Macedonia and comparator economies – Ranking and DTF



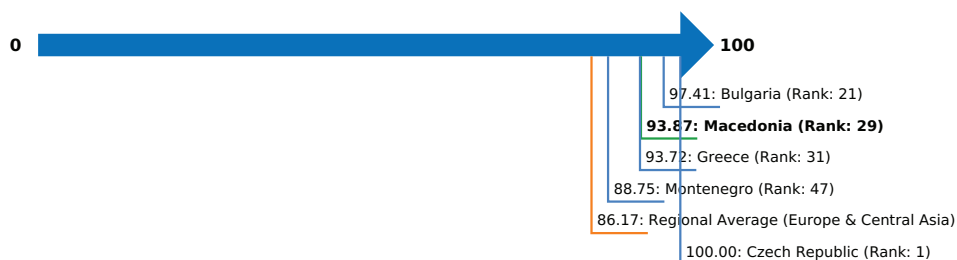
Note: The ranking of economies on the strength of minority investor protections is determined by sorting their scores for protecting minority investors. These scores are the simple average of the scores for the extent of conflict of interest regulation index and the extent of shareholder governance index.

### Paying Taxes in Macedonia and comparator economies – Ranking and DTF



Note: The ranking of economies on the ease of paying taxes is determined by sorting their scores for paying taxes. These scores are the simple average of the scores for each of the component indicators, with a threshold and a nonlinear transformation applied to one of the component indicators, the total tax and contribution rate. The threshold is defined as the total tax and contribution rate at the 15th percentile of the overall distribution for all years included in the analysis up to and including Doing Business 2015, which is 26.1%. All economies with a total tax and contribution rate below this threshold receive the same score as the economy at the threshold.

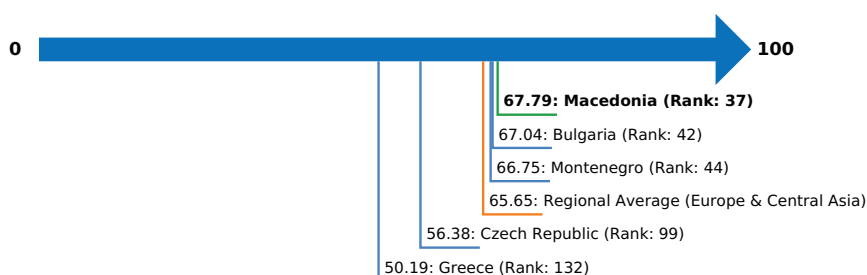
### Trading across Borders in Macedonia and comparator economies – Ranking and DTF



Note: The ranking of economies on the ease of trading across borders is determined by sorting their scores for trading across borders. These scores are the simple average of the scores for the time and cost for documentary compliance and border compliance to export and import.

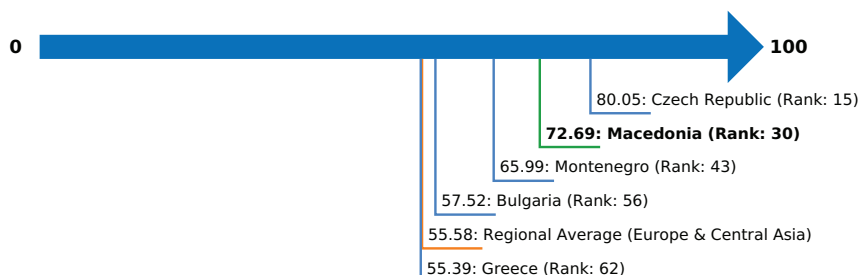


### Enforcing Contracts in Macedonia and comparator economies – Ranking and DTF



Note: The ranking of economies on the ease of enforcing contracts is determined by sorting their scores for enforcing contracts. These scores are the simple average of the scores for each of the component indicators.

### Resolving Insolvency in Macedonia and comparator economies – Ranking and DTF

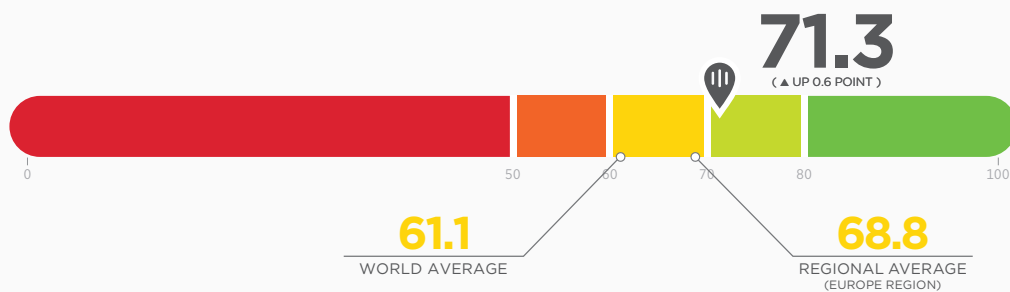


Note: The ranking of economies on the ease of resolving insolvency is determined by sorting their scores for resolving insolvency. These scores are the simple average of the scores for the recovery rate and the strength of insolvency framework index.

## 7.4. Index of economic freedom by Heritage Foundation

Macedonia's economic freedom score is 71.3, making its economy the 33rd freest in the 2018 Index. Its overall score has increased by 0.6 point, with improvements in scores for the fiscal health and investment freedom indicators offsetting declines in government integrity and judicial effectiveness. Macedonia is ranked 18th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

## ECONOMIC FREEDOM SCORE

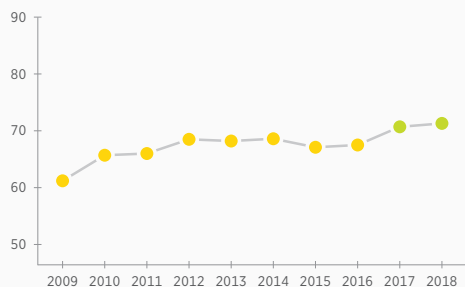


**NOTABLE SUCCESSES:**  
Tax Policy, Trade Freedom, and  
Business Freedom

**CONCERNS:**  
Rule of Law, Financial Freedom, and  
Investment Freedom

**OVERALL SCORE CHANGE  
SINCE 2014:**  
+2.7

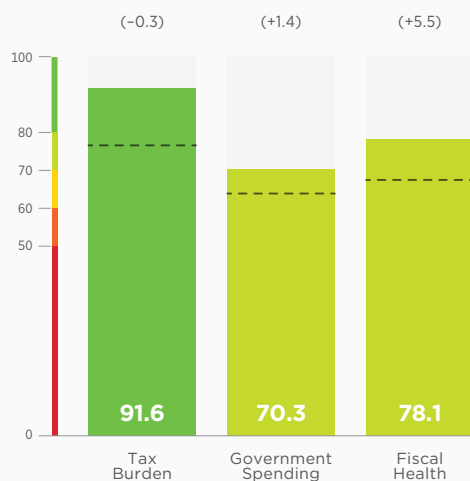
## FREEDOM TREND



## RULE OF LAW



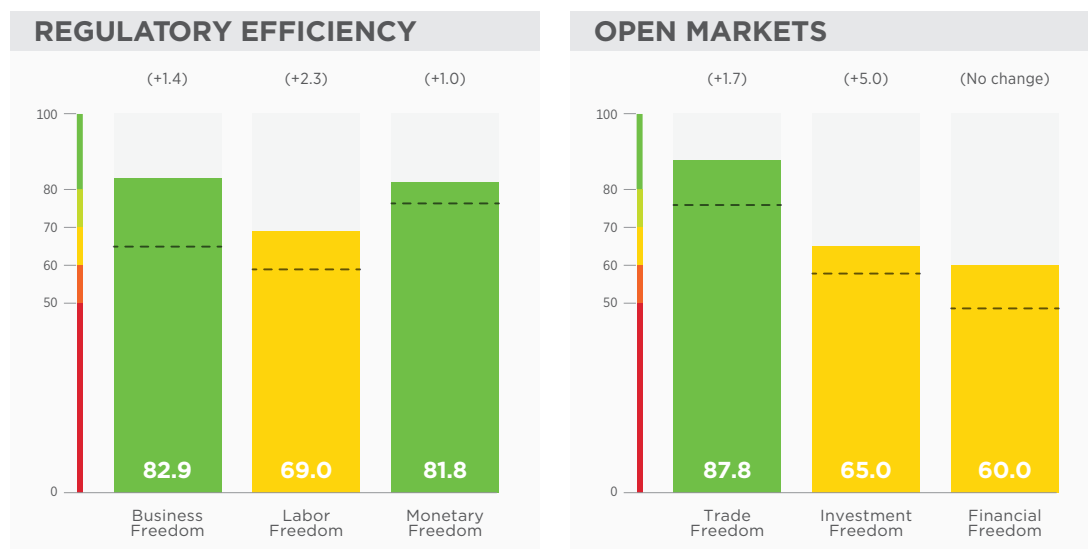
## GOVERNMENT SIZE



The government has made it harder to enforce contracts. There is a legal basis for the protection of ownership of movable, intellectual, and real property, but implementation remains incomplete. The legal framework is sound, but law enforcement is weak.

The judiciary does not demonstrate independence, and judges are subject to political influence. Corruption is pervasive, and some officials engage in corruption with impunity.

The individual income and corporate tax rates are a flat 10 percent. Other taxes include value-added and property transfer taxes. The overall tax burden equals 25.2 percent of total domestic income. Over the past three years, government spending has amounted to 31.5 percent of total output (GDP), and budget deficits have averaged 3.4 percent of GDP. Public debt is equivalent to 38.7 percent of GDP.



In 2016, Macedonia made it easier to do business by improving bankruptcy provisions. Labour laws are relatively rigid. There is a high level of unemployment, and 22 percent of workers are employed in the informal sector. Almost half of government spending goes to social transfers designed in part to shore up support for the ruling parties, but subsidy payments to farmers were significantly delayed in 2017.

Trade is extremely important to Macedonia's economy; the combined value of exports and imports equals 113 percent of GDP. The average applied tariff rate is 1.1 percent. Nontariff barriers impede some trade. Government openness to foreign investment is above average. The financial sector has strengthened, with the government's role limited primarily to regulatory enforcement. Foreign banks account for over 90 per cent of total banking assets.

### 7.5. Human Capital Index – Macedonia ranked among the lowest developing countries

The index ranks 157 participating countries in terms of education, skills, and health outcomes among their citizens. The HCI is made up of five indicators: the probability of survival to age five; a child's expected years of schooling; quality of learning; adult survival rate; and the proportion of children who are not stunted.

Macedonia's index value, especially the value of the education indicators is a call for immediate action. It seems reforms thus far have not transformed the education system enough to help the majority of students attain at least basic competencies. It is important for the country to continue participation in the international large-scale assessments to monitor the quality of education system.

#### Human Capital Index in emerging Europe

Albania	0,62
Ermenija	0,57
Azerbaijan	0,60
Bosnia and Herzegovina	0,62
Bulgaria	0,68
Croatia	0,72
Czech Republic	0,78
Estonia	0,75
Georgia	0,61
Hungary	0,70
Kosovo	0,56
Latvia	0,72
Lithuania	0,71
Macedonia	0,53
Moldova	0,58
Montenegro	0,61
Poland	0,75
Romania	0,60
Serbia	0,76
Slovakia	0,69
Slovenia	0,79
Ukraine	0,65

Source: MMF / World Bank

Kosovo, Georgia, Bosnia and Herzegovina, Armenia, Azerbaijan and all other developing countries in Europe put on the list of the World Bank have better scores than Macedonia.

The education is currently the biggest problem in Macedonia and not a single Macedonian university is ranked among the first 1.000 on the Shanghai List.

The Human Capital Index is part of the Human Capital Project, which is launched to incentivise and support national leaders to prioritize transformational human capital investments. The objective of the initiative is to accelerate progress towards a world in which all children arrive in school well-nourished and ready to learn, can expect to receive quality learning in the classroom, and are able to enter the job market as healthy, skilled, and productive adults.

## **7.6. Corruption perceptions index**

Corruption perceptions have worsened significantly; according to the latest Transparency International Corruption Perceptions Index, the country is now ranked at 170th position globally (out of 180 countries) compared with 90 in the previous year, and 66th place in 2015.

## **7.7. “Standard and Poor’s Agency” confirmed the credit rating of Macedonia to BB-/B with a stable outcome**

The “Standard and Poor’s” Agency announces that it confirms the rating of Macedonia to BB-/B with a stable outcome. According to the report, the political uncertainty is reduced with the strengthening of the parliamentary majority that should facilitate the implementation of the reforms. The Report notes that a progress has been made in several priorities, emphasizing that the rating may improve if the reforms are implemented on time and further progress is achieved in overcoming the name dispute, which leads to better economic prospects and increase of the probability for membership in the EU.

On the contrary, deterioration of the credit rating may influence the return of the political tensions or slowing down the pace of the reforms that would have a negative effect on the growth and on the foreign investments, as in the case of fiscal lack of discipline or out-of-the-budget activities that would put into question the sustainability of the public debt.

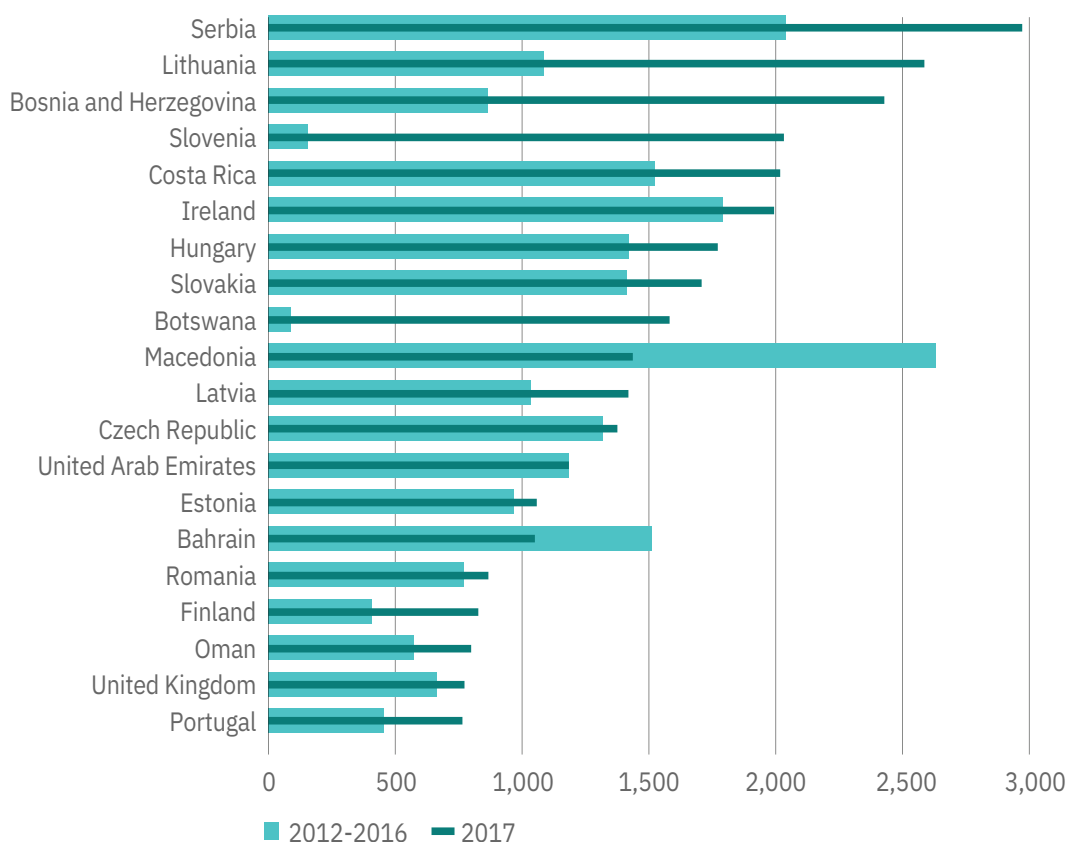
## 7.8. Macedonia is in the top 10 countries with the greatest number of employments by foreign investors

Last year, Macedonia was among the top 10 countries with the highest number of employments by foreign direct investors in the world after the IBM Institute announced the report "Global location trends" for 2018.

The report is specialized in the effect of the foreign investors and Macedonia is at the top of the list regarding the number of new employments per million inhabitants.

In 2017 Macedonia was placed on the tenth place with a bit more than 1.400 new employments per million inhabitants, or a total number of 2.800 newly employed persons in 2017 if it is taken into consideration that the country has two million inhabitants.

### Top-ranking destination countries by estimated jobs per million inhabitants



*Note: This analysis excludes countries with a population of less than one million.*

Macedonia is, nevertheless, the only country in the top 10 in 2017 that fell regarding the total average compared to the period 2012-2016. In this period about 2.650 people were employed on average by the foreign investors per million inhabitants, or a total number of more than 5.000 workers per year.

## **Chapter VIII: More important projects of the Government for predictable business environment, macroeconomic stability and support of the economic development**

### *Plan for economic growth and Law on financial support of investments*

The rule of law and the stable political situation in the country are a basis for the investors to feel secure in their investments. The Government was directed to the implementation of measures for the support of the companies that are successful and export-oriented and towards the cooperation with the foreign investors. Via the measures of the Plan for economic growth and the Law on financial support of investments, the results of the companies will be supported and the aim is new investments to be realized, as well as technological development, introduction of innovations and increase of the competitiveness of the Macedonian companies on the foreign markets.

The Law on financial support of investments is a transparent program for the support of the economy with clear criteria and conditions equal for all the investors.

Furthermore, the investors also have the possibility to realize their project in the technology and industry development zones, where in the first ten years they may expect to be freed from paying personal income tax and the personal gains tax, as well as to receive a support from the Government if they establish cooperation with the domestic companies.

### *"Plan for reform priorities "3-6-9"*

With the adoption of the Action Plan 3-6-9, the first step for getting closer to the EU and NATO integrations was made.

The direction of the reforms proposed by the Government of the Republic of Macedonia, put in the "3-6-9 Plan" originate from the Working program of the Government 2017-2020 and takes into consideration the items of the Przhino Agreement, the recommendations from Brussels regarding the urgent reform priorities and the previous reports of the European Commissions.

The plan for urgent reform priorities marks the measures and activities that are implemented in three, six and nine months starting from August, 2017. Via the implementation of the third cycle of reforms, it is expected in the next report on Macedonia, the member states of the EU to determine a date for pre-accession negotiations of the EU with the Republic of Macedonia.

## **Chapter IX: This Chapter contains the recommendations, proposals and opinions of the five working groups composed of companies- members of the Council**

The role of the working groups is to monitor the legal regulation and to propose recommendations for the promotion of the business climate in the country and to facilitate the process of doing business.

### **9.1. Working groups for taxes and finances**

#### **1. LAW ON PERSONAL INCOME TAX**

With the Law changing and amending the Law on personal income tax ("Official Gazette of the Republic of Macedonia", no. 190/2017), on January 1 2018, a new procedure has been introduced for calculating and paying the personal income tax obligations, i.e. the calculation of the personal income tax is made by submitting an electronic calculation for personal income tax to the Public Revenue Office via the new e-personal income tax, e-pdd.ujp.gov.mk system. For this change to be realized, the Ministry of Finance has issued a Rulebook about the mode of calculation and paying the down payments for personal income tax, the form and contents and the mode of delivering and approving the electronic personal income tax calculation (published in the "Official Gazette of the Republic of Macedonia" no. 197/2017) that has been also applied since 01.01.2018 (hereinafter in the text referred to as: the Rulebook).

The most recent changes to the Law on personal income tax have been introduced with the objective to simplify the declaration and payment of the personal income tax. In the Law on the personal income tax, the Rulebook, as well as the Brochure published at the website of the Public Revenue Office (on 05.02.2018) entitled: "Calculation and payment of the e-personal income tax" (hereinafter in the text referred to as: the Personal Income Tax Brochure), explanations and instructions have been given to the users about the types of incomes that are subject to personal income tax, as well as the technical aspects of how to declare and pay the personal income tax, but they are not complete and the understatements cause confusion with the users. The e-personal income tax is well-thought and functional, but there are certain problems, some of technical and some of substantial nature that should be eliminated.

1. In the Law on personal income tax, in Article 14-a, the personal earnings are being defined. It states: "Personal earnings, in terms of paragraph 1 of this Article, shall also include other earnings which, instead in cash, are received in coupons, money receipts, shares, merchandise, or in some other form that has monetary value". The obligation to declare and pay a personal income tax of costs without compensation, as for example the shortage that happens when the reserves are subject to inventory originates from this law, but a question is asked whether the shortages acknowledged to be a burden of the company are a subject to personal income tax and if they are, which natural person is to take the responsibility and pay the tax. The practice shows that the companies declare and pay the tax for this kind of cost on behalf of the owner of the company, but often there are cases in which they refuse to have this obligation connected to them, taking into consideration the fact that it concerns huge amounts of reserves and, accordingly, huge amounts of shortages, which consequently leads to huge amounts of calculated personal



income tax.

2. In Article 6 of the Law on personal income tax all the earnings of natural persons for which there is not obligation to calculate the personal income tax are defined, as for example compensations for the costs for business travels, compensations in the case of death of an employee or a member of the family, etc. to the amount stipulated by the Law. All compensations included in this Article paid over the allowed limits are subject to personal income tax. In the Rulebook and the Brochure for the personal income tax instructions and directions are given for the mode of calculation and payment of the personal income tax, but there is a real need to further define the obligations of the users for certain types of compensations.
3. The most recent changes announced regarding the Law on personal income tax included the replacement of the flat rates of personal income tax by progressive ones, which means that the citizens with higher earnings will pay greater percentage of their income as a tax. The basic motive for reviewing the possibility of this reform was the achievement of income equality among the citizens since the progressive fiscal system functions as a tool for redistribution of the income from the high to the middle class that would prevent expansion of the gap between rich and poor.

#### **The Foreign Investors Council recommends:**

- a technical solution in the system of e-personal income tax to be found when submitting the calculation for the payments performed in “another manner”, i.e. giving possibility in the case of payments of “another manner” a future date to be chosen for all planned and unrealized payments towards natural persons (payments in kind).
- further legal definition of the types of incomes that are unacknowledged and cannot be personalized, i.e. to be related to a certain person and are subject to personal income taxation and finding a technical solution in the e-PDD system for them. Proposed solution: adding an option 15 in the field “Income type” in the e-PDD system with a detailed description of the type of the income in the field “Income subtype”.
- further legal definition of the types of compensations that are paid to the workers for which there is an obligation to submit an e-PDD calculation, as well as further definition of the modes of submitting a calculation in the case when compensations surpassing the limit are being paid.
- the personal income tax rate should remain the same because currently, the effects on the budget from these kinds of changes would be minor (according to an analysis by “Finance think”, the Institute of economic research and policies and other experts) on one side, and they will influence the increase of the tax evasion on the other.
- greater support between the private entities, the chambers of commerce and the institutions in the direction of improving the business climate.

## 2. LAW ON PROFIT TAX

1. The law on profit tax ("Official Gazette of the Republic of Macedonia", no. 112/2014 ... 190/201) in Article 9, paragraph 1, item 16 prescribes the following:

"The costs for abatement, waste, wreckage and perishing of goods higher than the standardized amounts determined for a certain branch are not acknowledged under the condition for them not to be a result of extraordinary event or force majeure."

In Article 9, paragraph 2 of this law the following is prescribed:

"The standardized amounts of abatement, waste, wreckage and perishing of goods and particular products set out for each respective branch for tax purposes shall be prescribed by the minister of finance."

Additionally, the Rulebook on the mode of calculating and paying the profit tax and the mode of avoiding the double taxation ("Official Gazette of the Republic of Macedonia" no. 174/2014 ... 31/2017, hereinafter in the text referred to as the Rulebook), in Article 4 further regulates that :

"Following the objectives to determine the unacknowledged expenditures: the costs for abatement, waste, wreckage and perishing of goods, in the sense of item 16 of Article 9 of the Law, the costs cannot be different that the usual amounts applied in the activities of similar or same nature."

The usual amounts abatement, waste, wreckage and perishing of goods and certain products for tax fees are regulated in detail with a specific Rulebook on the standardized amounts for abatement, waste, wreckage and perishing of goods and certain products determined for each particular branch for fiscal objectives ("Official Gazette of the Republic of Macedonia" no. 174/2014). However, this Rulebook prescribes the standardized amounts for abatement, waste, wreckage and perishing of goods and certain products in the following branches: (a) trade, (b) catering, (c) construction, (d) agriculture, food industry, production of tobacco and processed goods made of tobacco and (e) storage and turnover of oil and oil derivatives.

The existing tax regulation does not prescribe clear rules about the treatment of the scrap from the point of view of the personal profit tax and the VAT for the other industries.

### **The Foreign Investors Council recommends:**

- further definition of the Rulebook regarding the standardized amounts for abatement, waste, wreckage and perishing of goods in the sense of signing norms for the industries that are not encompassed by it.
- In the absence of a legal solution, an Internal norm of own consumption at a company level should be signed. This document, as an internal act, will be prepared by each entity individually, depending on the nature of its activities and it is to be prepared in a written form. "The Internal norm" should contain a detailed description of each stage of the production, starting from raw materials to the final product; responsible persons for the production processes, general factors influencing the production process and stipulating a norm for internal consumption.

- In a written document it should be explained in which stage of the production process and the reasons due to which a loss of a damage of a certain raw material or semi-product may take place; the standard amount of scrap foreseen to be created in the production process divided into type of material/ semi-product; as well as the policy of recognizing and ascertaining the scrap created. When preparing the “internal norm for own production”, the company should be able to prove that the percentage of standardized scrap is real, taking into consideration its data from the three previous years, and for newly established companies it can be proved on the basis of the previous data at a group level. We propose the scrap percentage to be standardized in proportion with the amount of the total costs for each certain good used in the production process within the calendar year. With the objective for greater impartiality to be provided, we propose the scrap percentage to be standardized in a certain frame “from- to”.

## 2. Connection, i.e. mutual dependence between the Law on profit tax and the Company law.

The treatment of transferring the loss after the taxation in the future accounting years, as defined in Article 19 of the Law on profit tax hinders the process of using this benefit:

- due to the fact that it has been introduced in a very short period (3 years, instead of the general fiscal practice applied in the neighbouring countries of 5 years to be taken into consideration) and
- due to the fact that it is related to the Company Law, Article 484 that limits the possibility of the companies to use the benefits of the transferred losses by imposing additional conditions.

One of the conditions, pursuant to Article 484 of the Company Law is the loss to be covered chronologically with the objective to be enabled for it to be used as a fiscal loss in the following period. The methods for covering the losses are also defined by the Company Law in the following manner: with the reserves, covering with the accumulated profit of the previous periods, premiums or reduction of the capital. Following the business logic that after having worked with a loss, the companies will not have enough funds as reserves, accumulated profit or premium, the only disposable resource is the reduction of the capital. This method is very complicated and undesirable both for the local and foreign investors. Observing from the point of view of the foreign investor, engaged with a concession as a type of investment, the reduction of the capital in the middle of the concession period is undesirable, especially if the investor has a loan according to which the creditors have defined strict rules about the indicators for the debts and about the amount of the capital of the company. In case of closing the company, if there is a loss in the balance sheet, this loss will have to be reduced to zero with the capital and only the remaining amount of the company will be available to withdrawal.

### **The Foreign Investors Council recommends:**

- Regarding this issue, the connection between the profit tax and the Company Law should be terminated related to the coverage of the business loss before using the fiscal loss and extension of the period of use up to 5 years.

3. Allocating state assistance to companies- beneficiaries of TIDZ (hereinafter in the text referred to as beneficiary), in the Law on technology and industry development zones (hereinafter in the text referred to as Law on TIDZ), in Article 8-a and Article 9 of this Law.

Regarding the profit tax, the state assistance is composed of the fact that the beneficiary of the zone is freed from paying the profit tax for a period of 10 years if within two years from the year of getting the decision for starting to work under conditions determined by law, it starts to perform its activities in the zone.

The companies beneficiaries of the services of the Agency of foreign investments and promotion of the export have signed Agreement for obtaining financial assistance in which the conditions upon which the assistance is awarded, the types of assistance they get and the duration of the benefits, etc. are regulated. Additionally, the Law on TIDZ give the beneficiary a possibility to conclude several agreements for state assistance.

Even though this topic has been legally covered, there are, nevertheless, situations that are not precisely defined, such as the mode of monitoring the fiscal reliefs of investors that have two projects, the technical solution of the submission of the fiscal balance in the year when the financial assistance terminates, etc.

### **The Foreign Investors Council recommends:**

- legal redefinition of the mode of monitoring the tax reliefs of the investors that have received two individual state assistances.
- giving instructions and directions about the way of fulfilling and submitting the Fiscal balance for determining the tax of the profit (form DB) in the year when the fiscal assistance ends (a period before and after the state assistance) in conditions when the beneficiary uses one or more state assistances.

## **3. LAW ON VALUE ADDED TAX**

Pursuant to Article 32-a of the Law on value added tax and the Decision for determining the goods and services for which the taxpayer who had a turnover made by other taxpayer is to cover the tax costs, announced in the "Official Gazette of the Republic of Macedonia" no.45 dated 24.8.2016, the law-maker indicates a list of goods and services for which the taxpayer to which the turnover is made is obliged to pay the tax.

Following the list of the above stated Decision, we have problems in determining

concretely and precisely whether the service provided upon an invoice of the supplier (turnover maker) is part of the services and turnovers of the goods from the Decision since they are not precisely and concretely explained.

Examples we encounter and analyse every day are the excavation of land around reservoirs, pipelines, hydro-networks, etc., and the case is the same when it comes to thermal and hydro-insulation, the welding activities, buffering of basins, repairing the asphalt, inclarities whether the maintenance and reconstruction are part of the items stated in the Decision.

**The Foreign Investors Council recommends:**

- the law-maker should precisely and concretely define the goods and services for which the taxpayer towards which a turnover has been made by another taxpayer is to pay the tax with the objective to avoid different interpretation of the same goods and services.

4. When submitting the declarations for the VAT, especially during the submission of the quarterly VAT-declarations, the e-Taxes system “falls down” and is not functional and the submission of the VAT-declarations is made more difficult, in some cases even impossible.

**The Foreign Investors Council recommends:**

- improvement of the performances of the server and of the technical possibilities of the e-tax system with the objective to avoid the above stated problems.
- the mode of submitting the VAT- declaration in conditions when the e-taxes system is “down” should be legally solved, as well as the inability for the declaration to be submitted via the e-tax system. Proposed solution: the VAT-declaration to be sent by-email, defined by PRO, and when the system starts to be functional again, the taxpayer can submit the same declaration electronically, via the e-tax system, and will attach the e-mail to this declaration as a proof that the declaration has been submitted within the legal deadline, or, instead of that, an annex to the e-mail to be sent, and the e-tax system to have an option with which by clicking a certain button it will be stated that the declaration has been submitted “in another manner” when the function of the e-tax system will be restored.

5. Article 14 of the Law on value added tax (hereinafter in the text referred to as: LVAT) defines the correlation between the place of the turnover of the service provision and the obligation for the calculation and expression of the VAT when it comes to turnover of services. In the same article, in paragraph 2 and paragraph 3, the exceptions that have a crucial importance on the invoicing the turnover towards companies- beneficiaries of TIDZ are defined. Even though with Article 14, paragraph 2 and paragraph 3, the exceptions have been defined, still, in practice, there are problems when it comes to the determination whether a

certain service should be invoiced with or without VAT, i.e. there is a real need for more precise further defining of the exceptions of Article 14 of the LVAT.

PRO has issued a Manual for the application of the Law on VAT (02.6.2000) in which all the aspects of the LVAT are elaborated in detail, but this Manual cannot be found publicly announced on the webpage of PRO.

**The Foreign Investors Council recommends:**

- more precise further legal definition of the exceptions of Article 14, paragraph 2 and paragraph 3 of LVAT.
- update of the Manual on the application of the Law on VAT (including Article 14 of VAT) and its public announcement on the web-portal of PRO.

6. The technology and industry development zone (TIDZ) is a free zone from the point of view of the fiscal laws in the Republic of Macedonia. The companies- beneficiaries of TIDZ should first and foremost be export-oriented. Regarding the sales on the domestic market, the companies- users of the TIDZ sold waste to waste management companies (with VAT or pursuing Article 32-a of the LVAT, depending on the nature of the waste).

**The Foreign Investors Council recommends:**

- legal definition of the conditions and what can the companies- beneficiaries of TIDZ to sell on the domestic market (used machines, semi-products, etc.).

#### 4. LAW ON RETAINED TAX

Retained tax is the tax that is paid to the contributions made by foreign legal entities from the Republic of Macedonia. The retained tax rate is 10%.

If the one that receives the incomes on which tax retention is being applied, is a resident of a country with which the Republic of Macedonia has signed an agreement for avoiding double taxation regarding the taxes on income and capital, the tax and the application of the tax rate must not surpass the tax rate applied to the income as determined in the Contract.

Before the payment of the incomes that are subject to tax retention, the tax relief reurst, i.e. the relief for the certain type of income si delivered to the competente regional office of PRO in three fully completed samples and authenticated by the competent tax organ of the foreign country in the field dedicated to confirming the residential status of the person that receives the income.

The persons whi have an obligation to retain the tax before pay to the foreign legal entity should ask from the competent regional office of the Public Revenue Office a "tax identification number" for a foreign legal entity- receiver of the income.

The most usual problems the taxpayers face regarding the retained tax are of administrative nature, as, for example the time when the request for tax relief was submitted to the moment of obtaining the decision, which takes a lot of time, 4-5 weeks on average, the validity of the residence certificate is one year, etc. The requests for tax relief, for TIN, etc. are obtained in hard copy via the archives of PRO.

#### **The Foreign Investors Council recommends:**

- validity of the residence certificate is one year from the day on its issuance, and not one calendar year as it is now.
- an acceleration of the overall procedure of retained tax, from the moment of the submitting the TIN to getting a tax relief/ rejection decision is needed.
- a possibility should be given for all the requests and related documents to be submitted electronically via the e-tax system.

## **5. LAW ON FINANCIAL ASSISTANCE TO INVESTMENTS**

The Government of the Republic of Macedonia is dedicated to the economic growth and development of the country. In that direction measures for the support of the economy have been created the main objective of which is to support the investments, the technology development and to boost the competitiveness of the Macedonian companies. These measures are implemented via the Law on financial support to investments adopted by the Assembly of the Republic of Macedonia in May 2018.

The competent organs for the implementation of the procedure for granting financial assistance are:

- DTIDZ - Directorate for technology and industry development zones (for investment projects in the technology and industry development zones) and
- ASIPI - The Agency of Foreign Investments and Promotion of Export (for investment projects outside the technology and industry development zones).

The companies- beneficiaries of TIDZ are already beneficiaries of certain benefits provided by the state and it raises the question whether they can use state assistance and if yes, under which conditions.

#### **The Foreign Investors Council recommends:**

- concrete directions and instructions should be given to the companies- beneficiaries of TIDZ regarding whether they can have the right of additional state assistance pursuant to the Law on financial assistance of the investments, whether the new allocated assistance will be correlated to the previous one, and, if it is, what the relation will be and which obligations will originate from it, etc.



## 9.2. Working group on the property regulations

### 1. 1. LAW ON ENFORCEMENT

The sale of real estates with a direct consent can be concluded at any time after a public sale had place, but not later than 90 days after the second public sale took.

This disables the creditor, even partially, to settle the claim because its legal rights and possibilities have not been legally prescribed in the case of unsuccessful second sale and the possibility for the real estate to be sold with a direct consensual agreement within 90 days after it has taken place.

#### **The Foreign Investors Council recommends:**

- the conditions for this type of mode of sale should be precisely defined, especially the possibility to recognize the right of the creditor within this deadline (by emphasizing that it is a creditor that has a legal basis to settle the sale price) upon his/her written proposal the value of the real estate in this procedure can be reduced to 40-50% of the determined value with the objective to attract potential buyers and the creditor to be able to at least partially use the right to claim the selling price.

## 2. LAW ON CONSTRUCTION LAND

Pursuant to the existing Law on construction land, a several possibilities to buy a land under a building and a yard by entities that meet the conditions (to have facilities on the construction land or to own more than 30% of the land that forms the construction parcel). A prerequisite for buying the construction land is for a detailed urban plan to exist and to be adopted by the council of the local self-government unit.

#### **The Foreign Investors Council recommends:**

- we think that with changes to the Law on construction land, as one of the conditions to buy a construction land, instead of a detailed urban plan, there might be a preparation of an architectural-urban plan that would be prepared on the expense of the petitioner of the request for buying the land.
- furthermore, we think that a thought can be given to adopt a new legal solution to regulate the traffic in the big industrial complexes. Namely, since the roads located within the industrial complexes remain owned by the state, it is necessary the regime of their use to be regulated, as well as the obligation for them to be maintained and developed. Having into consideration that the roads in the big industrial complexes (where several entities perform the business activities) are not taken by the local self-government units to take care of them, nor by



any other institution, it happens often for them to be in a very bad situation that causes problems in the functioning of the business entities. We think that with the new legal solution, the traffic regime of the roads in the big industrial complexes should be regulated, as well as the obligations for its maintenance and the mode of paying the maintenance costs.

### **3. REGULATION OF THE GOVERNMENT of the Republic of Macedonia, number 42-6170/1 dated 23.8.2016 about the price of the construction land owned by the Republic of Macedonia and about the amount of the specific costs for implementing the procedures of expropriation, leasing and obtaining the right of easement.**

In accordance with the above stated Regulation, the prices for buying out state-owned land have been determined, i.e. the land that is bought pursuant to the provisions of the Law on construction land. The price of the land depends on the use of the land that is determined with a detailed urban plan adopted by the council of the local self-government unit.

In the above stated Regulation of the Government of the Republic of Macedonia, the prices are determined on the basis of the use of the land and they are very often unrealistically high, while the criteria for their determination are not unveiled by the Regulation. Due to this, an unfounded high financial burden is created for the business entities when it comes to buying the land out, which we consider to be the reason why part of the entities renounced from buying the land.

#### **The Foreign Investors Council recommends:**

- we think that a revision of the Regulation is needed in the direction of determining the land buyout prices on a real basis. Moreover, we think that this will be useful for the local self-government units because if the land buyout prices are determined on realistic basis, a larger number of the business entities would be determined to buy the land they use.

### **4. COMPANY LAW**

Pursuant to the existing Company law, Article 171, paragraph 1, item 7, an obligation is foreseen for the members of the company to state the name and surname, personal number of the manager, passport number, etc. in the contract of the company, i.e. in the document with which the company is established, which means that each change of the manager the foundation document of the company will also be changed.

#### **The Foreign Investors Council recommends:**

- it is recommended that Article 171, paragraph 1, item 7 of the Company law is deleted. The data that will be provided in the company foundation contract pursuant to Article 171, paragraph 1, item 7 will be stated in the decision for appointing the manager and will be included in the company registry, as is the case with the joint stock companies.

## 5. LAW ON FINANCIAL DISCIPLINE

The initial deadline for settling the debts is 60 days. In the case when the companies do not fulfil their obligation, they are facing with fines in the amount from 1000 to 10.000 euros. These rules apply both to the private and state companies and organs that have unsettled debts and owe money to private companies.

There are some irregularities in this law that should be overcome if we want it to be applicable in practice. There are still huge debts from unpaid obligations from the recourse of the VAT as well as obligations originating from public agreements.

### **The Foreign Investors Council recommends:**

- it is proposed for the short payment deadlines to be extended, the misdemeanour penalties to be abolished and replaced in accordance with the amount of the debt and equal treatment of the entities from the public and private sector to be restored.
- the implementation of the law should be monitored by all stakeholders that should cooperate in case problems in the implementation emerge.
- the longer deadlines for the payment are a significant and usual mode of functioning of the companies during difficult conditions of business working, so the short payment deadlines should be postponed.
- the misdemeanour penalties in the Law regulating the contracting relations should be abolished and to be replaced by penalties that correspond with the amount of the debt.

## 6.6. LAW ON CHANGING AND AMENDING THE LAW ON REAL ESTATE CADASTRE

The issue about the infrastructure facilities that have been fully constructed on a land owned by the Republic of Macedonia remains opened, about whether in this case the Real Estate Agency Cadastre will implement the Law on changing and amending the Law on transformation of the electricity economy of Macedonia and ex officio will inscribe the facilities, i.e. the obligations of the Law will be fulfilled by the state organ without any requests from the companies this law refers to.

### **The Foreign Investors Council recommends:**

- after Article 1 of the draft changes, a provision about the mode of inscription of the infrastructure facilities constructed on the land owned by the Republic of Macedonia should be included.
- the obligation of Article 1 referring to solving the property and legal relations should be removed.
- a comparison to be made with the Law on dealing with illegally constructed facilities where for the limitation of the ownership right (ex officio for infrastructure facilities) there is no need to solve the property and legal affairs.
- a definition to be included about what exactly a construction and functional entirety is for a linear infrastructure facility.

### 9.3. Working group about administrative and legal regulations

#### 1. INCREASE OF THE TRANSPARENCY OF THE COURTS WHEN ANNOUNCING FINAL COURT VERDICTS

The judicial power in the Republic of Macedonia is vested in the basic courts, courts of appeals, the Administrative Court, the Higher Administrative court and the Supreme Court of the Republic of Macedonia.

**In the past ten years, the Macedonian courts have been committedly working on improving the judicial efficiency and transparency. The invested money resulted in the implementation of projects for modernization and implementation of reforms in the judiciary and in a project for strengthening the judiciary via which a system for sound recording of the hearings was introduced, automatic management with the court cases, the making webpages of the courts, technological improvements of the infrastructure of the courts, etc.**

Apart from the Macedonian judiciary has witnessed numerous novelties influencing the increase of the transparency of the courts, there is still room and need to improve certain segments in this regard.

Namely, the webpages of the courts enable limited access to final court verdicts that shows the need of them being upgraded.

With the improvement/facilitation of the access to the contents of the final court verdicts announced on the webpages of the courts, the private entities in the country will get a helpful mechanism which will facilitate:

- the implementation of specific legal provisions that regulate new things in the business surrounding as a result of the changes in the applicable legislation and market environment and
- risk management when planning short-term and long-term business activities.

#### **The Foreign Investors Council recommends:**

- improvement and upgrade of the official webpages of the courts in a manner that will enable easier and more specific search of final court decision.

#### 2. DISTINCTION OF THE COMPETENCE BETWEEN THE INSPECTION SERVICES AND THE JUDICIAL POWER IN THE REPUBLIC OF MACEDONIA

The inspection services conduct monitoring over the application of the legal provisions and the bylaws, protecting the public interest by providing equal, legal, impartial and neutral application of the positive legislation in the country.

The inspection supervision in the Republic of Macedonia is conducted by inspection services organized as inspectorates or organizational units belonging to the organs of the state administration.

Due to the comprehensiveness of the segment it regulates, the implementation of the inspection supervision in the Republic of Macedonia is performed via large and complex legal framework that in detail further regulates the organization, mode of acting and the authorizations of the inspection services. The Labour Code of the Republic of Macedonia is among other laws that regulate the work of the inspection services that authorizes the state inspectors to decide upon issues that are exclusively a competence of the court.

The collision between the authorities of the inspection services and the judicial power imposes numerous difficulties for the private sector and creates confusion and possibility for the state inspectors to prejudice the court decisions.

#### **The Foreign Investors Council recommends:**

- with the objective to provide a legal security in the implementation and application of the provisions of the Labour Code, the Foreign Investors Council recommends the possibility for prejudging the court verdicts to be eliminated without at the same time to tackle the workers' rights, by deleting Article 262 of the Labour Code of the Republic of Macedonia.

### **3. LAW ON CONTENTIOUS PROCEDURE**

The rules on the basis of which the courts decide the disputes for the basic rights and obligations of the person and of the citizen and for the personal and family relations of the citizens are regulated with the Law on contentious procedure of the Republic of Macedonia, adopted in 2005.

Even though the Law has been changed and amended four times, the practice imposes the need of it being further specified and amended with the objective to fulfil certain legal gaps.

Namely, the positive legal regulation does not provide a legal remedy in case when the civil courts interfere in solving issues when it comes to the legality of certain acts of the organs of the state government or organizations or other organs performing public authorizations, which are exclusively in the field of being solved by state organs and administrative courts.

The above mentioned legal gap undoubtedly causes confusion regarding which state organs are entitled to implement the applicable legislation and it being properly amended will contribute to:

- avoiding additional unnecessary costs for the business community;
- avoiding collision between the authorizations of the courts and the state organs and
- Improving the implementation of the laws.

### **The Foreign Investors Council recommends:**

- change of Article 372, paragraph 3 of the Law on contentious procedure in a manner that an additional item 6 will be added as follows: “in disputes that the second-degree court contests contents of legally effective acts of the administrative state organs”.

## **4. LAW ON MEDICATIONS AND MEDICAL APPLIANCES AND APPLICABLE BYLAWS**

- harmonization of the national legislation with the European Union's acquis -

The conditions under which the medications, additional healing cures and the medical appliances are put into circulation, are produced, their quality, security and efficiency examined, as well as the monitoring over the production and their quality control as activities of public interest are regulated by the Law on medications and medical appliances and adequate bylaws.

As in many other segments, in this segment too, the tendency for synchronization of the national legislation with the one of the European Union, which undoubtedly offers more effective, easy to implement and profitable solutions for the producers of medications.

Currently, in the national applicable legislation there is a lack of proper categorization of the production of different types of medications, i.e. clear distinction between the production of medical gases and the production of other types of medications.

This deprivation results in the imposition of unnecessary and burdening obligations for the producers of medical gases, as for example the obligation to employ unnecessary staff (inadequate to the production process) or to employ qualified staff with full-time employment for which there is no need, increasing at the same time the production costs in the pharmaceutical industry and imposing safety risks on the production.

### **The Foreign Investors Council recommends:**

- having into consideration that the production process of medical gases has a need of qualified staff in the field of technical sciences and not a qualified pharmacist (as foreseen by the Law), the Foreign Investors Council recommends harmonization of the national applicable regulation with the Rules of production of medications and medical preparations in the European Union-European Manual for good production practice of medical products for human and veterinary use and harmonization of the national bylaws, i.e. harmonization of the provisions of the Rules for good production practice and the Law on medications and medical appliances and the Rulebook for the contents of the request, documentation and conditions regarding the space, equipment and personnel for obtaining a permit for production of medications in a manner that will make a distinction between the production of medications from the

production of other types of medications.

- irregularities in the national legal framework are perceived that create a confusion and difficulties in the implementation of the applicable legal provisions, hence, with the objective to establish a stable legal system that enables a unique application of the laws, the Foreign Investors Council recommends harmonization of the Macedonian Manual for a good production practice (from item 2.3 to item 2.7) with the Law on medications and medical appliances (Article 68, paragraph 3 and 4) and the Rulebook about the contents of the request for obtaining an approval for producing medications (Article 14, paragraph 1, item 1 and 2).
- harmonization of the Macedonian Manual for good production practice (item 2.3) with the Rulebook about the contents of the request, documentation and conditions related to the room, equipment and personnel for obtaining an approval for production of medications (Article 14, paragraph 1) in a way that a fixed- term employment will be specified, instead of full-time employment.

## 5. LAW ON MINERAL RAW MATERIALS

The great potential for using the natural resources in the Republic of Macedonia contributed to the support and promotion of the exploitation of mineral raw materials to become a constant current topic in the country.

It is obvious that the increase of the interest in this type of activity, hence the Registry for granted concessions for mineral raw materials in which 2016 encompassed 285 concessioners, in the month of October 2018 encompassed a total number of 353 concessioners.

The conditions and modes of performing the exploitation of mineral raw materials, the collection of the concession costs, the supervisions, as well as the penalty provisions are regulated by the Law on mineral raw materials.

The fast dynamics of supporting and promotion of the exploitation of the mineral raw materials is a visible after the changes and the amendments to the existing Law that since its adoption in 2012 has been changed and amended ten times.

Having into consideration that the exploitation of mineral raw materials is a complex process, a monitoring and constant efforts for the promotion and harmonization for the legal regulation corresponding to the real state are necessary.

Currently, the Law on mineral raw materials imposes an obligation (which realistically is incomparable) for the concessioners to inject the surplus of the used minerals of the exploitation pools in primary water supply environments.

The injection of the surplus used mineral raw materials of exploitation pools in primary water supply environments is not applicable/ feasible in the Republic of Macedonia due to the following reasons:

- saturation of the water supply environments;
- incompatibility of the chemical composition of the water coming from different water supply environments.

**The Foreign Investors Council recommends:**

- the change of the existing applicable regulation is necessary with the objective of it to be harmonized with the real situation, improving and simplifying its application for the change of Article 66, Article 1, indent 3 of the Law on mineral raw materials in a way that the obligation imposed on the concessioners to inject the surplus of the used mineral raw materials in the primary water supply environments will be removed.
- this will reduce the risk of high penalties for non-injecting, which is actually a real impossibility of the concessioners to implement the legal request.

## **6. IMPROVEMENT OF THE EFFICIENCY OF THE PUBLIC ADMINISTRATION AND OF THE STATE ORGANS**

For a longer period of time the Republic of Macedonia simplified and accelerated the communication between the citizens and the state administration.

In the past period the establishment of a single electronic system that will connect all state institutions was announced, but this concept has not yet been implemented in the everyday work and the business sector continues to be burdened by costs and wasting time.

Namely, it often happens the state organs belonging to the public administration (the administrative structure that decides upon issues in the same field) to ask for documents that have been issued by a “corresponding” administrative organ (for example the Department for property rights within the Ministry of Economy asks for a formal document issued by the Agency for Real Estate Cadaster) that increases both the costs and the lost time of the business sector.

The dynamics of the everyday work also imposes the need of an upgrade of the electronic system for exchange of information of the Customs Administration of the Republic of Macedonia.

The business sector is constantly burdened by undertaking administrative activities that could be largely reduced if an electronic monitoring of the import and export declarations is introduced.

At the moment, the acquittal of the banking guarantee used for temporary import is performed on the basis of physically submitted customs declarations.

Having into consideration that using the banking guarantees is registered in the electronic system for exchange of information (MKCIS) of the Customs Administration and export declarations contain information that the products that are exported were imported on the basis of a procedure for temporary import, and their electronic monitoring would enable automatic acquittal of the banking guarantees.

### **The Foreign Investors Council recommends:**

- an introduction of the electronic exchange of public registry among the organs of the public administration that act upon the issues in the same field should take place.
- upgrade of the electronic system for the exchange of information within the Customs Administration of the Republic of Macedonia in a manner that will enable automatic acquittal of the banking guarantees for temporary import.

## **7. LAW ON NOTARY PUBLIC AND LAW ON ONE STOP-SHOP SYSTEM AND ON KEEPING A TRADE REGISTRY AND A REGISTRY OF OTHER LEGAL ENTITIES**

**The Macedonian legislation in the past years has a tendency to contract the authorizations of the graduated jurists who passed the bar exam and that are employed as experts by the private sector of the state.**

In 2013 the Law on one stop-shop system and for keeping a trade registry and registry of other legal entities was subject to changes with which a new category of persons who will be authorized to initiate and conduct procedures before the Central Registry of the Republic of Macedonia was foreseen within which the employed graduated jurists were excluded as a category that can conduct this type of administrative procedures.

**Additionally, with the changes to the Law on notaries public of 2016 a limitation of the authorizations of the employed graduated jurists who passed the bar exam was limited that resulted in imposing an obligation to the private sector to hire external associates- attorneys at law.**

By reducing the authorizations and excluding the graduated jurists as a category that could represent the companies in which they are employed without any limitations, as well as to acquire an authorization for a registering agent, the current legal provisions impose huge costs for the private sector because the private entities, apart from having employed graduated jurists, are obliged to hire external associates for the implementation of procedures for which the graduated jurists possess adequate qualified knowledge.

Hiring external associates- attorneys at law – should be a right to free choice of the business sector because the risk of improper legal protection is a burden of the companies.

### **The Foreign Investors Council recommends:**

- adequate changes to the Law on notary public to be introduced in a manner that would enable the employed graduated jurists to again acquire authorizations for which they possess the adequate knowledge and qualifications and will be beneficial for their everyday normal work, without limitations to represent the companies they are employed in.



- to amend the Law on one stop-shop system and on keeping trade registry and registry of other legal entities in the way that in Article 34-a of the Law the existing criteria will be extended and a new item 5 will be added in paragraph 1 according to which the graduated jurists will be able to acquire an authorization for registration agent.

## 8. LAW ON PROTECTION FROM SMOKING

A request with an initiative to change and amend the Law on the protection from smoking. The following change to the Law on the protection from smoking was proposed.

The passport control zone is an international zone that should exclude the obligation imposed by the current Law on the protection from smoking. The domestic legislation, i.e. the Aviation Law, the Law on border control and the Law on customs define this zone as a place where the passengers who are departing cannot go back and that this is a zone where specific rules from the international laws and regulations and from the domestic legislation are being applied. We would like the Government to support this plan and to adopt an act (the above stated zone is not taken into consideration in the current law) in which this part of the airports will not be a subject to the current Law.

Having into consideration the singularity of the operations of the airport operator on one hand, and the comparative analysis of the airports in the region (Vienna, Athens, Ljubljana, Tirana, Pristina and others) on the other, we think that the proposal to make a separate smoking room for the passengers in the controlled zone is well-argued and justified.

This request is also supported by the fact that almost all European airports have a similar smoking room with a special ventilation system. Furthermore, in all public premises with a general smoking prohibition the people can go outside if they feel the need to light a cigarette, but the situation at the airports is totally different. Namely, when the passengers leave the country, they pass the customs, passport and security control and have to stay in hall named sterile zone which they cannot leave due to any reason, and here the question about why this category of passengers have their right to choice infringed justly imposes.

### **The Foreign Investors Council recommends:**

- exclusion of the airports in the Republic of Macedonia from the Law on the protection from smoking. The arguments that the airport operator could deliver in a concrete request also include critical remarks by the passengers, and the stance for finding a legit solution for the airport is justly imposed only by following the examples of the international airports.
- the zone where the smoking room would be placed should be excluded from being a subject to the provisions of this Law due to the fact that the controlled zone does not belong to the territory of the Republic of Macedonia.

## **9. DECISION OF THE MODE AND CONDITIONS UNDER WHICH RESIDENTS CAN PAY AND PAYING IN EFFECTIVE FOREIGN CURRENCIES IN TRANSACTIONS WITH NON-RESIDENTS**

Request with an initiative to amend and change the Decision of the mode and conditions under which the residents can pay and paying in effective foreign currencies in transactions with non-residents, no. 42/16 and no. 48/16 dated February 25 2016 regarding the restriction for paying in effective foreign currencies by non-residents issued by the National Bank of the Republic of Macedonia (NBRM).

The food and beverage services offered by the International Airport Skopje (Airport) in a public zone, i.e. in the zone before the passport control used the publicity, and it is asked from the passengers non-residents to use Macedonian denars when paying these services. Hence, the passengers- non-residents- that do not have an intention to use other food and beverage services should change the foreign currencies into Macedonian denars, which creates additional dissatisfaction between the passengers, particularly for those who are only transiting through the Airport to their final destination.

As you may already be acquainted, an ever increasing number of passengers from the neighbouring countries should arrive at the airport 2-3 hours before taking off, sometimes even earlier since they should travel from their hometown to the airport. These passengers, as well as the people who send the passengers away or welcome them, want to buy food or beverages while waiting the registration of their flights to come. However, they should change money so that they can buy food and beverages due to the restrictions imposed by the Decision. In this sense, we emphasize that these passengers often do not want to change the foreign currencies just to pay for the coffee or for the food and to keep denars that after leaving the airport will be of no use for them. The passengers accompanying them (for sending them away or welcoming them) often cancel the orders just because they cannot buy them, and this causes losses both to "TAV Macedonia" and to the Government of the Republic of Macedonia.

The satisfaction of the passengers with the airport is of utmost importance and obligation of the airport operator, but, however, until now we have received numerous complaints from passengers who were asked to change money just so they can buy a meal. Keeping up with the airport development in our category of under 2 million passengers and the lack of this possibility does not create a good environment so that the airport operator can maintain the position among the top 5 airports.

We believe that the passengers, their companions who send them away or welcome them, the visitors and/or passengers passing through the airport need to be given this benefit, just as the passengers travelling on the roads in Macedonia.

### **The Foreign Investors Council recommends:**

- abolishment of the restrictions for using exclusively the local currency and only at the airports by providing the non-residents with the possibility to buy food and beverages before going to the registration desks.

## 9.4. Work group for human resources

### 1.1 Law on labour relations

#### 1. Vacancies announcement

Pursuant to the Law on labour relations in Article 34 the following is prescribed:

(1) Where the employer recruits employees through a public advertisement, it shall be obliged to list the following in the public advertisement:

- the job title;
- the requirements for carrying out the work;
- the beginning and the end of the daily and the weekly working hours;
- the working hours schedule;
- the monetary amount of the basic net salary or the monetary amount from the lowest to the highest amount of the net salary for the job for which a worker is sought;
- the deadline for submission of applications, which must not be shorter than three working days;
- the deadline within which the selection is to be made; and
- the precise data about the employer (name, headquarters, telephone, contract person, and address for submission of applications).

These changes to the Law on labour relations are introduced with the objective to simplify the application of new candidates, i.e. the application process of the potential employees should be transparent. However, there are some problems that should be removed.

#### **The Foreign Investors Council recommends:**

- The introduction of this element (amount of money) does not facilitate the application process of the candidates for the adequate working positions. It is necessary for this item of Article 34 to be deleted as one of the compulsory elements when announcing a vacancy.
- Vacancies announcement- Article 23, item 8 of the Law on Labour Relations and Article 34, paragraph 1, item 8 (draft Law on Labour Relations).
- To abolish/ further precise the part of the provision, a contact person to be put in the vacancy, as well as “exact data for the employer (name, seat, phone, contact person and address to which the application should be submitted)”- Law on personal data protection- Article 44.
- Vacancies announcement- Article 23, paragraph 3 of the Law on labour relations and paragraph 34, item 2 (draft Law on labour relations).
- The provision “During the duration of the vacancy the employer cannot announce a new vacancy for the same position” should be abolish.
- This paragraph makes the employment process more difficult. In a period when there is an active vacancy announcement for one location that of objective reasons has not been closed, a need emerges in the practice for another vacancy for the same position on another location to be opened.

## 2. Illness and leave

*Pursuant to Article 109 of the Law on Labour Relations- salary compensation:*

(3) The employer pays the salary compensation in cases of inability of the worker to work due to illness or injury up to 30 days and more than 30 days it is covered by the healthcare insurance. In the case of a new illness leave within three days from the termination of the previous illness leave, the employer has the right to ask from the first-degree medical committee to confirm the new illness leave or to continue the previously terminated illness leave.

- Illness leave abuse- abolishment of the so called medical certificates and the obligatory proof will be presented in the ISR form.

Disabled people due to labour - There is not a possibility for reassessment of the health state of the employee after a certain period of time. A new provision should be adopted that will enable that, upon the initiative of the employee, the employee who is under a direct danger to become disabled to be directed to the Committee for the assessment of his/her labour capability due to reassessment of his/her health state after a certain period of time (1 year).

### **The Foreign Investors Council recommends:**

- To specify the mode of proving the illness leave abuse, to increase the transparency of the Chamber of physicians. To enable reassessment of the working capability of the workers in order to avoid abuses. To update Article 112 of the Law on labour relations in the direction of preventing the abuse of illness leaves. To update Article 178 with a provision for reassessment of the working capability of the worker for which it has been determined that there is a direct danger of suffering disability upon the initiative of the employer.

## 3. Organization of the working time/ distribution- Article 37 of the GCBA

*Pursuant to the General Collective Bargaining Agreement- Article 37 the following has been specified:* The cases in which the employee is obliged, upon the request of the employer, to perform overtime work are determined by a collective bargaining agreement at a branch, i.e. department, level.

### **The Foreign Investors Council recommends:**

- A new article to be added that will enable redistribution of the working time upon the request of the worker or the employer, in accordance with the needs of the working process in order to facilitate and more easily organize the working process both for the employee and for the employer; as for example: upon the request of the employee or the employer, the working time longer than 40 hours in the working week can be distributed with a shorter working time in

other working days or with free working days. The distributed working hours are not considered to be overtime work for which salary compensation is paid.

- By adding a new article, free organization and redistribution of the working hours will be enabled in accordance with the nature of the working process applied by each employer individually.

#### 4.4. Redistribution of other work

##### *Obligations of the employee regarding the performance of the work- Article 42*

(1) The employee is obliged to perform the work for the job for which he/she has signed an employment contract consciously, both in time and place, determined for the performance of the work, while at the same time he/she will respect the organization of the work, the business activities and the instructions of the employer.

(2) In cases determined by the law and by the collective bargaining agreement, the employee is obliged to perform other work that has not been foreseen by the employment contract if it corresponds to the degree of his/her professional training.

##### *Pursuant to Article 8 of the General Collective Bargaining Agreement:*

The employee is obliged to perform other work that has not been foreseen by the employment agreement and corresponds to his/her professional background on the basis of a written act by the employer while the reasons for this are still on-going, but not longer than two months, only in cases when:

- an absent employee should be replaced;
- the scope of work is increased;
- the job the employee is assigned to is with decreased scope of work;
- natural disasters happen or a directly threatening to happen and when it is necessary to remove and prevent the consequences in cases of natural disaster;
- there is a necessity to complete an already started process the termination of which, having into consideration the nature of the technology of the work, would cause material losses;
- there is a need to prevent the spoilage of the raw materials and regular materials, i.e. removing the defects of the equipment and the means of work;
- there is a need of performance of urgent and indispensable activities;
- there are other cases determined by the collective bargaining agreement.

##### **The Foreign Investors Council recommends:**

- -The employee is obliged to perform other work that is not foreseen by the employment contract and is within the scope of his/her professional background on the basis of a written document given by the employer while the reasons for this are on-going, but not longer than one year only when it comes to the

replacement of an absent worker who has a longer illness leave. In all the cases when the employee performs other work not foreseen by the employment contract, has the right of an equal salary that he/she received at his/her job, i.e. a salary that is more suitable to him/her.

The legal norm should remain the same when it comes to the time frame.

## 5. Consensual cancellation of the employment contract

*Pursuant to Article 71 of the Law on labour relations- consensual cancellation of the employment contract the following has been specified:*

(1) The parties may cancel the employment contact at any time by a written agreement which must contain a provision about the consequences for the employee arising from the consensual cancellation in exercising the rights of insurance against unemployment.

(2) The agreement referred to in paragraph (1) of this Article shall be signed on the day of termination of the employment and it should contain a handwritten name and surname of the employee and of the employer, a handwritten date of termination of the employment by the employee and of the employer, and a handwritten signature of the employee and of the employer.

(3) If the agreement for termination of the employment contract is concluded contrary to paragraphs (1) and (2) of this Article, it shall be null and void.

### The Foreign Investors Council recommends:

- -It should be further specified that the employer can offer the employee a consensual termination of the employment. It should be allowed the Consensual agreement as an accord between the two parties to be implemented (signed/ authenticated) before the employment is terminated. Pursuant to Article 69, in this moment, the consensual agreement must be signed on the day of the termination of the labor relation.

## 6. Night work

According to the Law on labor relations night work is considered to be the work at night, or more precisely in the period between 10:00 p.m. and 6:00 a.m. the following day. The employer who engages employees for night work on a regular basis shall be obliged to notify the labor inspection thereof. From the point of view of protection at work, the night work is a difficult and unfavorable working condition and therefore it is a specific working condition and as such should be determined in the employment contract.

### Special protection

The night work appears as a prerequisite for determining the right to special protection for certain categories of workers in the course of the work, first and foremost female workers, elderly and workers under the age of 18.

- A female worker working in industry and construction cannot be given a night work if the work in that period would not provide a rest of at least seven hours in the period between 22:00 p.m. and 5:00 a.m. the following day. This does not refer to a female worker who has a special authorization and responsibilities or who performs work regarding health, social and other protection of workers.

- A worker who has not yet turned 18 years of age must not work at night between 10:00 p.m. and 6:00 a.m. the following day. Upon an exception, it can be determined for the worker who has not yet turned 18 years of age to work at night in the case of force majeure, when this work lasts for a certain period of time and must be immediately performed and the workers of age are not disposable.

- The employer cannot give overtime or night work to an elderly worker (57 years of age for women and 59 years of age for men) without prior consent of the worker.

#### **The Foreign Investors Council recommends:**

- The prohibition of night work for women should be removed from this provision of the law because it is discriminatory.

### **7. Notification for candidates that have not been selected for the vacancy**

*Pursuant to Article 39 of the Labor on labor relations Rights of unselected candidates the following has been defined:*

The employer, within a period of five working days as of the day of conclusion of the employment contract, must notify the candidate who has not been selected, in writing, of the fact that he has not been selected and which candidate has been selected and to return to him all the documents he has submitted as a proof for fulfillment of the requirements for carrying out the work.

#### **The Foreign Investors Council recommends:**

- The provision prescribing that the unselected candidates should be informed about the name of the selected candidate should be abolished- the provision is contrary to the Law on the personal data protection.

### **8. Employment contract with business persons (managerial contract)- Article 54 and Exercising the rights and obligations under employment of the management body (manager)- Article 55**

*Regulating the relations between the company and the members of the managing organ:*

When defining this issue the law-maker determines two types of managerial contract.

- the first contract regulates the relations between the company and the executive member of the board of directors, member of the managing board, i.e. the manager (the relations with the so called higher management level are being regulated) and

- the second contract regulates the relations with the managing person (the relations

with lower level managers are being regulated).

These contracts do not substitute the employment contract based on the labour relation.

The managerial contract further specifies the role of the manager and the mutual rights, authorizations, obligations and responsibility on a contractual basis.

In the Company law, a prohibition of the executive member of the board of directors and a member of the managing board to conclude an employment contract is stipulated.

#### **The Foreign Investors Council recommends:**

- The two above stated articles are not applicable in practice.
- The judicial practice has not had any experience with verdicts based on these two articles.
- The Company Law is a basic law that regulates the relations between the company and the managing organs.
- These agreements are not substitutes of the employment contract based on the working relations.
- With the managerial contract the role of manager and the mutual rights, authorizations, obligations and responsibilities are specified on a contractual basis.
- In the Company law, a prohibition of the executive member of the board of directors and a member of the managing board to conclude an employment contract is stipulated.
- Articles 54 and 55 of the Law on labour relations should be deleted or further specified with a norm that refers to the Company Law.

### **9. Supplementary work – Article 121 of the Law on labour relations**

(1) The worker who works full time can, upon exception, conclude a part-time employment contract with another employer for a maximum ten hours per week, with a prior consent of the employers where the worker has a full time employment.

#### **The Foreign Investors Council recommends:**

- -If the law allows the worker to work 10 hours per week with another employer, then why cannot he/she work (put his effort) with us? Additionally, the possibility for additional transportation costs is excluded.



## 10. Acquiring the annual leave right, Article 138

### The Foreign Investors Council recommends:

- The previous provision of Article 139 “The employee who establishes a labor relation for the first time shall acquire the right to a full annual leave after an uninterrupted period of service of at least six months at the same employer, regardless of whether the employee works full time or short time” should be preserved.

The period of 8 days is too long.

## 11. Absence from work due to execution of offices or obligations under special laws- Article 149, paragraph 2

### The Foreign Investors Council recommends:

- -The day when the employee gives blood should be one of the two consecutive days of absence from work. To think about whether paragraph 2 and paragraph 3 should remain a part of this Article or they should be transferred.
- The right comes as a response to the need of rehabilitation of the organism after giving blood. If an employee gives blood in the morning and is at work the whole remainder of the day, this right loses its sense.

## II. Law on pension and disability insurance

## 12. Lists of years of service- information about all the salaries of the employee

### The Foreign Investors Council recommends:

- The Pension and Disability Fund of Macedonia should introduce a service with which, via its web-page, gives access to the insured persons to their data registered in the official records, on the basis of personal request, a direct insight in the data about the years of service of the insurance and the salaries can be made so that there will be no need for the employers to issue and deliver lists of years of service to the employees. Furthermore, with the lists of years of service being given to direct insight an infringement in the privacy of the workers is being made, while the employers are burdened with obligations which are not part of their scope of activities and responsibilities.
- It is necessary for the insight of the list of years of service to be an obligation and a right to every insured person who via this new service of the Fund will have the possibility of having an electronic access to his/her list of years of service.
- Deliverance of the lists of years of service- 2 times in the year for the employees. It should be with validity of one year or to only be given to employees who do not have an electronic access.

### 13. Connection between the institutions

#### The Foreign Investors Council recommends:

- PIDM, enforcement agents, EAM- software: EAM asks for a PPR form in the case of transformation of the working relation apart from the possibility to submission without an announcement, the submission of the declaration is an unnecessary administrative work, PRO – when approving the salary the software allows only 48 unrealized hours in the month can be declared, and in accordance with the Law on labour relations there may be more (5 in the course of the year).
- Facilitation of the project for registering and deregistering workers and harmonization of the system of PRO with the Law on labour relations are necessary.
- E-HR to be introduced in the Law on labor relations as well.

### III. Regulation for the payment of travel costs and daily allowances for business trips

#### 14. Daily allowance for business trips

The daily allowance for a business trip is calculated from the time when the employee embarked on the business trip until the time of return with the means of transport used and that is conducted in the following manner:

- One daily allowance for each 24 hours spent on a business trip, or if the trip is with a duration longer than 12 hours
- Half daily allowance for 8 to 12 hours spent on the business trip
- No daily allowance if the employee spent less than 8 hours on a business trip. If the employee spends part of the working time on the working place, and the other part of the same working day is spent on a business trip that lasted less than 8 hours, the hours spent on a business trip after the end of the full working time are regarded as overtime work.

#### The Foreign Investors Council recommends:

- These provisions are not applicable for certain positions.
- This issue should be regulated in the employment contracts- depending on the nature of the regular working tasks that should be performed by the employee (commercialist on the field) to whom special provisions would apply, beyond those applicable in accordance with the Regulations for costs for business trips and for moving abroad.
- The conditions under which the employee would have a right to compensations for business trips in the Republic of Macedonia should be specified- only when the trip is not part of the regular working tasks of the employee.

#### IV. Subject to review- The Law on health insurance

##### 15. Requests for payment on the basis of absence

###### RIGHT TO FINANCIAL COMPENSATIONS

###### A) COMPENSETION TO THE SALARY

The insured person has the right to compensation to a salary in times of temporary disability to work due to illness or injury, as well as in times of absence from work due to pregnancy, giving birth and maternity under the condition if it concerns an insured person with permanent employment- employed person (insured persons from Article 5 paragraph 1 items 1,2 and 3 of the Law on health care insurance).

The insured persons can have a right to compensation to salary if certain conditions for exercising the right to compensation to salary are met in accordance with the legal regulations.

The right to compensation to a salary is covered by the Fund and is exercised on the basis of a submitted request for temporary disability to work due to illness and injury, i.e. a request for temporary disability to work due to pregnancy and giving birth.

Several documents are attached to the request (form no. 2 for the compensation to salary- illness/injury/care) for the compensation to salary due to illness and injury.

###### B) Payment of the compensation to the salary

The compensation to the salary for the first 21 days of disability to work is determined and paid by the employer by his/her own means.

The compensation to the salary for over 21 days is covered by the means of the compulsory health insurance and is determined and paid by the Health Insurance Fund.

From the first day of the disability to work, the compensation to the salary is paid by the means of the Fund if it concerns care for an ill child not older than three years, giving blood, tissue or organ on a voluntary basis and in the case of absence from work due to pregnancy, giving birth and maternity.

###### C) Amount of the compensation to the salary

The compensation to the salary in time of temporary disability to work due to injury at work and professional illness, during giving tissue, blood or organ, as well as during the absence of work due to pregnancy, giving birth and maternity is 100% of the basis of the compensation to the salary.

In all other cases the compensation to the salary covered by the Fund is 85% of the determined basic sum.

#### **The Foreign Investors Council recommends:**

- Submission of payment requests on the basis of absence covered by the Health Insurance Fund.
- Facilitation of the whole process without the obligation to go to the Health Insurance Fund.
- Possibility for each insured person to submit his/her requests electronically.

## V. General Collective Bargaining Agreement

**16. Pursuant to Article 25 of the General Collective Bargaining Agreement the following is defined:** The basis salary of the employee increases by 0.5% for each year of service.

### **The Foreign Investors Council recommends:**

- It is necessary for Article 25 to be further specified in the following manner:

**Basis of the salary** is increased to 0,5% for each year of service.

- Due to misunderstanding and misinterpretation of the term “basic salary” we think that with the re-formulation of the provision in the “basis of the salary” misunderstandings in the interpretation and in the application of this provision will be avoided.

**In Article 45- Stagnation of the rights and obligations originating from the employment contract the following is foreseen:**

In paragraph (1) of this Article, the law- maker exhaustively foresees in which cases the rights and obligations originating from the employment contract stagnate with a remark that the contract remains to be valid.

In paragraph (2) the law-maker foresees that during the stagnation of the employment contract, all rights and obligations originating from the labour relation are stagnating.

In paragraph (3) the law-maker determines a deadline of 5 days from the day of the termination of the reason for stagnation within which the employee has the right and obligation to return to work.

### **The Foreign Investors Council recommends:**

- The deadline stipulated in paragraph (3) should be changed to 5 working days. We think that the foreseen deadline of 5 days is too short to conduct the procedure because it happens in practice in the course of the deadline work-free days to take place. On the other hand, in international companies where the authorized signatories are foreign citizens, difficulties emerge regarding the signing of the necessary documentation in the above stated deadline.

**In Article 104- Termination of the employment contract due to the age of the employee the following is foreseen:**

In paragraph (1) of this Article the law-maker foresees that when the employee turns 64 years of age and 15 years of years of service, the employment contract ceases to be valid.

In paragraph (2) the law-maker foresees a possibility for the employee to ask from the employer to extend the employment contract until the employee turns 67 years of age.

In paragraph (3) the law-maker determines the deadline within which the employee should give a declaration.

In paragraph (4) an obligation is foreseen for the employer to extend the employment contract until the employee reaches a maximum age of 67.

For an employment contract to be concluded there must be a will of the both sides, in paragraphs (2), (3) and (4) upon meeting the conditions for the termination of the employment contract due to the age of the worker, the employment contract is extended on the basis of a declaration of will given only by one party (the employee) without taking into consideration the needs of the employer.

**The Foreign Investors Council recommends:**

- -Due to a consistency in the title the term “employment contract” should be replaced by “contract for employment”.
- Paragraph (2), paragraph (3) and paragraph (4) of the Law on labour relations should be deleted or the provisions to be re-formulated in dispositive norms by introducing criteria in order to avoid the possibility for discrimination.

**Law on labour relations** (“Official Gazette of the Republic of Macedonia” no. 167/2015)

21. In Article 124-a- Work in shifts, the following is foreseen:

(1) The employer can also organize the work in shifts.

(2) Work in shifts shall mean any method of organizing the work in shifts according to which the employees shift one after another at the same job in accordance with a certain plan and which can also be continuous or with interruptions, including the need of the employees to work in different time for a given period of days or weeks.

(3) The plan referred to in paragraph (2) of this Article shall be submitted to the trade union at the employer at least ten working days before application of the plan.

The definition for work in shifts in paragraph (2) has already been given in Article 5 item 10) of the Law.

**The Foreign Investors Council recommends:**

- Paragraph (2) of Article 124-a of the Law on labour relations should be deleted (unnecessary legal tautology).

**Law on labour relations** (“Official Gazette of the Republic of Macedonia”, no. 167/2015).

22. In Article 18 paragraph (1) and paragraph (6) – Ability to conclude an employment contract with a person younger than 18 years of age the following is foreseen:

(1) A person under the age of 18 and in a good state of health can conclude an employment contract.

(6) Any person who can conclude an employment contract for carrying out activities that are not harmful to his health and safety, and is at least 15 years of age, but under 18 years

of age, and is not included in the compulsory education, shall be considered as young person.

Pursuant to Article 3 paragraph (1) of the Law on secondary education:

“The secondary education is obligatory for every citizen under equal conditions determined by this law”.

**The Foreign Investors Council recommends:**

- Article 18, paragraph (6) of the Law on labour relations should be further specified, i.e. it should be harmonized with Article 3 paragraph (1) of the Law on secondary education.

**23. In Article 5 item 13) and item 14) – Definitions, the following is foreseen:**

13. “Enterprise” means a public enterprise, undertaking or a sole proprietor that performs commercial activity regardless whether it is for profit or not, located on the territory of the member states.

14. “Institution” is a business unit defined in accordance with the law, located on the territory of one member state where the economic activity is implemented on a current basis with human and material resources.

Item 13) and item 14) are not sufficiently clear and should be further specified.

**The Foreign Investors Council recommends:**

- To further specify the above stated items because in our country we also have “Enterprise” and “Institutions”.

**9.5. Working group for occupational health and safety and the protection of the environment**

**Pursuant to Article 2 of the Law on occupational health and safety:**

The provisions of this law are not applied in the certain sectors if this matter is regulated by a specific regulation (armed forces, police, Customs Administration, some specific activities of the forces for protection and rescue), but, on the contrary, the provisions referring to occupational health and safety of the employees in these sectors should be guaranteed as much as possible, according to the objectives of this law.

**The Foreign Investors Council recommends:**

- The Customs Administration should be excluded because it is contrary to the Directive.

### **Pursuant to Article 3 of the Law on occupational health and safety:**

The notions used in this law have the following meaning:

- “Employer” is a natural person or a legal entity responsible for the work and for the employees that offers the services of the employee pursuant to an employment contract, a natural person or a legal entity that uses the services of an employee on some other legal basis, farmer or a natural person that, individually or with another member of the household or the family, performs agricultural or other activity, as his/her sole or main profession and who does not employ other people;

#### **The Foreign Investors Council recommends:**

- To define the responsible person with the employer. With us there is an opinion that the employer is the manager, director, etc. and not the company, so it is necessary to further specify that the responsible person is the director, manager, a hired natural person, etc.

- “A workplace” is each place dedicated to the performance of the work located in the premises of the employer or in some temporary or movable working location to which the employee has an access during his/her work and which is under direct or indirect control of the employer.

#### **The Foreign Investors Council recommends:**

- In the definition for a workplace the work from home should be further defined. This should also lead to a detailed review from the point of view that working home is a striving trend and should meet the conditions for the work from home.

- “Means of work” are working and auxiliary premises, working equipment, personal protection equipment, substances and preparations and any other means that is used in the working process or is in any other way related to it.

#### **The Foreign Investors Council recommends:**

The notions means of work and working equipment should be further defined.

- A “Safety statement” is a document that describes the characteristics of the working process and contains an identification of the dangers and an estimation of the risk for the occupational health and safety and prescribes befitting protection measures.

#### **The Foreign Investors Council recommends::**

- The definition for safety statements should be changed. The risk assessment for us is an integral part of the safety statement, which should be converse, i.e. the statement should be founded on the basis of the risk assessment. The framework directive does not make a distinction between a safety statement and risk assessment, i.e. it only includes the notion risk assessment.
- Regarding the safety statement and its validity in the application of the working

conditions, the estimations should be done according to the means and process of work. If the changes influence the change of the risk, in that case there shall be no change in the assessment.

“Official person responsible for occupational health and safety” is a safety officer employed with the employer appointed by the employer for performing professional tasks related to safety at work (hereinafter in the text referred to as: safety officer).

**The Foreign Investors Council recommends:**

- A distinction to be made between the notions safety officer with passed professional exam and skilled person.
- In the integral text of the Law the notion “safety officer” for safety at work is used.

Article 3 to be further defined and the following notions to be included:

**The Foreign Investors Council recommends:**

- The notion **investor** should be defined, especially when it comes to the responsibility of performing construction works where usually a lot of employers work.
- An **injury at work** should be defined, as well as collective accident.

The notions are mentioned in Article 36 of the Law and a harmonized definition does not exist. The provision of information to the authorized institutions is done with a Notification form for an accident at work, while the statement is made by filling the form ET-8 Declaring an accident at work in the content of which is rather obsolete having into consideration the current and modern living, while the other documentation is not regulated by a single bylaw.

**Pursuant to Article 4 of the Law on occupational health and safety:**

The Government of the Republic of Macedonia adopts an Occupational Health and Safety Programme (hereinafter in the text: the Programme).

The strategy for the development of the occupational health and safety regarding the protection of the life, health and the ability to work of the employees and prevention of injuries at work and professional or other work-related illnesses are determined by the Programme.

**The Foreign Investors Council recommends:**

- The Government of the Republic of the Republic of Macedonia adopts an Occupational Health and Safety Programme. Upon the proposal of the National Occupational Health and Safety Council, the Programme adopted by the Government should go through a certain procedure and checks and in the process of its preparation and harmonization all stockholders working in this field under the auspices of the National Occupational Health and Safety Council (professional associations, EO, UTUM, labour medicine physicians, chambers of commerce, SLI, MLSP) should be involved.



## I. GENERAL OBLIGATIONS OF THE EMPLOYER

### Pursuant to Article 6 of the Law on occupational health and safety:

(1) The employer may delegate the obligations and activities related to safety and health at work laid down by this Law to authorized legal entities or natural persons if the employer is not in a position or if there are neither professionals nor technical equipment to perform such activities and obligations independently.

#### The Foreign Investors Council recommends:

- Natural person to be deleted. Remark: in the whole text of the Law on occupational health and safety a natural person can pass the test for OHS, but as a single person it is not possible to meet the legal and bylaw requests.
- A natural person cannot perform activities in the field of occupational health and safety pursuant to the legal regulation and the bylaws (assessment, safety statement, trainings, etc.).

(4) Engaging competent external authorized legal entities or natural persons for carrying out expert works in relation to safety and health at work shall not release the employer from its obligations in this field.

#### The Foreign Investors Council recommends:

- To emphasize that the external professional companies are held responsible for the work- otherwise why external companies would be engaged if they do not have any responsibility.

### Pursuant to Article 7 of the Law on occupational health and safety:

The authorized legal entities and natural persons engaged by the employer must cooperate among themselves, as well as with the safety officers regarding all issues related to preventive safety and health at work.

#### The Foreign Investors Council recommends:

- Natural persons: identical to Article 6.

### Pursuant to Article 11 of the Law on occupational health and safety:

(1) Any employer must prepare and implement a safety statement for each workplace, by specifying the manner, as well as the measures, that need to be taken.

#### The Foreign Investors Council recommends:

- The fact that the employer should make a new safety statement should be changed into the obligation for the employer to harmonize the assessment according to the changes that took place.

(5) The safety statement for the workplace shall be prepared in Macedonian language and its Cyrillic alphabet and in any other language which is an official language on the territory of the municipality.

**The Foreign Investors Council recommends:**

- - The safety statement should be replaced by risk assessment.

**Pursuant to Article 12 of the Law on occupational health and safety:**

(1) The employer shall organize the safety and health at work according to the technological process, by applying scientific and expert methods and in compliance with the modern achievements, and the expert works related to the safety shall be performed by an employee with vocational training in safety at work or any other vocational training adequate to the technological process of the employer, or the employer shall use external services provided by authorized legal entities or natural persons.

**The Foreign Investors Council recommends:**

- The second part of this paragraph referring to the performance of the professional activities to be deleted because that is defined in Article 18, paragraph 1.

**Pursuant to Article 14 of the Law on occupational health and safety:**

(1) The employer must ensure that the access to the workplaces exposed to specific and serious danger is only allowed to those employees who have been given special instructions for work at such workplaces.

**The Foreign Investors Council recommends:**

- To add properly trained and capable when it comes to health.
- - If an employer works at a certain place and should complete a specific danger that is not usual, then the employer should be trained for the danger he/she faces and that he/she is capable in terms of health, and not only an instruction to be given to his/her.

**Pursuant to Article 15 of the Law on occupational health and safety and the Rulebook for minimum requirements for occupational health and safety of temporary and mobile construction sites Article 4, paragraph 1:**

On the locations where two or more employers work at the same time, they have to agree in written about the common safety and prevention measures that should be undertaken and to appoint a safety officer to implement the occupational safety measures.

**The Foreign Investors Council recommends:**

- The Law should be amended by adding a definition on mobile or temporary construction site (further explanation of Article 15 and changes to the Rulebook on minimum requests for OHS of temporary and mobile construction sites-

passing exams for coordinators, further specification of the lists encompassing construction works, the mode of the preparation of the OHS Plan, etc.).

- Whether it refers to different notions and to different people appointed on the mobile construction sites where two or more employers at the same time... (to be further specified).

### **Pursuant to Article 17 of the Law on occupational health and safety:**

The employer must take measures for safety and health at work especially by:

- monitoring the health condition of the employees.

### **The Foreign Investors Council recommends:**

- This obligation of the employee should be reformulated, since the monitoring of the health condition of the employees is an obligation of the health care institution and the employer is obliged to refer the employees to a medical examination in that health care institution.
- The stance that the employer must provide occupational health and safety measures by monitoring the health condition of the employees to be further specified since it collides with the Law on personal data protection, Law on privacy protection and Law on labour relations.

### **Requirements for taking a professional examination for safety at work:**

#### **The Foreign Investors Council recommends:**

- The last paragraph should be removed- it does not correspond to the measures that the employer should provide.
- In a separate Article it should be put that for passing the professional test specific conditions apply (to be put in a separate rulebook).

### **Pursuant to Article 17 of the Law on occupational health and safety:**

Professional examination may be taken by a person that meets the following requirements

- to be a citizen of the Republic of Macedonia;
- to have permanent residence in the Republic of Macedonia,
- to hold a university degree in the field of safety at work, technical sciences or a degree from another department that corresponds to the activity of the employer (a degree for a completed four-year higher education or a 300 credits degree under the European Credit Transfer System (ECTS),
- not to be issued an effective injunction banning him/her from exercising a profession, business or office for the period of duration of the consequences under the injunction, and

- to have at least five years of work experience upon graduation, in the corresponding field for which the request for taking the professional examination is filed.

Pursuant to Article 17z of the Law on occupational health and safety:

The Ministry of Labour and Social Policy establishes the Registry of safety officers within 30 days from the day when this law entered into force.

**The Foreign Investors Council recommends:**

- The above stated Articles 17-a и 17-z to be removed from the Law.
- A new Article to be added in which it will be stated that the conditions and the mode of taking the professional OHS exam will be determined by the competent ministry within 3 months after the change or the Law enters into force.
- The whole procedure and conditions for taking the professional exam should be regulated in a bylaw.

**Pursuant to Article 18 of the Law on occupational health and safety:**

(2) The employer shall determine the number, type and degree of the vocational education in accordance with Article 46 paragraph (2) of this Law, as well as:

- organization;
- the nature and the scope of the working process;
- the number of employees involved in the working process;
- the number of the work shifts, and
- the number of specific working units.

**The Foreign Investors Council recommends:**

- The explanation of Article 46, paragraph 2 of this law to be reformulated since it is not correlated with Article 18, paragraph 2.
- The profile of the professional in charge for occupational health and safety should be redefined (degree and type of previous education, previous practical experience in the field).

(3) In the course of performing expert tasks related to safety at work, the safety officers shall be directly accountable to the employer.

**The Foreign Investors Council recommends:**

- The employer can also be a legal entity that appoints a manager who is not always owner of the legal entity. Therefore, in practice, there is not a fast communication and addressing of the real problems in OHS and timely adoption of decision and adequate solutions. Therefore, the proposal is for the employer to be replaced by manager.

- The safety officer reports directly to the responsible person appointed by the employer instead of reporting to the employer. According to the Law the safety officer now reports to the legal entity, i.e. the company he/she works in, and not to the person that leads the company. If, according to the penalty provisions there is a penalty for the responsible person appointed by the employer, it is logical for his/her closer collaborator to be the safety officer for OHS so that such repercussions do not emerge in the area of OHS.

*\*Remark:*

#### **The Foreign Investors Council recommends:**

- A new paragraph 6 to be added where the safety officer will be obliged to undertake a continuous education.

#### **Pursuant to Article 18 of the Law on occupational health and safety:**

(1) The employer must appoint one or more safety officers for carrying out the activities in the field of safety at work.

- organization;
- the nature and the scope of the working process;
- the number of employees involved in the working process;
- the number of the work shifts, and
- the number of specific working units.

#### **The Foreign Investors Council recommends:**

- Regarding the sum up of the points by the safety officers, it should be explained what happens if the points are not collected, whether the safety officer loses the license, what is the procedure for renewing the license, etc. The best solution would be for a rulebook on trainings to be made and this issue to be explained in it.
- The licensed companies should be categorized by areas, so that they get the corresponding license.

*\* Additional remarks for Article 18:*

#### **The Foreign Investors Council recommends:**

- The explanation for professional upgrade of safety officers and conditions that the organizer of the professional training of the safety officers should meet stated in Articles from 18-a to 18-d should be exempted from the Law on occupational health and safety and should be regulated by a separate bylaw.
- The relation of Article 18 to Articles 18-a, 18-b, 18-c and 18-g is completely illogical (there is not a logical order). Furthermore, there is not a logical order in Articles 18-a, 18-b, 18- c and 18-d. This Article should be separated in a

specific rulebook for the mode of professional upgrade of safety officers who have passed the professional exam and the mode in which these trainings are conducted, as well as the conditions that the organizers of the trainings should meet.

- Compulsory minimal periods when the professional exam for OHS professionals is to be taken should be determined and to abolish the compulsory hours the training that the person has to have in the course of the year because in this way only the interest of individual associations and organizations is protected, and account is not being taken about the costs of the employers. Compulsory trainings for the employees in the SLI who work in this field should be foreseen.
- The notion safety officer who has not passed the professional exam should be removed. The tasks that a safety officer who has passed the exam can perform should be defined.
- Article 18 demands that the employer should appoint one or several safety officers to perform work related to OHS and the number will be determined in accordance with Article 46, paragraph 2 (which states that the competent ministry determines the conditions of the legal entity or natural person when it comes to the performance of professional works).
- Furthermore, the companies should be obliged to obligatorily have an employee with a passed safety exam and the number of such persons will depend on the number of employees, while the small companies should have the possibility to hire an external company.
- The safety officer for OHS employed in the company has the right to conduct the trainings to the employees, without the need for this person to acquire an additional license/ authorization for the same work.

### **Pursuant to Article 19 of the Law on occupational health and safety:**

(1) The primary obligations of the safety officer shall be:

- advising the employer regarding the planning, selection, purchase and maintenance of the means of work;
- advising the employer on the fitting-out of the workplace and the working environment;
- preparing expert basis for the safety statement;
- carrying out regular and control checks of the chemical, physical and biological risks in the working environment;
- carrying out regular and control checks and tests of the working equipment;
- carrying out internal supervision over the implementation of the measures for safe performance of the work;
- preparing instructions for safe performance of the work;
- monitoring and analysing the work-related injuries, occupational diseases, identification of their reasons, and drawing up reports for the employer, together with all proposed protective measures, and

- preparing a program and carrying out employees' training for safe performance of the work.

(2) The safety officer may perform the tasks referred to in paragraph (1) lines 3, 4, 5 and 9 of this Article if he/she meets the requirements referred to in Article 46 of this Law.

### **The Foreign Investors Council recommends:**

- Article 19 states the primary obligations of the safety officer where it makes a distinction between the activities he/she can perform with or without having passed the professional exam. On the other hand, Article 2 states that certain tasks can be performed if the conditions stated in Article 46 of this law are met, i.e. he/she is authorized. The obligations are confusing and not clearly specified.
- To be defined which working tasks can be performed by the safety officer with passed professional exam without the employer being obliged to hire an external company or to obtain additional authorizations as a legal entity. If the employer is to obtain authorizations for certain working tasks related to OHS and he/she employed a safety officer who has passed the professional exam where in Article 19, paragraph 1 it is stated which tasks he/she can perform; there is no logic for additional authorizations to be obtained, which would cause additional costs.
- The notion safety officer and safety officer with passed professional exam should be further explained and the Article 19 (Obligations of the safety officer) should be applied accordingly. In Article 19, item 2, the obligations of the safety person with passed professional exam are separated, but nevertheless it should be more clearly elaborated.

### **Pursuant to Article 22 of the Law on occupational health and safety:**

(1) The employer must provide health check-ups for the employees at least every 24 months.

(2) The type, manner, range and price list of the health check-ups, upon a proposal of the minister responsible for the activities in the field of labour, upon a previous opinion of the minister responsible for activities in the field of health, shall be regulated by the Government of the Republic of Macedonia.

(3) The amount of the costs for the health check-ups, which are determined by a price list, shall be established on the basis of the type, manner and range of the health check-ups.

(4) The authorized health institution shall be obliged to do the health check-ups in accordance with the type, manner, scope and price list of the bylaw referred to in paragraph (2) of this Article.

(5) The authorized health institution shall be obliged to do the health check-ups in accordance with the standard minimum which is obligatory for all systematic, previous,

specific, and periodic check-ups, which consist of:

- anamnestic data (on-going anamnesis, main problems, current disease, family anamnesis, personal anamnesis, and socioepidemiological data),
- status according to systems and anthropometry (body mass, body height, and body mass index),
- basic laboratory analyses, that is, sedimentation, blood test (erythrocytes, haemoglobin, haematocrit, leukocytes, glicemy, cholesterol, triglycerides), urine, glucose, proteins, bilirubin, urobilinogen, sediment,
- audiometry;
- spirometry;
- ECG (12) leads, and
- lungs radiophotography - at discretion of a doctor.

**The Foreign Investors Council recommends:**

- The health care institutions should bear responsibility for the quality of the reports made based on the health check-ups.

(6) Regarding the employees who have access and use official firearms, in addition to the standard minimum of the systematic check-up referred to in paragraph (5) of this Article, the check-up shall also contain a psychiatric and psychological examination, and shall mandatory end with a finding whether the person is capable to carry out the duties of the job regarding carrying, access and use of official firearms.

(7) Depending on the job risk assessment and the characteristics of the determined professional harmfulness and dangers, along with the standard minimum, additional check-ups under the bylaw referred to in paragraph (2) of this Article shall be done.

**The Foreign Investors Council recommends:**

- To be redefined since only Article 2 and Article 4 have crucial meaning. This Article is completely different with the basic principles on which the framework directive for the types of health check-ups is based and the experiences from the EU member states and the surrounding countries should be applied. For us the irresponsible behaviour of the employees towards their health condition, i.e. the employees not to control their health pursuant to the Law on healthcare protection and to wait 24 months for check- up is unacceptable. Pursuant to the framework directive and the directives originating from it, the employer sends the employees exposed to greater risks to a check-up and not all employees, particularly having in mind that in our countries the employee assures health insurance for each employee. In this Article the type of the check-up is written which is not a serious consideration and it should be regulated by a bylaw, and not by a law. What would happen if the Rulebook for risk assessment or the



mode of measurements is included in the Law?

- The importance/significance of the certificates issued for the preventive health check-ups that have been performed each 24 months should be harmonized with the certificates for the health condition that are submitted when a person is employed. In this moment the former check-ups cost 800,00 and have a validity of 24 months, while the latter cost 1500-1600,00 denars and SLI acknowledges their validity from 3 to 6 months (depending on the individual interpretation of the inspector). The Regulation should be harmonized.
- The double submission of the same documents needed for employment pursuant to the Law on occupational health and safety (for example, health certificates for guardians- security, health certificate for drivers- examination of the sight(near-sightedness and farsightedness)).

### **Pursuant to Article 23 of the Law on occupational health and safety:**

(1) The employer shall be obliged to inform the state administrative body responsible for the activities in the field of labour inspection for the beginning of the performance of the activity eight days prior to its beginning.

### **The Foreign Investors Council recommends:**

- Instead of employer the term investor should be put. According to this, each employer that performs any type of construction work not defined by the Law should be declared as a notion. This is unacceptable, especially for small companies that can remain on the construction site only 2 hours. If the investor does not declare the construction site, then the authorities know where it is located. Let us not forget the directive referring to the construction sites that defines exactly how the declaration should be performed and how the construction site should be organized and who is held responsible for the work.

(2)The constructor of construction facilities shall be obliged, prior to the commencement of the construction works, in writing, to inform the state administrative body responsible for the activities in the field of labour inspection about the place where the works are to be performed.

### **The Foreign Investors Council recommends:**

- The obligation of the employer about the cases in which the notice to the SLI should be submitted should be further specified. If once registered and submitted registration of the company seated on a certain address, if afterwards a series of objects are opened by the company it turns out that the company has to deliver information for starting an activity when this information has already been delivered, and the activity has not been stopped nor the company has gone bankrupt.

\* Maybe this obligation should be given to the Central Registry that will submit the documents to certain state organs, i.e. for each activity the company is registered and on which location.

### III. OTHER OBLIGATIONS OF THE EMPLOYER

#### 1. Protection against fire, evacuation and rescue

##### **Pursuant to Article 24 of the Law on occupational health and safety:**

(7) The employer shall have to conclude agreements with other legal entities specialized in rendering services, especially in relation to provision of first aid, urgent medical help, and activities for evacuation and rescue, and fire protection.

##### **The Foreign Investors Council recommends:**

- Harmonization of the provisions of the Law on occupational health and safety with the provisions of the Law on protection and rescue, particularly regarding the obligations originating from Article 24 of the Law on occupational health and safety and are referring to the protection from fire, evacuation and rescue, a matter that is more crucially regulated by the second regulation and the bylaws and is under the competence of the Directive on protection and rescue. The main activity of the legal entities specialized in providing services, particularly regarding providing first aid, urgent medical assistance, activities for the evacuation and rescue and firefighting protection is giving urgent medical assistance or firefighting protection.
- This stance for concluding contracts with other legal entities specialized in giving services should be reformulated, especially when it comes to giving first aid, urgent medical assistance, evacuation and rescue activities and firefighting protection. The main activity of these institutions and giving urgent medical assistance or firefighting protection.

\* Remark on Article 24:

##### **The Foreign Investors Council recommends:**

- The obligations of this Article should be harmonized with the obligations prescribed by the Law on protection and rescue and the Law on firefighting. In certain stances there is an overlap with the legal acts that are monitored by the Directorate for the protection and rescue and the Technical Inspectorate.

#### 3. Employees' representative for safety and health at work

##### **Pursuant to Article 28 of the Law on occupational health and safety:**

(1) The representative shall be elected by the employees from among themselves, at the assembly of the majority trade union or employees' assembly.

(2) The representative referred to in paragraph 1 of this Article shall enjoy the special protection under the employment as the representative of the trade union employed by the employer, in accordance with the law and the collective agreement.

##### **The Foreign Investors Council recommends:**

- The selection, appointing and the activities of the representatives should be further specified. In the companies where there is not a trade union organization, the question is asked about who is to choose and appoint the representatives of the employees responsible for OHS.

#### 4. Training of companies

##### **Pursuant to Article 31 of the Law on occupational health and safety:**

(1) The employer must ensure that each employee receives adequate training for safety and health at work:

Indent 2:

- in the event of a transfer to a new workplace.

##### **The Foreign Investors Council recommends:**

- This Article of the Law should be further specified so that it explains that an OHS transfer for the employee, among other things, is conducted when there is a change of the labour procedures and activities.

##### **Pursuant to Article 33 of the Law on occupational health and safety:**

(2) If the producer's manual and the other regulations referred to in paragraph (1) of this Article do not set other time periods, the employer shall be obliged to check and test the means of work referred to in paragraph (1) of this Article:

- before the first use;
- after a reconstruction or a breakdown, and
- after relocation from one place to another (crane etc.).

##### **The Foreign Investors Council recommends:**

- The obligations of the employees should be further specified in the part of examining the working tools and installations and deadlines to be stated within which they should be performed. The practices of performing several examinations from different aspects should be avoided pursuant to the demands of different supervisory organs (for example SLI, Technical Inspection, SSO...).

##### **Pursuant to Article 34 of the Law on occupational health and safety:**

(2) The employer shall be obliged to make the microclimate tests in summer and winter period during the working process.

##### **The Foreign Investors Council recommends:**

- To be changed and to be specified. With some employers there are no sources of biological or chemical harm and as written they should be measured. Furthermore, the question is asked why the employer who continuously follows those parameters in the working room must be subject to an additional measurement. It should be regulated by a special bylaw. The maximum allowed limits of parameters for physical harm should be clarified in a rulebook.

## 6. Records and reports

### Pursuant to Article 36 of the Law on occupational health and safety:

(1) The employer shall be obliged, immediately and within a period of 48 hours as of the occurrence of the event at the latest, to report in writing to the state administrative body responsible for the activities in the field of labour inspection and the president of the union organization, that is, the union representative of the representative union or the representative of the employees if there is no union and the representative of the employees for safety and health at work about:

- any case of death,
- collective accident and injuries at work that cause temporary incapacity to work for more than 3 working days, and
- any situation that poses direct danger and threatens the safety of the employees at work.

### The Foreign Investors Council recommends:

- - It is necessary the categorization of the injuries and definitions for them to be explained in the Law or a special rulebook to be made for it, and to define the list for documents necessary for one to declare an injury at work.
- - The deadline of 48 hours is too long. It should be extended in accordance with the European rules for injuries to over 7 days, declaration within 15 days. The law-maker should be obliged to prepare a bylaw with which the procedures and documents for declaring the injuries at work would be further specified. A new form for injury at work notice to be prepared and a new form to be prepared for declaring injuries at work that would replace the existing ET 8 Form. The competent institutions should be legally obliged to keep records and analysis of injuries at work and professional illnesses (national registry or something similar).

## IV. EMPLOYEES' RIGHTS AND OBLIGATIONS

### IV-a PROTECTION OF STUDENTS DURING PRACTICAL WORK IN MINES ORGANIZED AS PART OF THE EDUCATIONAL PROGRAM

#### Pursuant to Article 42-a of the Law on occupational health and safety:

(1) The students shall have the right to safety and health at work in accordance with the provisions of this Law during the practical work in mines organized as part of the educational program.

(2) The employer shall be obliged to acquaint them with the measures for health and safety at work before they start the practical work in the mines.

#### Pursuant to Article 42-b of the Law on occupational health and safety:

(1) The practical work in the mines may start only upon a previous approval of the

responsible person at the employer for completed training for practical work of the students. The students shall sign a statement that they are acquainted with the measures for safety and health at work before each start of practical work.

**The Foreign Investors Council recommends:**

- The term “in the mines” to be deleted and to refer to any practical work performed by pupils or students in the companies (obligations, equipment, training, introduction, mentorship, health check-ups.) The best solution would be for it to be explained in a special bylaw.

*\*Additional remarks on Article 42:*

**The Foreign Investors Council recommends:**

- Articles in the Law on OHS should be added regarding the work of foreigners in the companies.
- All activities where there is a need of practical work of students (for example construction, medicine, textile, etc.) should be encompassed. There is a need of protection of the students in the field of construction and other sectors that attend practical work in construction and other companies and a list should be made with all the necessary documents that the pupil/ volunteer/ student/ intern should sign. The notion “interns” should be added.

**Pursuant to Article 43 of the Law on occupational health and safety:**

(2) The Council shall review and give opinion and recommendations on:

- the Program;
- the situation in the field of safety and health at work, the strategy for coherent policy for prevention and reduction of workplace injuries, occupational diseases, and other work-related diseases and injuries,
- the expert bases for drafting laws and other regulations on safety and health at work, and
- the documents of international organizations referring to safety and health at work.

**The Foreign Investors Council recommends:**

- The obligations of the Council of OHS should be further specified by a bylaw.

**Pursuant to Article 44 of the Law on occupational health and safety:**

(2) The principle of equitable representation of all communities in the Republic of Macedonia should be taken into consideration in the appointment of the members of the Council, without violating the principle of expertise and competence.

### **The Foreign Investors Council recommends:**

- The selection (proposal of members of the Council, term of office, mode of functioning, and place for work...) should be further specified by a separate bylaw.

### ***Additional remarks on the Law on occupational health and safety:***

### **The Foreign Investors Council recommends:**

- Rulebooks should be prepared in accordance with the world standards on safety and the safety officers should have access to documents through which they would acquire knowledge about these rulebooks. The best solution would be if special rulebooks exist (for example for work on height, work in a closed space, isolation and lockdown...) that will be supported by supplementary documents such as manuals, procedures, check lists, materials for the training of the employees, etc.
- Furthermore, apart from the materials, there should be both theoretical and practical trainings on each standard so that the safety officers can obtain the necessary knowledge.
- The mode of flow of documents including personal health checks data, the declaration of injuries, accidents at work should be defined and the Law on personal data protection should be regulated, i.e. harmonized.
- Regarding the declaration for starting the performance of certain activity, it should be specified which activities/sectors are referred to, so that SLI can take information from the Central Registry so there are not additional burdens imposed on the companies.
- Introduction of OHS in the education system, particularly in secondary schools.
- Articles that would refer to the prevention of employees under the influence of alcohol and opiates should be added, that will also include the use of alcohol tests and tests for using opiates, and, at the same time, it should be intervened in the Law on labour relations with the objective to precisely review and define the procedures and the reaction in case the workers found themselves in such state. The use of these substances can put the life and health of the person who uses them, but also of the other employees, in danger.
- To correct and align the terminology "Safety and health" in the other laws in the Republic of Macedonia (for example Law on construction, Law on labour relations and other laws).
- To add Articles that would regulate the video surveillance in the companies from the point of view of OHS.
- To insist on adequate implementation of all these obligations in the public institutions in the Republic of Macedonia by including specific provisions in the Law on occupational health and safety, especially in the educational and health care institutions where the wanted safety would be assured and a greater discipline would be present in the private companies.

## \* Safety when working on height:

### The Foreign Investors Council recommends:

- The notion “work on height” should be specified. In the Law on occupational health and safety and in the bylaws and in the Price list for health check-ups of the employees where the type and period of the performance of the health check-up for the employees who work on height of 3 or over 3 meters are regulated the term “work on height” has not been explained.
- The Rulebook on occupational health and safety for performing construction works (“Official Gazette of SRM” no. 13/1998) should be taken into consideration where it is exactly defined what a work on height is. The work on height in the sense of this Rulebook is considered to be the work performed on a height higher than 300 above the field, i.e. over the construction between the floors or the protective construction that has been built, as well as work on multi-pitched roofs with a slope greater than 30°.

Rulebook on minimum criteria for safety and health of the employees on the working space:

### The Foreign Investors Council recommends:

- The framework of the bylaws should be defined with precisely stated criteria that should be met by the working space.

Rulebook on minimum criteria for safety and health of the employees when working on temporary or mobile construction sites:

### The Foreign Investors Council recommends:

- The bylaw framework should be defined with aligned notions in the field to which the Rulebook is dedicated and to precisely state the obligations and activities of all those included in the working activity, from preparing the project documentation to the completion of all construction activities.

Law on waste:

### The Foreign Investors Council recommends:

- A committee to be established by the Ministry of Environment and Physical Planning that will decide which of the accredited laboratories will be given authorizations. This is already the case in the neighbouring countries.
- The list of authorized licensed companies should be renewed with the addition of each new licenced company, the deadline of the permit to be stated and to be stated if the permit has been revoked/renewed. Apart from addresses, the phone contacts of the companies should be also included and the codes for the waste for which the permit is valid. A list should also be made for collective

waste operators for packaging, batteries and electric equipment waste.

- Data to be gathered from the annual report on waste submitted by each company to the Ministry for all types of waste and this list to be correlated with the list of authorized companies so that it can be seen by the Ministry which type of waste lacks of licensed companies.
- The companies for collecting waste to be encouraged to expand the licenses, i.e. to invest in the business and in the development of the business in the field of processing or destroying the waste created in the factories/companies.
- The legal framework for the regulation of the specific waste stream should be defined and a waste tires management system (collection, transport, energy use) should be established.
- The procedure, i.e. the process for operating with waste of cylinders under pressure is not stated in the laws. There is not a bylaw in which the procedures and the mode of treatment and removal of waste cylinders under pressure are regulated. A rulebook for this type of waste should be prepared. A complete management system for specific type of waste should be established.

Law on environment:

#### **The Foreign Investors Council recommends:**

- A rulebook to be prepared regarding the soil pollution and the limit values of certain parameters, the contamination of the soil with solid and liquid waste, soil examination methods, analysis, prevention and mitigating the negative influences on the soil, the objectives for soil protection, use and preservation of the soil functions, monitoring, etc.
- The period for obtaining opinions, decisions for approving the elaborates for the protection of the environment and water economy approvals is very long. The average time for getting a notification from the Ministry of Environment and Physical Planning is 5 months (from 2 to 11 months). The inefficiency and slowness of the administration should be reduced. The overall professional communication of the administration with the representatives of the foreign investors should be improved.
- In order for a construction permit for the construction/reconstruction of facilities to be obtained, apart from the other documentation, opinions, permits from the MEPP on the influence of the facility on the environment are needed. When applying for a construction permit, the deadline for delivering this document is shorter than the period needed to get the documents from the MEPP. Coordination should be established between the Ministry of Transport and Communications and the Ministry of Environment and Physical Planning.



## Law on climate change:

### The Foreign Investors Council recommends:

- Trainings on the calculation of the CO2 emissions should be started and directions regarding the measurements should be given.
- The procedure for the preparation of the law on climate change should be accelerated.

**We would like to use this occasion to extend our gratitude to the members of the working groups for their contribution and active participation, and we would particularly like to thank the coordinators of the five working groups for having prepared the recommendations.**

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