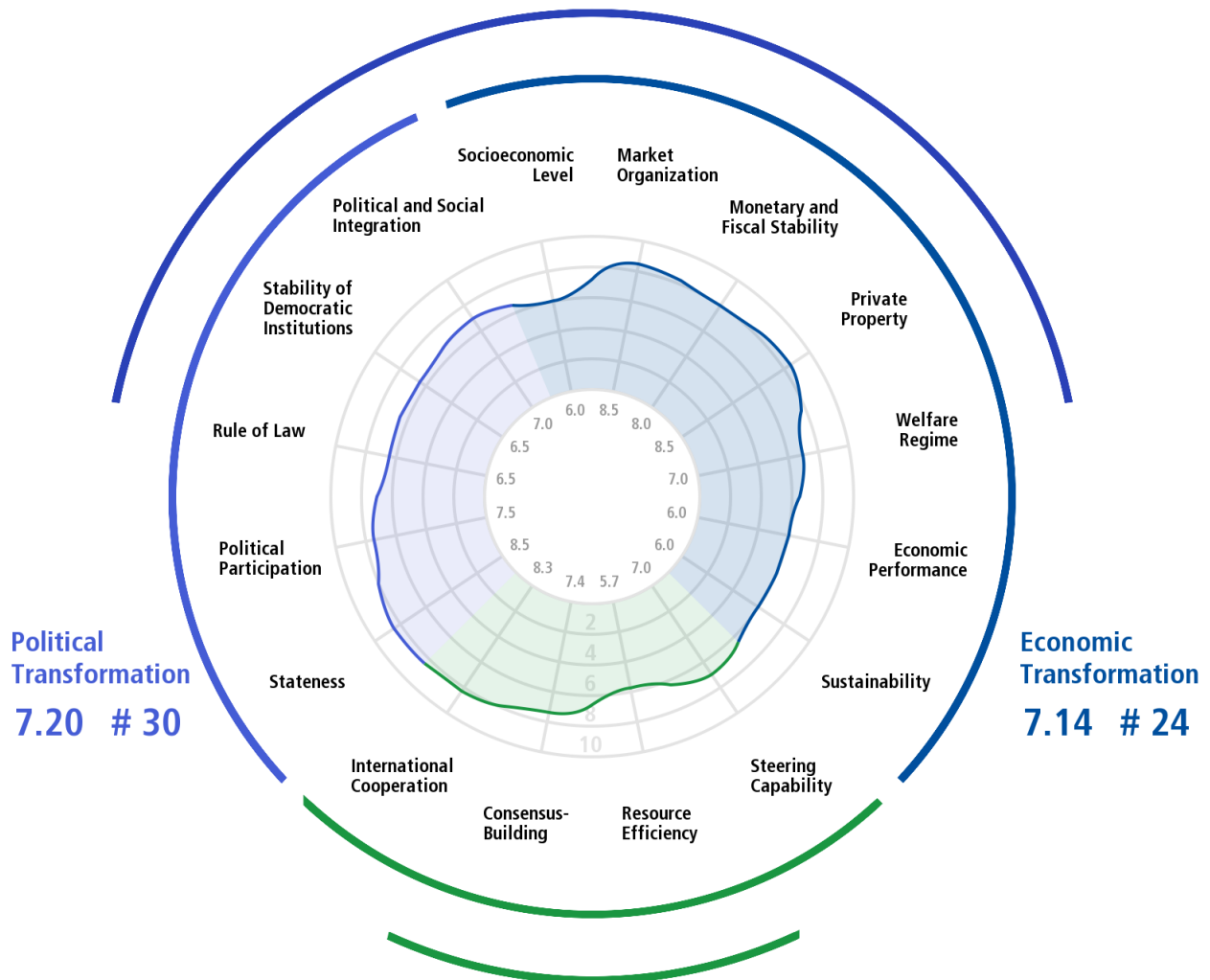


North Macedonia

Status Index

7.17 # 22

on 1-10 scale out of 137



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6.22 # 20

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	2.1	HDI	0.759	GDP p.c., PPP \$	16359
Pop. growth ¹	% p.a.	0.0	HDI rank of 189	82	Gini Index	35.6
Life expectancy	years	75.6	UN Education Index	0.697	Poverty ³	% 9.7
Urban population	%	58.0	Gender inequality ²	0.145	Aid per capita \$	72.0

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

North Macedonia has a new government after 11 years of absolute political control by the right-wing conservative party, the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE) and its junior coalition partner, the ethnic Albanian Democratic Union for Integration (DUI). The process entailed in the transfer of power was neither smooth nor democratic. After the failure of the VMRO-DPMNE and DUI to sustain their coalition following the 2016 parliamentary elections and form a new government, members of the previous regime, including President Gjorge Ivanov, used all possible means to prevent the creation of a new parliamentary majority composed of the opposition party – the Social Democratic Union of Macedonia (SDSM), DUI and two other ethnic Albanian parties that would form a new government. The president first failed to act in accordance with the constitution, since he asked for written guarantees of a new parliamentary majority, and later refused to give the mandate to the opposition leader Zoran Zaev (SDSM) without written guarantees that the new government would secure and safeguard constitutional order and the political system. At the same time, following a call from former Prime Minister Nikola Gruevski (VMRO-DPMNE) in a TV interview on February 26, 2017, an informal For Joint Macedonia movement started organizing protests aimed at maintaining the extant political order in the country. On April 27, 2017, the new majority elected as speaker of parliament Talat Xhaferi (DUI), an ethnic Albanian, former minister of defense under Gruevski and a commander in the National Liberation Army during the 2001 conflict. Following that, around 200 demonstrators, many wearing masks, broke through a police cordon and entered North Macedonia's parliament, attacking its members. Around 70 individuals were injured, including many members of parliament and future Prime Minister Zoran Zaev. In order to enter parliament, the mob received assistance from several VMRO-DPMNE members of parliament, who removed barricades from the gates there to prevent demonstrators from entering.

Following five months of political uncertainty since the snap general elections in December 2016, a new government was finally voted in by the Assembly on May 31, 2017. The government was supported by 62 members of parliament and consisted of 25 ministers. The government faced serious challenges after 11 years of rule by the VMRO-DPMNE and Gruevski, during which the

country witnessed a degradation of media freedom, a heavily biased judicial system, rampant corruption and frequent abuses of power. The first test for support of the new government was the municipal elections in October 2017, when the SDSM achieved a landslide victory by winning 57 mayoral posts, with only five posts going to candidates from the (new) opposition party, VMRO-DPMNE. The elections were evaluated as free and fair.

North Macedonia took decisive steps toward integration into NATO and accession negotiations with the EU. The Accession Protocol for North Macedonia to join NATO was signed on February 6, 2019 and is currently in the process of being ratified by each of the member states. This was due to the fact that, under U.N. auspices, Greece and North Macedonia reached a historic agreement on June 12, 2018 at Lake Prespa, resolving a long-standing dispute over the latter's name and ending a bitter 27-year conflict that had kept North Macedonia out of international institutions such as NATO and the EU. With this agreement, the country agreed to change its constitutional name to "the Republic of North Macedonia," while its citizens will officially be defined as "Macedonian/citizens of the Republic of North Macedonia." The language will be named Macedonian, with a constitutional clarification that it is a Slavic language. These changes were translated into constitutional amendments, which were approved by two-thirds of parliament. A majority was achieved after eight members of the opposition decided to support the constitutional changes. Most of these opposition members were personally or through family links involved in court trials for various criminal acts, including the violence in parliament on April 27, 2017. Their support came only after parliament passed a much-disputed Amnesty Law that legally absolved some of the participants in the 2017 mob attack on the legislature.

In January 2018, a law was passed that extends the official use of the Albanian language across the country, in contrast to the previous law that only applied to areas where ethnic Albanians constitute at least 20% of the population. The opposition VMRO-DPMNE boycotted the vote and called the adoption of the law "fraudulent," accusing the government of lying about it being an EU-sought reform. President Ivanov refused to sign the decree on the Law on Languages, arguing that it was unconstitutional. He refused to sign it even after parliament approved it a second time, thus again violating the constitution. The law was published in the Official Gazette as signed by the speaker of parliament, which was also unconstitutional.

The new government appointed in May 2017 aimed to curtail state capture, and to strengthen democracy and the rule of law. However, numerous economic and political challenges remain. Although some progress has been made to prepare the economy for competition in the EU common market, it still suffers from weaknesses in education and innovation and gaps in investment (e.g., in infrastructure). North Macedonia remains overburdened with an unwieldy public administration. The government has increased transparency and accountability and started to involve more stakeholders in policy-making, but more work is needed to increase professionalism, transparency, efficiency and equality in the public administration. Likewise, strong political will for the difficult judiciary reforms seems to be lacking among the government's coalition partners.

History and Characteristics of Transformation

The statehood of North Macedonia can be traced back to August 1944 when it became one of six constituent republics of the Socialist Federal Republic of Yugoslavia. Independence was declared on September 8, 1991, after the collapse of Yugoslavia. According to 2002 census results, ethnic Macedonians constitute a majority (64% of total population), while Albanians form the largest minority (25%). The country's reforms have focused simultaneously on three issues: state building, democratic development and establishment of a functioning market economy. During the 1990s, ethnic Albanians contested the nation-state approach of political elites, notwithstanding Albanians' inclusion in parliament and the government. Ethnic Albanians wanted more collective rights, including the introduction of an official bi-ethnic state system. Increased grievances, in conjunction with deteriorated security after the Kosovo crisis in 1999, led to an armed conflict between Albanian rebels and government forces in 2001. The EU and the United States helped to mediate a quick resolution to the conflict with an agreement between warring parties signed in August 2001. The Ohrid Framework Agreement (OFA) envisioned political and constitutional reforms in response to the demands raised by ethnic Albanians. It also introduced some power-sharing features, such as the double majority (consent from minorities represented in parliament) for key parliament decisions, municipal decentralization, an official role for minority languages, representation of minorities in public administration and confidence-building measures. As part of conflict prevention, the government signed a Stabilization and Association Agreement with the EU in 2001 aimed at liberalization of trade and establishing an institutional framework for cooperation. The EU supported interethnic consolidation based on the Ohrid Framework Agreement (OFA) and pointed out the successful implementation of OFA as a significant achievement in meeting EU criteria, when the country became an official candidate for EU membership in December 2005.

The long-standing name dispute with Greece, which impeded EU and NATO integration, was resolved on June 12, 2018 with the Prespa Agreement. The country agreed to change its constitutional name to the Republic of North Macedonia, define its citizens as "Macedonians/citizens of the Republic of North Macedonia" and continue calling its language Macedonian. These changes were translated into constitutional amendments, which were approved by two-thirds of parliament. As result of the successful ratification of the agreement by both parliaments, the Accession Protocol for North Macedonia to NATO was signed by the representatives of NATO member states on February 6, 2019.

A largely unsuccessful privatization process in the 1990s set the scene for a free market economy but left many unemployed and socially excluded. Over the years, the country managed to maintain macroeconomic stability and grow reserves; however, it grappled with low growth rates up to the mid-2000s. A Euro-Atlantic perspective, solid macroeconomic data and a new technocratic government in 2006 brought higher foreign investments and growth. However, the positive development was short-lived. Even though the government managed to prevent negative

consequences from the financial and economic crisis in 2008 and continued to make considerable efforts to promote North Macedonia as an investment destination, rule of law failures endanger the viability of economic reforms. In addition, internal and external debt increased along with social transfers and unproductive public spending, which brought into question the sustainability of the economic model. Some of these trends have been reversed since the change of government in 2017.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

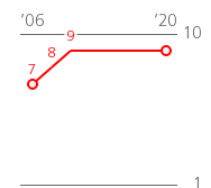
The state has a monopoly on the use of force in its territory. Government institutions control the entire territory of the country and there are no organized armed groups contesting the legitimacy of the state's monopoly. The implementation of the Ohrid Framework Agreement (OFA), which brought a peaceful resolution to the imminent civil war in 2001, largely subdued the interethnic conflict and contributed to consolidation of the state's monopoly on use of force. The clash between an armed group of ethnic Albanians and police on May 9 and 10, 2015 in Divo Naselje that left eight police officers and 14 combatants dead was resolved in court on November 2, 2017. Nearly all the surviving combatants were sentenced to very long prison sentences. In court, they used nationalist Albanian/Kosovan rhetoric, threatening revenge and that there would be no peace in the country. However, their exact motivations still remain unclear. The media has speculated that then-ruling officials wanted controlled instability and lured in “guns-for-hire” from Kosovo to avert attention from a wiretapping scandal that revealed the government's gross abuse of power.

After the 2016 parliamentary elections led to the change of government, 22 “patriotic associations” were formed in opposition to it. Members of the associations, sporting pseudo-military outfits and oversized Orthodox crosses, support the VMRO-DPMNE (of ousted prime minister Gruevski) and promised protests against new coalition government, using both non-violent and violent means. These associations were involved in protests led by an informal movement called For United Macedonia seeking to prevent the formation of a new government headed by Zoran Zaev, who allegedly accepted the Tirana Platform – a list of demands by ethnic Albanian parties behind Zaev's parliamentary majority. On April 27, 2017, upon the election of a new president of parliament, a mob of mostly masked protesters broke through a police cordon and entered parliament. Shouting and throwing chairs, the protesters attacked members of parliament, including Prime Minister Zaev.

Question
Score

Monopoly on the
use of force

9



1

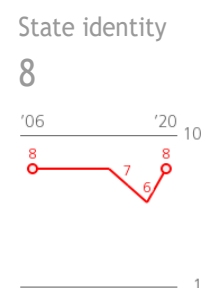
Interethnic relations remain generally fragile and are an easy target for politicization. Border control still faces challenges. The escape of former Prime Minister Gruevski, who managed to flee to Hungary via a border crossing with Albania after being sentenced to prison, demonstrates that the security forces lack absolute control of the borders of the country. In addition, clan-like organized crime groups operating in northern and western parts of the country pose risks in rural regions.

Finally, the risk of further mobilization of radical fundamentalists by the Islamic State (IS) group in Syria waned with its downfall but it might still pose a security hazard. On February 15, 2019, the U.S. Embassy in Skopje issued a warning of a possible attack by supporters of IS in the country, after the Ministry of Interior thwarted a terrorist plot.

The country's various ethnic, religious and cultural minorities are not excluded, de jure or de facto, from citizenship. Following the Ohrid Framework Agreement's (OFA) implementation, there are legal provisions to advance the status and position of ethnic minorities. However, there are strong concerns that the employment of minorities is politicized or clientelistic – employment quotas for minority members in public institutions have been used to put the clientele of the minority parties in government on the government's payroll, without apparent duties.

While the interethnic relations are becoming more relaxed, the legitimacy of the nation-state is still challenged. Ethnic identification is strong and used for political mobilization. This was in evidence when ethnic Albanian parties (Besa Movement and Alliance for Albanians) advanced demands for their support for certain constitutional amendments. In the last stages of the amendment process, these parties required changes in the section defining citizenship and its appearance in identification documents. A final agreement was reached to this problem that could jeopardize the constitutional changes to be resolved at a later time.

The opposition VMRO-DPMNE continued to use ethno-nationalist rhetoric. This rhetoric was intensified during debates on the law on languages, when VMRO-DPMNE used nationalist discourse to criticize the need for this law. Ethnic symbolism and nationalist narratives are also deployed by ethnic Albanian parties in the government and the opposition to increase electoral support. The creation of a common state identity has been challenged by ethno-national mobilization, disparate sentiments vis-a-vis the Prespa Agreement and the way the related constitutional changes affect different ethnicities.



Church and state are separated in the constitution and there is a law that defines and establishes the legal status of churches, religious organizations and religious groups. However, in practice religious communities are not equal. The Macedonian Orthodox Church (MOC) and the Islamic Religious Communities are favored. New Christian and Islamic denominations, especially those that challenge the entrenched domination of established denominations, find it difficult to register and function.

Overall, while the state is secular and religious dogmas do not have direct influence on the legal order or political institutions, religious leaders are in close contact with political leaders and influence public discourse in important ways. Some high-level officials from the MOC supported the protests instigated by the VMRO-DPMNE in early 2017. Some bishops also promoted the boycott of the 2018 referendum, even though the official position of the MOC was that citizens were politically mature and could decide themselves.

The administrative structures of the state are in place and provide most basic services throughout the country. 98% to 99% of the population have access to sanitation facilities and water sources. There have been some efforts to reform the public administration (i.e., enacted several new laws and created new strategies to promote reforms) and to improve delivery of public services, including putting in place the necessary infrastructure for e-government and e-services. However, there are significant challenges to the implementation of reforms. Clientelistic networks and corruption remain among the main challenges to significant advancements public administration reform. Accusations of using the public administration and publicly owned companies to provide employment to loyal members of the ruling parties remain prominent.

There are continuous efforts to improve the quality of public service in crucial areas like social security services. The enormous size of the public administration remains a significant burden on the state budget. There is no clear strategy for reforming the administration and to decrease its size.

2 | Political Participation

According to OSCE, the 2017 municipal elections and the 2018 referendum were generally well-organized and professionally administered. Still, According to OSCE/ODIHR Election Observation Mission reports, the State Election Commission (SEC) reflected divisions among ethnic and political groups and did not run the elections efficiently or with sufficient transparency, while lower level commissions performed their duties better and took additional measures to enhance trust in the electoral administration.

The freedoms of assembly and expression were generally respected during the municipal elections campaign, with only isolated politically motivated incidents and some credible allegations of vote-buying and pressure on voters. However, some

No interference of religious dogmas

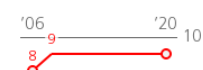
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1

Basic administration

9



1

Free and fair elections

7



1

misuse of administrative resources was observed and the prime minister's open pledge of government support to municipalities with loyal mayors caused controversy. The elections were orderly, with some reoccurring irregularities such as family voting, compromised vote secrecy and irregularities in counting. The main opposition party refused to recognize the results, due to alleged but unsubstantiated electoral fraud.

Still, the transition of power in municipalities was peaceful. The Social Democrats (SDSM) and their junior coalition partners, the Albanian Democratic Union for Integration (DUI) won in the vast majority of municipalities. The SDSM won 57 mayoral posts, while the opposition VMRO-DPMNE managed to secure victories in only five municipalities. The DUI won in 11 majority Albanian municipalities and maintained its dominance over other ethnic Albanian parties. One of the most remarkable election results was the victory of Milikije Halimi, an ethnic Albanian female candidate from the (usually seen as predominantly ethnic Macedonian) SDSM in Aracinovo.

In September 2018, a consultative referendum was held on a bilateral agreement with Greece that envisaged constitutional amendments resulting from the change in the country's name. The referendum question – “Are you in favor of EU and NATO membership by accepting the agreement between the Republic of Macedonia and the Republic of Greece?” – was considered ambiguous and misleading by the opposition VMRO-DPMNE and some experts. Still, the VMRO-DPMNE neither called for voters to vote nor to boycott the referendum, but let citizens decide themselves. The absence of an active “anti-movement” or an organized boycott campaign meant that the media struggled to provide balanced coverage, but did convey extensive information and diverse views to voters.

While the referendum won overwhelming support, the government and opposition interpreted the results differently as a result of the low turnout numbers (37%). For the government, the overwhelming support was a confirmation to continue with the constitutional reforms, even though the turnout did not reach 50%. The opposition claimed that boycotting the referendum indicated that the majority of citizens were against the Prespa Agreement. The timing (in summer holidays) and insufficient outreach contributed to low diaspora participation. The opposition VMRO-DPMNE claimed fraud and irregularities.

In 2018 to 2019, parliament passed a series of legislative changes that would allow for the development of a clientelistic relationship between the government and the media, which has been a significant issue in the past. Additionally, some of these changes would entail parties' campaign ads being financed by the state budget, rather than party budgets. Both the ruling and the opposition parties voted in favor of these changes, which were strongly opposed by the Association of Journalists of Macedonia.

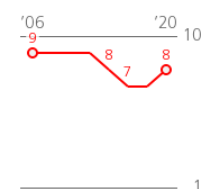
No veto powers – such as the military, foreign powers, totalitarian parties, regional hierarchies or economic oligarchies – are able or willing to undermine democratic procedures. However, during its 11 years in power, the VMRO-DPMNE established full political control over all public institutions. Currently, ongoing reforms aim to increase civilian control over the intelligence services and prevent scenarios similar to the 2015 wiretapping scandal, which according to then-leader of the opposition, Zoran Zaev, revealed that over 20,000 citizens were under surveillance. The wiretapping scandal made clear that government structures exerted total control over the intelligence services with no mechanisms in place to prevent abuse for political purposes. Thus, these reforms are of crucial importance. President Gjorge Ivanov, last elected on VMRO-DPMNE's ticket in 2014, refused to sign the Law on Languages and the ratification of the Prespa Agreement. Many experts believe that the president's actions violated the constitution. President Ivanov also refused to sign other laws presented by parliament because they bear the country's new constitutional name. The Constitutional Court, also constituted during the VMRO-DPMNE's years in power, has not acted to resolve this problem.

Freedom of association and assembly rights are guaranteed by the constitution. The law for citizens' associations and foundations, adopted in 1998 and amended in 2007 and 2009, allows citizens to form and join independent political or civic groups. The government respects this right. However, during the recent political crisis, close alignments between civil society organizations (CSOs) and political parties developed. Many CSOs took an active role in protests against the VMRO-DPMNE government and the rule of Prime Minister Nikola Gruevski. The pressure civil society experienced under the previous government has decreased and it no longer suffers constant stigmatization and attacks by the media and individuals close to the VMRO-DPMNE. In June 2017, the new government adopted a work plan, clearly stating it intended to treat civil society as an equal partner and proposing that state institutions conduct new "investigations of cases of intimidation and pressure on civil society organizations (i.e., to investigate all reports of hate speech, attacks, pressure)."

Freedom of speech is guaranteed in the constitution and most of the legal framework protecting freedom of expression in place. According to Reporters Without Borders, the fall of Nikola Gruevski and the VMRO-DPMNE has reduced government control over media. As of February 2019, the national radio and public television broadcaster still retain their management and editorial structures from the VMRO-DPMNE era under a managing director who has held the position since 2012. Despite strong statements by the Minister of Information Society and Administration, reforming public broadcasting does not seem to be a priority for the government. However, pressure from governmental structures on journalists has significantly decreased and opposition media are no longer endangered. The media landscape remains polarized. Some outlets still provide false information and are vehicles for hate speech. Moreover, only a limited number of cases of hate speech have been investigated by regulatory institutions. Online media remains significantly under-regulated.

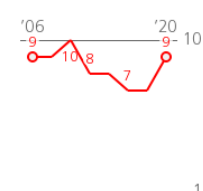
Effective power to govern

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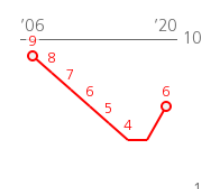
Association / assembly rights

9



Freedom of expression

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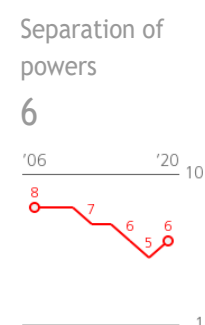


3 | Rule of Law

Political power is divided among the legislature (Sobranie), the executive (the government led by the prime minister and president) and the judiciary. The president can veto legislation once, but vetoes can be overturned by parliament. In the past, presidents played a more influential role during their terms in office. Gjorge Ivanov, the incumbent, supported the VMRO-DPMNE to the point of jeopardizing democracy. For example, by refusing to allow the opposition to form a government in 2017, he impeded the peaceful transfer of power, and by refusing to sign the Law on Languages and the ratification of the Prespa Agreement, he violated the constitution. In contrast, Ivanov never vetoed legislation during VMRO-DPMNE rule.

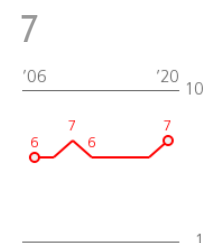
Parliament is highly polarized. The VMRO-DPMNE blocked the appointment of a new speaker of parliament, and when a majority elected Talat Xhaferi as the new speaker on April 27, 2017, a mob of protesters stormed parliament and injured several of its members. The protesters were able to enter the parliament building only after several members of parliament from the block led by VMRO-DPMNE opened the doors for them. These members of parliament were taken into custody after the public prosecutor opened an investigation into the violence on so-called Bloody Thursday and no longer able to participate in legislative work. Nevertheless, they were all released and later amnestied under the new, highly controversial Amnesty Law, in what is believed to be an exchange for their voting in favor of the constitutional amendments related to the Prespa Agreement. Expected to obey party decisions, the VMRO-DPMNE expelled all its members who voted against the decision of the party's Central Committee to oppose changing the country's constitutional name.

A set of reforms of the judiciary are ongoing with the aim of decreasing political control of the work of the courts. The wiretapping scandal revealed that the previous ruling elite had established full control over the judiciary. Leaked phone calls showed that the ruling elite was directly involved in election of judges close to them. According to U.S. State Department and EU reports, political pressure and intimidation were used to influence the judiciary. The courts served the interests of the VMRO-DPMNE and obstructed the work of the Special Public Prosecutor, the newly established judicial institution, which holds the highest trust among the population when compared to other judicial institutions. While it still has the ability to investigate, the Supreme Court ruled that its mandate to file new charges has ended and there seems to be no agreement between the government coalition partners over its renewal, which would require a two-third majority in parliament. The judiciary remains largely unchanged, but there is a trend for loyalties to shift toward the new government majority. There are indications of political influence on the decisions of the courts. For example, as noted above, the court decided to release from custody members of parliament involved on trial for the events of 27 April 2017, just a day before the voting on changing the country's constitutional name. The votes of these members of parliament were crucial to securing the needed majority.



The independence of the judiciary is formally guaranteed and has gradually been strengthened in practice. There are a Court Budget Council, an Academy for Judges and Prosecutors and self-elected Judicial and Public Prosecutors Councils that appoint and dismiss judges and prosecutors. According to the European Commission's progress report for 2018, the backsliding of previous years is being reversed through decisive steps to restore the independence of the judiciary. A credible new Strategy for Reform of the Judiciary Sector and Action to increase the independence, efficiency and quality of work by judges and prosecutors was adopted and key pieces of legislation were amended, following the recommendations of the Venice Commission. The goals of these reforms are to strengthen the capacities of relevant justice sector stakeholders, with a special focus on the Judicial Council, the Council of Public Prosecutors, the Academy for Judges and Public Prosecutors, the Supreme Court, the Public Prosecution Office and the Ministry of Justice; and implement information and communication technology in the judicial sector. However, the reforms are proceeding slowly and political control of the judiciary remains a problem.

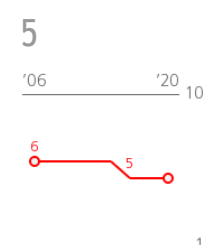
Independent judiciary



The Special Prosecutor's Office (SPO) has gained independence following the change in government and the dismissal of the former State Public Prosecutor. The SPO has successfully filed several indictments related to corruption and the first judgments have been handed down in one of its cases. North Macedonia plans to incorporate the Special Prosecution into a separate department of the Public Prosecution, which would allow it to complete its ongoing investigations. However, recently the Supreme Court ruled that the SPO has no right to process new cases of corruption related to the wiretapping scandal. This decision endangers some of cases the SPO has already processed. The Supreme Court, which retains close ties to the previous government, has questioned all the current work of the office. At the same time, the future of the institution is not clear, due to varying views among the coalition partners; especially the DUI would like the work of the SPO to be terminated.

The legal framework for prosecution of office abuse is largely in place; however, the relevant institutions lack resources. They need to increase capacities and improve their horizontal cooperation, for example, of the anti-corruption agency with the public prosecutor.

Prosecution of office abuse



There are several cases of members of current ruling politicians who have been found guilty of crimes and malpractice. For example, mayor of Novo Selo and member of the ruling SDSM, Boro Stojcev, was arrested and sentenced for smuggling cigarettes. Corruption remains prevalent and attempts to decrease it have produced few concrete results. Nepotism also remains pervasive.

The biggest failure of the system, however, was the escape of former Prime Minister Gruevski, who was sentenced to two years in prison for unlawfully influencing

Ministry of Internal Affairs officials in the purchase of a luxury Mercedes vehicle. To date, no one has been found responsible for his escape.

In general, the time necessary to reach legal resolutions in SPO cases remains extremely long and the courts remain inefficient in dealing with processes. The Amnesty Law with regard to the events of April 27, 2017 was approved during the defendants' trials, which undermined the work of the judiciary in this very important case.

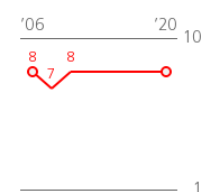
Civil rights are guaranteed by the constitution, and are, in principle, protected by institutions like the Ombudsman, the Commission for Protection Against Discrimination and the Directorate for Personal Data Protection. Most of these independent bodies retain members elected during the rule of VMRO-DPMNE. The Directorate for Personal Data Protection has been staffed by party loyalists, who are not willing and/or able to protect personal data and civil rights. The Commission for Protection Against Discrimination also remains largely inactive in protecting ordinary citizens against discrimination, but decided in favor of Nikola Gruevski when he complained about being discriminated against in court. This decision was used by Gruevski to justify his escape and seeking political asylum in Hungary. The public at large does not seem to be aware of the existence and work of this commission.

Some vulnerable groups of the population are often subject to discrimination and denied basic liberties. The authorities' selective application of established laws especially harms Roma and the poor.

Women have the same legal status as men; however, in practice they do not enjoy the same rights. For example, they are underrepresented in senior positions in the private and public sector and they own less property. Changes in the law in January 2019 guarantee women basic reproductive rights, including the right to abortion. Some progress is being made in securing basic access to health services for women from rural regions and Romani women. For example, in September 2017, a gynecologist was appointed, after a long delay, to Suto Orizari, a district of Skopje with a Roma majority. A proposed Law on the Prevention of and Protection Against Discrimination was submitted to parliament in May 2018 but has been blocked at the committee stage, by both opposition and DUI members of parliament. The draft law is all-encompassing and, for the first time, covers the LGBTI community. In 2017, the Minister of Culture opened the Pride weekend in Skopje, making it the first time a government minister officially took part in such an event. However, LGBTI communities and advocates of LGBTI rights remain targets of physical violence, harassment and derogatory language, even from journalists and politicians. North Macedonia's prisons have poor infrastructure and remain crowded.

Civil rights

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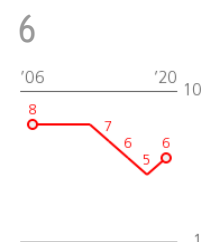
4 | Stability of Democratic Institutions

North Macedonia is going through a process of stabilizing its democratic institutions. After several years of political crisis and a complex and violent transfer of power, government institutions are slowly returning to normality. After the violence in parliament in April 2017 following the election of the new speaker, President Ivanov finally granted the mandate to then-opposition leader Zoran Zaev and the new government was voted in by parliament on June 1, 2017. To obstruct the work of parliament, the VMRO-DPMNE (the previous governing party) created 10 parliamentary groups instead of one to more efficiently filibuster. The process of reversing the state capture of VMRO-DPMNE is still ongoing. The new government controls the ruling mechanisms for the most part, but political processes remain highly polarized. Additionally, there seems to be friction among government coalition partners on important issues, especially because the DUI was part of the previous government and therefore partially responsible for the captured state.

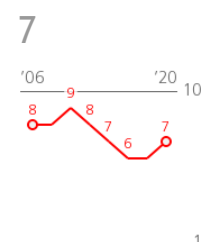
Cooperation between President Gjorge Ivanov, who is supported by the VMRO-DPMNE, and the government led by the SDSM is complex and full of contestation. New presidential elections are to take place in April 2019. In the meantime, President Ivanov refused to sign two bills into law, even after they were confirmed by a parliamentary majority in a second vote. The speaker of parliament decided to sign the Law on Languages and thus enable its publication in the Official Gazette to overcome the gridlock caused by the president's violation of the constitution. However, this action was also unconstitutional.

Citizens by and large accept the legitimacy of democratic institutions. In principle, all influential political actors accepted democratic institutions in the past. The opposition questions the legitimacy of the speaker of parliament, Talat Xhaferi, claiming that his election was illegitimate and unconstitutional. However, this is mostly symbolic and used for political purposes, given that it collaborates with the speaker in daily in parliament. No other actors, such as associations, interest groups or the military, questions the legitimacy of democratic institutions. The government and the opposition disagree and interpret disparately the results of the referendum in 2018. The opposition also accuses the government of blackmailing its members of parliament to secure a qualified majority for constitutional changes. The highly polarized environment is the main obstacle to better functioning democratic institutions. Consensus has been achieved only in very few cases, such as the agreement about the scope and members of the State Commission for the Prevention of Corruption.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

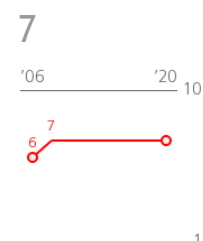
Two parties have dominated the country's politics since independence in 1991: the Social Democratic Union of Macedonian (SDSM) and the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE). The SDSM is the social democratic successor of the former communist party, while VMRO-DPMNE was built on the legacy of the revolutionary movement in the early 20th century. Both parties are seen as predominantly ethnic Macedonian. Since the electoral system was changed to proportional representation in 2002, the SDSM and VMRO-DPMNE have led in electoral coalitions.

Ethnic Albanian parties have sought political reforms to improve the status of the Albanian minority. The Democratic Union for Integration (DUI), which has been in power since 2008 and was also previously in power between 2002 and 2006, emerged from a former guerrilla group, the National Liberation Army, which was in conflict with government forces in 2001. The position of minority parties has been strengthened with the introduction of consociational democracy through the Ohrid Framework Agreement (OFA).

Clientelism plays an important role in party support regardless of ethnicity. After coming to power, the VMRO-DPMNE sought various ways to extend public goods to targeted groups. For example, the number of employees in public administration increased, and subsidies for farmers and pensioners increased regularly, especially before elections. Similarly, the DUI has employed party members through the minority quotas, provided by the implementation of the OFA, using them as instruments for clientelism.

Party fragmentation and volatility have decreased over time. Ethnic divisions are the main political cleavage and ethnic nationalism remains an important issue for political mobilization but there is also strong polarization within ethnic groups. Elite polarization exists in every segment of society and kept institutions such as parliament blocked, when appointing a new speaker or a public prosecutor in 2017, when the VMRO-DPMNE filibustered for months. At the same time, the SDSM managed to attract a substantial number of Albanian voters in the 2016 parliamentary elections and, in particular, in the 2017 municipal elections. The DUI was strongly challenged in 2016 by the Besa Movement, a newly formed Albanian party appealing to the Muslim community, and by the Alliance for Albanians (AfA), a coalition of the Reform Movement – Democratic Party of Albanians, Uniteti, and the National Democratic Revival. While both Besa and AfA won parliamentary seats in 2016, the DUI managed to recover in the municipal elections in 2017 and stabilize its support. It is not clear whether cross-ethnic support or the relevance of religion will be one-off incidents or signal a new trend in the party system.

Party system



Even though the government formed a tripartite Economic Social Council, this has been largely inactive. Collective agreements are either lacking or not complied with and the influence of the trade unions is limited and their capacity weak. The Federation of Trade Unions (SSM) has traditionally been seen as a close collaborator of the government, but in the last few years, we have witnessed an increase in so-called independent trade unions.

The 2014 to 2015 period also saw the rise of a strong student movement that successfully mobilized opposition to the controversial Higher Education Law. The movement was also part of a larger movement protesting Gruevski's rule in 2015 and 2016. The protest movement was an amalgam of various social movements that emerged and were active from 2009 onwards. Nearly all of these social movements have been inactive since 2016.

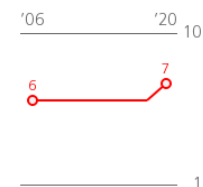
On the right of the spectrum, the protest movement Tvrdekorni (Hardcore), which called itself a patriotic movement defending North Macedonia, began organizing protests in February 2017 and soon turned into For Joint Macedonia. Their protests gave rise to the attack on parliament in April 2017 and continued until the formation of the new government in 2017. In the run-up to the 2018 referendum and afterwards, the Macedonia Boycotts movement appeared. None of these have been actively involved in policy-making or decision-making process.

At a local level, 2017 saw the rise of environmental protest groups in the southeastern part of the country, mobilizing against planned mining exploration and exploitation in the region, otherwise known for and dependent on agriculture.

Support for democracy is high in North Macedonia. Surveys continuously confirm that citizens support democracy as their preferred regime type and support democratic values. Support for the EU and NATO integration remains very high. According to International Republican Institute (IRI) polls conducted prior to the 2018 referendum, support for integration into the EU was 83%. According to the same IRI survey, the EU and NATO are the institutions with the highest percentage of complete trust among citizens (28% and 25%, respectively), followed by the army, which has the highest overall trust (24% completely trust and 42% somewhat trust it). Democratic institutions, such as local governments, are ranked lower than the police, but higher than the media and the judiciary, which enjoy the lowest level of trust. According to Balkan Barometer 2018, there is certain improvement in trust in parliament and government, while the judiciary sustains the lowest levels of trust. Comparatively across the region, on average, citizens of North Macedonia have a higher level of trust in their institutions than citizens of Bosnia and Herzegovina, Albania, Kosovo and Serbia, but lower than people in Montenegro have.

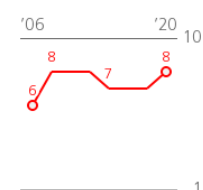
Interest groups

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Approval of democracy

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The level of interpersonal trust in North Macedonia is among the lowest in Southeastern Europe. The trust between ethnic communities is very low and they commonly blame each other for their misfortunes. Due to the low level of interaction between the two ethnic communities in large parts of the country, stereotypes persist. To that end, ethnic Albanians have tended to believe that the state is discriminating against them on the basis of their ethnicity and that they have second-order rights. At the same time, given the OFA-instituted quotas, ethnic Macedonians have tended to believe that Albanians can easily get employment in the public sector.

Importantly, however, society does seem to come together in the face of disasters, as was the case with the summer 2016 floods when the whole country joined efforts to assist those affected, regardless of their ethnicity or party affiliation.

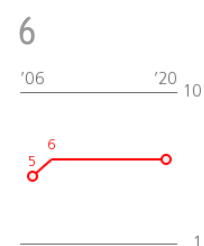
In terms of autonomous organizations, some urban and rural neighborhood associations function, even though that is impeded by a legal framework removing their status as legal entities. In rural areas especially, the neighborhood associations seem to be the most meaningful connections to the municipality and any form of governance. At the same time, in some parts of the country, such as areas of Skopje, there is voluntary organizing in neighborhoods to prevent changes in urban planning and further reduction of green space. In other places, such as Tetovo, there is robust environmental self-organizing against air pollution. People from a number of municipalities in the southeastern part of the country also self-organize against mining exploration and exploitation in this predominantly agricultural region, resulting in local referenda on the issue. Some of these environmental associations have cut across ethnic, class and gender lines.

II. Economic Transformation

6 | Level of Socioeconomic Development

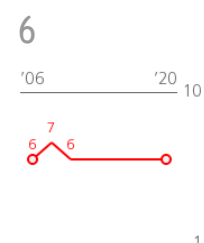
According to the Human Development Index 2018, North Macedonia ranked 80 out of 189 countries. This puts the country below Albania and all the other Yugoslav successor states, with the exception of Kosovo. The last available data for the Gini coefficient and poverty are from 2015. They show that the Gini coefficient is 35.6, which is a decrease compared to 2008 (44.1) when it was the highest in the Western Balkans and among the highest in Eastern Europe. The poverty rate was 8.7%, again the highest in the Western Balkan region. A reform of the social protection system was introduced in 2018, but according to the World Bank and local civil society, close to one-third of the population lives in poverty, including people who are employed and earn minimum income.

Social capital



Question Score

Socioeconomic barriers



The official unemployment rate decreased to around 20.8% in the first quarter of 2018 from over 30% in 2006 (State Statistical Office). Of those employed in 2017, only 39.2% were women, while women account for 64.5% of the economically inactive population. The gender dimension of economic inactivity is primarily due to women being expected to care for children and the elderly, particularly when faced with lack of available and accessible institutions, and due to their informal, often unpaid work in family agricultural or farm activities. The situation is even more alarming in rural areas.

In recent years, unemployment registration has become more stringent and access to higher education has improved. In addition, emigration has eased social pressures. However, long-term unemployment remains high. Youth unemployment is estimated to be around 50%. The World Bank links high unemployment in North Macedonia to structural problems in the economy, for example, failure to reform during the transition process and to diversify industries.

North Macedonia has a Gender Inequality Index value of 0.149, making it 35th out of 160 countries in the 2017 index. Due to mandatory quotas, 37.5% of parliamentary seats are held by women. Of adult women, 40.5% achieve at least the secondary level of education, compared to 56% of their male counterparts. The number of women who graduate from university is consistently higher than the number of men. Yet, this is not reflected in the labor market figures, as noted above. In addition, the economy is characterized by gender-segregated industries. Nearly all employees, for instance, in the textile, leather and shoe industries in the country are women, which is also the industry where workers' rights are most blatantly disregarded. The country's economy maintains certain important features of gender inequality, which intersect with place of residence (especially rural areas) and ethnicity (especially Roma women) to create social, economic and political exclusion.

Economic indicators		2015	2016	2017	2018
GDP	\$ M	10064.5	10672.5	11279.5	12672.1
GDP growth	%	3.9	2.8	0.2	2.7
Inflation (CPI)	%	-0.3	-0.2	1.4	1.5
Unemployment	%	26.1	23.7	22.4	21.6
Foreign direct investment	% of GDP	2.9	5.1	3.4	5.3
Export growth	%	8.5	9.1	8.1	15.3
Import growth	%	9.9	11.1	6.4	9.0
Current account balance	\$ M	-192.6	-309.8	-93.6	-46.4

Economic indicators		2015	2016	2017	2018
External debt	\$ M	6766.7	7513.0	8544.3	8744.2
Total debt service	\$ M	1041.1	870.3	876.5	1290.8
Net lending/borrowing	% of GDP	-3.6	-2.8	-2.8	-
Tax revenue	% of GDP	16.8	17.0	17.2	-
Government consumption	% of GDP	17.0	15.4	14.9	15.2
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	4.1	4	-	-
R&D expenditure	% of GDP	0.4	0.4	0.4	-
Military expenditure	% of GDP	1.0	0.9	1.0	1.0

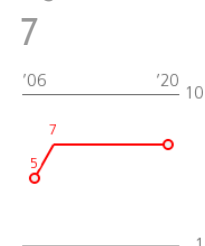
Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The foundations for a competitive market economy are, by and large, established in North Macedonia. The legal system for a functioning market economy is largely in place. The North Macedonian denar, the state currency, is practically pegged to the euro at a rate of 61.5 denars to the euro, which provides macroeconomic stability and gives the North Macedonian economy a competitive advantage, according to international rating agencies. The Fitch rating for North Macedonia remained the same at BB in the last two years, after being downgraded in 2016. Administrative reforms to cut red tape and shorten the time bankruptcy procedures take have been put in place. According to a business enterprise survey by the World Bank, the main obstacles to doing business are political instability, the informal sector, and access to financing. Conditions for establishing a business, however, are relatively good, according to the World Bank's 2019 Doing Business report. Doing so takes four procedures, 14 days and costs of 0.9% of average income per capita, ranking the country at 47 out of 190 in the Starting a Business subindex. The informal sector is in decline, but still considerable. The informal sector declined from 40% to 45% of GDP to around 24% over a ten-year period.

Market organization of North Macedonia is characterized by a high share of state-owned enterprises (SOEs), which operate mainly in the energy, banking, water supply, communal utilities and public transportation sectors.

Market organization



Anti-monopoly institutions and legislation are in place in North Macedonia; however, they lack expertise, stable funding sources and awareness among stakeholders regarding rules and procedures. The Commission for Protection of Competition (CPC) is in charge of anti-monopoly measures. Legislative changes, including aligning the Criminal Code with the Law on Protection of Competition, allow for leniency procedures. The CPC has adequate staff, but lacks expertise and a stable source of funding. According to an EU progress report on implementation, the number of mergers assessed rose from 31 in 2016 to 50 in 2017 and the number of decisions made regarding cartels and abuse of dominant positions was seven in both years. The maximum 10% cap on fines was applied for the first time in 2017. The CPC's enforcement policy still requires strengthening by increasing the number of on-site inspections and actively employing the EU's leniency policy. Concerns remain over the lack of independence and capacity of the courts in dealing with anti-trust cases. Facing high-capacity problems, companies can opt for exemption to horizontal and vertical agreements by engaging in self-assessments. With the help of regulation, the CPC wants to acquire new capacities for application to other relevant problems in the enforcement of competition law.

Foreign trade has been extensively deregulated and there is no fundamental state intervention in free trade. North Macedonia is a member of the World Trade Organization and the Central European Free Trade Agreement (CEFTA) and has liberalized trade with the EU, according to the Stabilization and Association Agreement signed in 2001, which entered in full force in 2014. North Macedonia has 39 bilateral investment agreements, including 19 with EU member states. There are no restrictions or controls on payments, transactions, transfers or repatriation of profits.

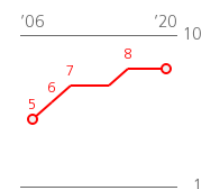
According to a EU Progress report, North Macedonia lags in legislation and administrative capacity in the field of export control of dual-use goods. The overall administrative capacity of the team in charge of trade with the EU, CEFTA and WTO also needs to be strengthened.

North Macedonia has a solid capital market, characterized by a substantial foreign ownership of banks (75%). According to the World Bank, North Macedonia's financial stability indicators are better than those of its peers. 15 commercial banks operate in the country. In 2016, the three largest banks – Komercijalna Banka, Stopanska Banka Skopje and NLB Tutunska Banka – dominated the market (57% of market share).

Basel III capital adequacy standards were adopted in 2017 and North Macedonia completed a self-assessment on the Basel Core Principles in 2018. Capital adequacy and liquidity are high (16.2% and 27% ratio of liquid to total assets in 2017, respectively). The share of non-performing loans (NPLs) is low compared to the Western Balkan average (6.3% compared to 9%); NPLs are mostly corporate and highly concentrated in some banks. The bank capital to assets ratio (10.8% in 2017)

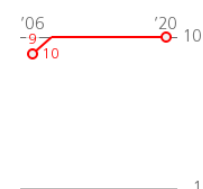
Competition policy

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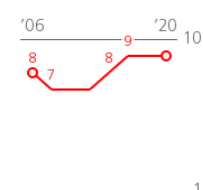
Liberalization of foreign trade

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Banking system

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was similar to other countries in the region and generally stable in the last decade. The performance of individual banks varies widely and several small banks have struggled.

8 | Monetary and fiscal stability

Monetary policy and anti-inflation measures are in the hands of the National Bank of the Republic of North Macedonia (NBRM). NBRM is an independent institution with a, formally, strong governor. The rate of inflation, which was in double digits in the early 1990s, has remained very low since, just 1.35% in 2017 and 1.81% in 2018, following three years of deflation brought about by the economic situation in the EU, North Macedonia's main trading partner.

The stability of the North Macedonian denar prevents high inflation. The denar is de facto pegged to the euro at an exchange rate of 61.5. This is due to the fact that the NBRM buys or sells foreign exchange to keep the denar trading in a very narrow band around this exchange rate. The real effective exchange rate index was 101.6 in 2018, a small increase from 99.6 in 2016, when it was the lowest in the past five years. A lack of fiscal prudence and fiscal consolidation may strain the stability of the currency and prices. An increase in governing spending was based on borrowing and reserves.

The general government fiscal deficit in 2017 remained at 2.8% of estimated GDP (similar to 2016; EU Progress report). In the preceding two years, it had narrowed, mostly because of underspending, as lower than planned revenues made the financing of rapidly increasing expenditures unviable. Revenue growth and under-execution of capital investments brought the fiscal deficit down in 2018. Net VAT revenues also increased, despite a surge in refunds to clear arrears to businesses. Spending increased only 1.1% because the historically largest drop in capital spending made up for higher current spending by 6.3%, caused by a surge in social transfers and higher subsidies to firms. General government revenues rose 4.2%, tracking rises in social contributions, excises and corporate and personal income tax revenues. Recent years have seen increases in pensions and subsidies and other public expenditures that the government has not fully offset in its budgets. The level of public debt has stabilized (39.7% in 2018) after sharp increases between 2008 and 2014.

Monetary stability



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Fiscal stability



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9 | Private Property

The constitution guarantees property rights to citizens and investors. Foreign investors can acquire property if they register a company in North Macedonia. In general, property rights are adequately defined with regard to the acquisition, use, benefits and sale of property. According to the World Bank Doing Business report, it takes 30 days to register property.

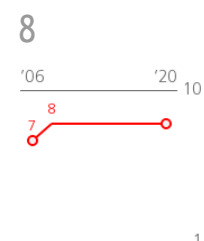
The Agency for Real Estate Cadaster has aimed to determine the property rights of every cadaster parcel in North Macedonia. In order to realize this goal, in 2014, amendments were made to the Law on Real Estate Cadaster, which enabled the register to register free of charge property rights in certain municipalities. Between 2014 and 2016, about 100,000 cadastral parcels, 60,000 cadaster parcels of agricultural land and 40,000 cadastral parcels of construction land, were registered. The new government has extended such initiatives to allow citizens and legal entities to register their property without charge.

Additionally, in 2018, the Ministry of Finance prepared amendments to the Law on Privatization and the Lease of State-Owned Construction Land, which prolonged the deadline for citizens to submit a request for privatization of land until the end of 2021.

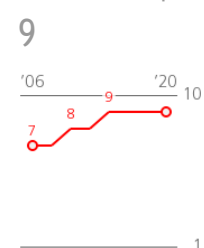
At the same time, the practices of sale and use of public land, especially arable land, raise concerns of possible corruption. The media have reported numerous cases under the previous government when public land was given to individuals and firms closely related to the VMRO-DPMNE.

Notwithstanding faulty privatization during the 1990s and early 2000s, the legal framework for a functional private sector is in place. Under the previous government, hostile takeovers of companies by other companies and individuals close to the administration occurred. At the same time, Gruevski's government worked to improve opportunities for foreign investment by providing subsidies and reducing institutional safeguards, especially in terms of workers' rights. The new government has aimed to make the subsidies decision-making process more transparent and reverse some of the problematic trends related to them. They have also aimed to further improve opportunities for private investment, both domestic and foreign. According to the World Bank Doing Business Report, in 2018, North Macedonia was ranked 10th worldwide in terms of ease of doing business. The country has made impressive progress since 2004 (when it was ranked 80th) and remains a leader in the region in this respect, outperforming most European countries. However, the domestic economy is still predominantly based on small enterprises with poor links to international value chains, orientated to the domestic market. Enterprises also suffer from unstable regulation in areas such as licensing and judicial enforcement of regulations.

Property rights



Private enterprise



The share of state assets has been decreasing over time, and an EU progress report estimated it to be around 13% of GDP in 2015. The uneven application of rules and regulations also hampers domestic private enterprises. The previous government's trend of interfering in private businesses has increased. The new government has also attempted to decrease the fines introduced by the previous government, which have been a significant problem for the private sector. Joint ventures, acquisitions and the rise of private companies, especially in the construction industry show that there are close and strong links between high-level politicians and leading private companies.

10 | Welfare Regime

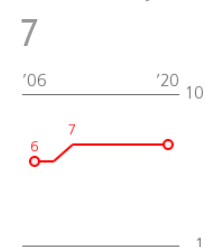
Public social safety nets exist but are not sufficient to compensate for poverty or other risks such as old age, illness, unemployment or disability. In 2018, 32% of the budget went to social transfers, such as pensions, social and child protection. The public welfare regime offers monthly cash payments, subvention for personal care, one-off cash payments and in commodities, and cash payments for childcare, foster care and home care. Significant progress has been made in this area by introducing reforms of welfare policies, which will significantly increase payments to the most vulnerable categories of citizens. In 2018, over 120,000 citizens received some kind of social transfer, amounting to eight billion denars.

The government has also introduced an annual increase in pensions of 5%. This is likely to accelerate the increase in the pension deficit, currently 4% of GDP, and expected to increase further as the population ages. Pensions constitute the second most important source of income in many family budgets. The Ministry of Labor and Social Policy revealed a huge scandal regarding the second pillar of the pension fund. The former management was involved in financial malpractices with the funds. Among possible policy actions are indexing pensions to prices to ensure that they are adequate, increasing the total contribution rate for the pension-insurance split proportionally between first and second pension pillars, gradually harmonizing accrual rates for multi-pillar and PAYG-only participants to narrow new-old pension differentials and rationalizing early retirement schemes.

As part of welfare reform, special attention was paid to foster care by placing all children without parents in small group homes to improve their living conditions. These kinds of homes were opened in several North Macedonian cities and towns.

Public expenditures on health marginally increased in 2018 and 2019. An increase of the salaries of medical staff is planned with the 2019 budget. Notwithstanding one-off donations and fundraising events, there is no systematic private welfare regime. Poverty rates remain high, and a large part of the population uses its monthly income for food and utilities. Research shows that 40% of the total population is at risk for social exclusion. Roma are particularly vulnerable and face widespread prejudice and discrimination in the labor market.

Social safety nets



Vulnerable groups have been provided additional rights. The process to access social benefits has been simplified. The current Ministry of Labor and Social Policy has made significant progress in terms of social inclusion and equal opportunity. The government has also implemented active measures to increase employment; however, estimates are that they only target 20% to 30% of welfare recipients.

Primary education enrollment remains high, with the female to male ratio largely the same over the years, and girls and boys formally enjoying equal learning opportunities at the beginning of the education process. According to the World Bank, the enrollment ratio in primary education is 85.8%, in secondary 82% and in tertiary 39.4%. Secondary education has been made compulsory, which increased enrollment rates. In addition, the previous government supported the opening of new decentralized universities around the country to ease access to higher education; however, this came at the expense of the quality of the education.

Women comprise only 39.4% of the total labor force. In addition, there are only few women in senior positions in the private and public sectors. However, there is a compulsory gender quota for political party lists in elections. Some progress was made on gender equality, notably through the ratification of the Council of Europe's Istanbul Convention in December 2017. The existing laws on gender equality are largely adequate but often poorly implemented. The existing anti-discrimination legislation is not in line with the EU acquis because it does not protect sexual minorities, although the new government is making efforts to amend the respective legal framework. The Commission for Prevention Against Discrimination remains filled with loyalists of the former ruling party, who often make derogatory comments about different minority groups. In addition, the commission is understaffed and lacks financial resources and basic capacities. For example, its offices are not accessible to the physically disabled. The Ohrid Framework Agreement introduced instruments to improve the positions and rights of members of ethnic minorities, but these have mainly benefited ethnic Albanians. Smaller ethnic groups (e.g., Turks, Roma, Bosnians) remain underrepresented.

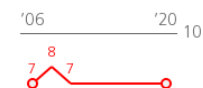
11 | Economic Performance

The GDP per capita decreased in 2017 (-1%) as a result of the political crisis, but grew in 2018 (estimated 2.7%) and is expected to grow again in 2019. The Consumer Price Index (CPI) value reached 1.4 in 2017 after three years of deflation that was a consequence of the contraction of the economy in the EU. Foreign direct investment was over 3.8% of GDP in 2017 and continues to grow.

Unemployment has been decreasing, but North Macedonia continues to have one of the highest registered unemployment rates in the world. According to the World Bank, unemployment decreased from 32% to 27.9% between 2009 and 2014 and decreased further to 20.8% in 2018 (State Statistical Office). This was partly due to

Equal opportunity

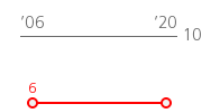
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Output strength

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increased foreign direct investment, but mostly to high government spending. The public debt grew rapidly, from 24.1% in 2010 to 52.4% in 2018. The government has frequently borrowed money on international capital markets and the domestic financial market. Most of the funds were spent for budgetary needs (social transfers).

The World Bank data on cash surplus or deficit is not available after 2012. However, the EU argues that there were large fiscal deficits and that the government deficit was 3.6% in 2015. It is unclear to what extent this economic model is viable and sustainable.

Tax revenues are declining. The main reasons are over-optimistic growth assumptions, underperforming collections and spending pressures. The EU estimates that tax revenues have been overestimated by an average of 6% in the last five years. This caused a need to have supplementary budgets and higher deficit targets. However, at the same time, the current account balance significantly decreased in 2017 from -\$298.6 million in 2016 to -\$128.7 million in 2015.

12 | Sustainability

Environmental awareness has grown; however, policy responses have often been inadequate. Still, the new government occasionally considers environmental concerns. For example, in March 2018, the government annulled a plan to construct a mining complex in Kazandol in the southeast of the country. This followed local referenda in which the plans were voted down over concerns about pollution and sustainability, in a region economically dependent on agriculture.

Major environment protection projects, such as the Lake Ohrid environmental protection project, are supported by institutions that donate financial sources. However, this project is in jeopardy due to announced plans to build a large tourist resort on the lakeshore.

The government provides incentives for renewable energy through guaranteed buyouts; however, it limits production licenses for renewable energy. The government offers subsidies to households for solar panels; however, they are given out in a lottery and more often than not to people with party connections. At the same time, all new buildings are required to be energy efficient.

Air pollution is a severe problem in major cities. According to the World Health Organization, Skopje and Tetovo are among the most polluted cities in Europe. They have the highest air pollution in Eastern Europe; only Sarajevo in Bosnia was found to be more polluted. Several factors account for air pollution: using wood for heating (68% of households, according to a survey conducted in 2011), traffic, and outdated metal industry production facilities. A Clean Air Plan for 2019 (€2 million) foresees measures to cut pollution, build public awareness and enhance regulation and

Environmental
policy

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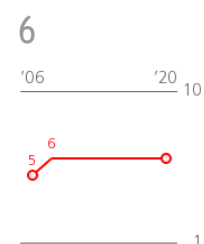
administrative capacity. Specific measures include replacing outdated heating systems in the most polluted cities and installing indoor air purifiers in educational, health and administrative institutions. The program incorporated some initiatives from civil society organizations, although it remains to be seen how effectively the ideas will be implemented.

While North Macedonia ranks at the low end of Southeastern Europe in the U.N. education index, there has been modest improvement. Literacy is quite high (97% – 98%) and enrollment rates have improved, mainly due to policies making secondary education compulsory and improved access to higher education through decentralized university programs. The education system is slow in addressing the mismatch between needed skills in the job marketplace and what is taught, though there are efforts underway to modernize vocational education training. Public expenditure on education (about 4% of GDP) is slightly lower than the EU average. Enrollment in and completion rates of secondary (about 87% completion) and tertiary education have risen slowly and remain below the EU average.

The quality of education has not substantially improved. Furthermore, about 12% of students drop out of school or university, and this rate has been constant over the last five years. According to the World Bank's economic report for the Western Balkans in 2017, two-thirds of the young population in North Macedonia is functionally illiterate. On the functional literacy indicator, North Macedonia is 68th out of the 70 ranked countries in the world, ahead only of Kosovo and the Dominican Republic.

The educational infrastructure, resources and capacities need substantial improvement and investments. R&D expenditure has remained consistently low since 2010. The new government continued stimulating investments through the Innovation Fund to funnel support to SMEs; however, their absorption capacities are weak and there were serious indications that these funds were granted to individuals close to high government officials. The functioning and management of public education institutions, including universities, is politicized. Their leaders were chosen due to close ties with the previous ruling parties and are still in charge. Party control is even extended to the self-organization and management of student representation. For decades, the election of student representatives was controlled by the parties, commonly entailing election fraud. The above-mentioned student movement of 2014 to 2015 challenged that pattern.

Education policy /
R&D



Governance

I. Level of Difficulty

The structural constraints on governance are generally fairly high in North Macedonia. Unemployment remains among the highest registered in the world, even though there has been a decline from about 30% to below 20.8% over the last several years. A large part of the population, particularly women, is officially economically inactive, due to a lack of childcare institutions, traditional norms and informal work in family agricultural and farming activities. A high proportion of the population is at risk for social exclusion (over 40%). GDP per capita, with an upward trend, was \$13,330 in 2018, which is 37% of the EU average.

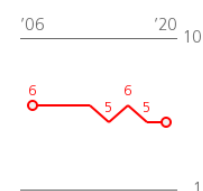
The country does not have strategically important natural resources. The natural gas network is underdeveloped. Several transport infrastructure projects are ongoing, but some of these are delayed because of malpractice by the previous government.

The country has faced structural problems since independence (and some date from before independence), such as poor infrastructure, high unemployment, and a lack of technology and general skills for a rapid economic transformation. Moreover, poor management of the transition process in the 1990s contributed to the painful adjustments that North Macedonia underwent to a market-based economy. The economic embargo by Greece in the aftermath of independence also significantly harmed the landlocked country.

In addition, North Macedonia is situated in a region historically troubled by political instability and ethnic conflicts. The country had a brief interethnic conflict in 2001, which was peacefully resolved thanks to international community intervention. However, ethnic divisions remain strong and ethnic tensions flare occasionally; that notwithstanding, following the conflict, a wide set of policies was put in place to improve the position and rights of minority communities.

Structural
constraints

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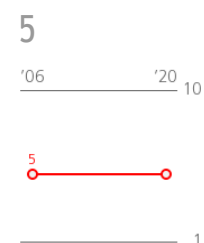


During Yugoslavia's existence, there were a large number of civic organizations, from women's associations, to youth organizations, fire brigades to cultural and sports clubs. Neighborhood associations were very active and promoted wide political engagement at the local level. Since independence, the country has enjoyed a vibrant civil society, with a large number of civil society organizations (CSOs), social movements, and various associations. The number of registered CSOs reached 5,000 to 6,000 in the late 2000s. However, they have been mainly donor-driven and most lack significant capacities. Not many CSOs are membership-based. The law for citizens' associations and foundations allows CSOs to assume certain public competences.

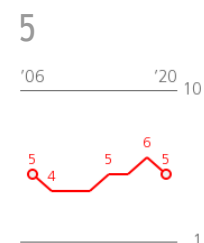
The protest movement of 2015 to 2016 in many ways played an important role in public engagement. It encouraged people, even many whose jobs and well-being were conditioned by the well-developed clientelistic system of the previous government, to speak up and get involved. With the formation of the new government, that momentum largely disappeared. Even though the potential for mobilization still exists, mistakes by the government are often seen as further discouragement to those who protested. Mobilization and public engagement remain high in some municipalities in the southeast of the country, where people's livelihoods have been threatened by mining exploration and exploitation.

Society and the political elite are polarized along ethnic and party lines. The country is recovering from a two-year political crisis in 2015 to 2016, which ultimately ended with the appointment of a new government in June 2017, after 11 years rule by the VMRO-DPMNE and Nikola Gruevski. The peak of the crisis was a violent storming by a mob of protesters organized by the VMRO-DPMNE and their supporters, who entered parliament on April 27, 2017 and attacked the members of the new majority. Since then and with the start of the new government's term, decisive measures to tackle existing problems have been undertaken, even though the Prespa Agreement and the constitutional name change provided some basis for ethnic mobilization among Macedonians. Additionally, the Law on Languages granted greater rights to ethnic Albanians, which has both led to satisfaction among the ethnic Albanian electorate and some negative reactions among the ethnic Macedonian electorate. Overall, however, there have been no violent incidents since the new government was sworn in, even though the divisions between and within ethnic groups remain.

Civil society traditions



Conflict intensity



II. Governance Performance

14 | Steering Capability

With the resolution of the political crisis and the appointment of the new government, the preconditions for a good governance have been re-established. While political polarization remains high, the normalization of institutions is taking place. The new government has a very ambitious agenda, building “one society for all” – developing the economy, improving living standards, building a just society, enhancing institutions and the rule of law and EU and NATO integration. While integration into NATO is underway, pending ratification by all the member states, integration into the EU remains uncertain. With the Prespa Agreement of June 2018, a bitter 27-year dispute over the country’s name that had kept the nation out of international institutions was resolved. North Macedonia also approved a landmark Friendship Treaty with Bulgaria, which relaxed the tensions between the two countries that resulted from Bulgaria’s refusal to recognize the existence of a separate Macedonian nationality and language.

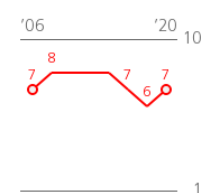
North Macedonia’s new government started working with a set of popular measures aimed at easing the cost of living for the poorest members of society, such as boosting the minimum wage. The government increased the minimum wage from the previous MKD 8,100 (€130) to MKD 12,000 (€390). The government re-introduced the so-called “off-peak tariff” for certain periods of the day and overnight, which allowed many poorer people to use cheaper electricity and had been scrapped in 2014, causing protests. Another measure that the new government has pledged to enact is easing the financial strain on low-income families by scrapping the monthly radio and television taxes, which helps to finance the public broadcaster, National Radio and Television. There was also a slight increase in the average salary, which is above MKD 24,000. The economy is recovering and showing growth after a negative trend in 2017.

During the review period, the government announced set of judicial reforms to establish the rule of law in the country, after a massive failure under the previous government. The European Commission has acknowledged good progress in addressing its recommendations, particularly in addressing police impunity and improving the freedoms of expression and the media. The role of the special public prosecutor, which was set up to investigate alleged wrongdoings, however, is faced with uncertainty over its continued existence. A lack of reforms was noted in the European Council June 2018 conclusions regarding the possible start of membership negotiations. As of February 2019, reforms in the key areas outlined in the June 2018 conclusions remain far from satisfactory.

Question
Score

Prioritization

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During the review period, the government managed to maintain a stable growth rate, to decrease unemployment, to invest in education, science and information and communications technology, and to initiate infrastructure projects. However, there was a lack of implementation of capital investments. The most successful reforms were introduced mainly in the social welfare system, but the highly anticipated reforms in the judiciary are occurring at a slower pace than expected. The EU Progress report has also welcomed progress in curtailing state capture, restoring the rule of law and consolidating democracy.

The government displays some abilities in policy learning. It was able to work on implementation of the recommendations from the EU and to set a reformist pace in order to deal with state capture. Good progress has been made in public administration reform: the Public Administration Reform Strategy and Action Plan for 2018 to 2022 and the Public Financial Management Reform Program 2018 to 2021 were adopted. These should strengthen the principle of merit-based recruitment and help tackle the politicization of the public administration. However, the recruitment of loyal party supporters to public administration persists. Meanwhile, civil society and other stakeholders have become more involved in policy-making than during the previous review period.

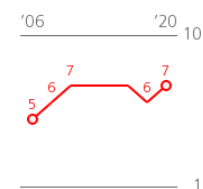
15 | Resource Efficiency

Although certain progress has been made, the government does not use resources efficiently. A merit-based system is not in place, as patronage practices are still widespread behind a facade of competitive recruiting procedures. Also, the practice of politically motivated dismissals and appointments continued during the period under review. The overall debt seems manageable, even though external and public debts are growing. However, the state of public finances is not completely clear. In addition, there is progress in increasing transparency in planning and implementation, but there are still contradictions between planned and actual expenditures. All expenditures by ministers and other state officials, such as travel costs or dinners and lunches, have been made public. There is a trend toward decreased public spending by government ministers and more efficient management of public money. Capital investments usually suffer due to social transfers. The state auditor lacks funding and the capacity to fully exercise its competences. Fiscal decentralization still lags. The fact that almost all mayors come from the ruling party lessens the politicization of transfers to municipalities run by the opposition.

Wiretapped materials revealed allegations of widespread corruption and significant politicization of the public sector, including the judiciary. There was a high-level, frequent practice of asking for and accepting bribes for international and national procurements. Transparency has increased and some progress in fighting corruption has been achieved since the change in government. For example, the government

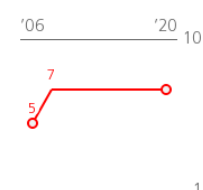
Implementation

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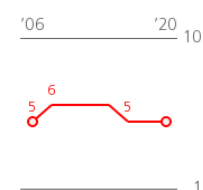
Policy learning

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Efficient use of assets

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fired the director of the Agency for Tourism after news spread that he had spent around €4,000 for a business-class airplane ticket. While not to the same extent as previously, spending of public finances and state aid is still selectively used to favor politicians in power and their associates.

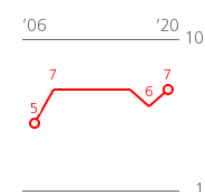
In 2017, a government coalition was created, consisting of the SDSM, the DUI, and the Alliance for Albanians. There was a fear that the inclusion of the DUI, which was in the coalition government with the VMRO-DPMNE for the previous nine years, would decelerate reforms and block any possibility of holding accountable the DUI officials involved in criminal activities during the previous regime. Although policy coordination among the coalition partners is considerably fluid, some tension was visible when the DUI expressed skepticism over changing the anti-discrimination law in order to include the LGBTI community. The parties also have different views over the future role of the Special Prosecutors Office, particularly given the expectation that extending its mandate opens the possibility to future cases investigating DUI party members, which so far has not happened. Administrative mechanisms for coordinating between ministries exist and have been revived since the political crisis. Policy-making in many domains seems to have been decentralized, which differs significantly from the centralized and personalist approach of the previous government.

At the same time, in terms of policy goal trade-offs, they have numerous in areas such as the rule of law and judicial reforms, in order to achieve the necessary parliamentary majority to pass constitutional amendments. Given the importance of those areas for the start of EU accession negotiations, it is yet to be seen how the government will combine disparate goals into a coherent policy.

North Macedonia has institutional arrangements and regulations in place to contain corruption such as the State Commission for the Prevention of Corruption (SCPC) and the State Audit Office. However, there has been little progress in the fight against corruption. The SCPC appointed by the previous parliamentary majority was the subject of a corruption scandal, when the media revealed that its members were granting expenses for travel costs based on false claims. After enormous public pressure, the SCPC members resigned. The SCPC has both failed to act and acted in favor of high-level politicians. For example, when Nikola Gruevski resigned as prime minister, the SCPC refused to make his assets declaration publicly available. After robust media pressure, the head of the SCPC spoke at a press conference, claiming that there was nothing amiss and asking for the issue to be closed. However, the process of appointing new members to the commission was finally unblocked almost a year after the resignations of the previous SCPC, when political parties from the government and the opposition reached a compromise over a new scope and appointment procedures for the members. The new commission, composed of experts, journalists and municipal officials, was appointed in February 2019.

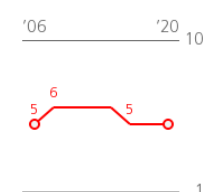
Policy coordination

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Anti-corruption policy

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According to OSCE/ODIHR reports, there are shortcomings in the legislation for party financing and the implementation thereof. The State Audit Office is not able to fully control the origins of donations. The closure of campaign bank accounts and treatment of debts is not regulated. Transparency and accountability of political party financing remains a concern. The most recent changes in the Election Law have increased those concerns. According to an EU report, there is progress in decreasing corruption in public procurement, although it still remains a concern.

16 | Consensus-Building

The main political actors agree on establishing a stable democracy as a strategic long-term aim. All parties at least verbally agree that North Macedonia should become a member of the European Union and NATO, although ideas over how to reach this goal vary considerably. The previous government tried to diversify international cooperation, by reaching out to Russia, China, and India. Their efforts are underlined with the aim to diversify and increase FDI.

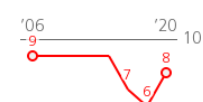
Democratic consensus is still hard to achieve, even after the change in government. The VMRO-DPMNE has opposed or boycotted most of the crucial laws and agreements that the new government has suggested, such as the Agreement with Bulgaria, the Agreement with Greece and the new Law on Languages. There was notable consensus on the Amnesty Law concerning the events of April 27, 2017, which was in the interest of both major parties – for the SDSM to pass the constitutional amendments and for the VMRO-DPMNE to have its party members pardoned. Furthermore, after negotiations, the two parties also agreed on the new composition of the State Commission for the Prevention of Corruption.

Cooperation between President Ivanov and the government is tense and dysfunctional. The president acted as partisan, favoring the VMRO-DPMNE when he refused to grant a mandate to the leader of the opposition to form a government. These tensions remained and gradually increased when the president refused to sign the Law on Languages, even after its second approval in parliament. The president has been isolated and was mainly ignored by high officials visiting North Macedonia before and during the referendum campaign.

None of the relevant actors rejects the basic principles of a market economy. However, widespread corruption and manipulation of public finances, blunt evidence of which became available to the public with the wiretapping scandal in 2015, have distorted the development of open and free markets. In addition, the wiretapping scandal revealed that political power and control of public institutions have been used to take over and favor some businesses affiliated with ruling political parties. These practices are changing, but the fight against corruption is slow. Many media outlets reported conflicts of interest when family members of the new government officials won competitions for public tenders and were awarded grants.

Consensus on goals

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The military and police are largely under civilian control, and the new government attempts to regulate the accountability of the civilian intelligence. The National Liberation Army, the guerrilla group that challenged the state in 2001, was demobilized following the conflict and most of the organizational structure was transformed into the Democratic Union for Integration (DUI). The DUI remained a junior coalition partner in government after the elections in 2016, as it has been for most of the time since 2002. Given its involvement as a coalition partner in Gruevski's government, there are forces inside the DUI that oppose some of the reforms necessary for parting ways with the past and uncapturing state institutions, including the work of the Special Public Prosecutor. State institutions managed to efficiently deal with the anti-democratic actors of the armed conflict in Kumanovo on May 9, 2015. There was a legal resolution of the "weekend war" between an armed ethnic Albanian group, the members of which were mainly from Kosovo, and North Macedonian security forces in May 2015. Altogether 18 people from both sides died; 30 were arrested and charged with terrorism. However, the motives of the group remained unclear. On the one hand, it seemed that they might be fighting to increase ethnic Albanians' rights. On the other hand, it seemed plausible that they were hired to deflect attention from the wiretapping scandal and growing protests. Since the change of government, interethnic relations have improved and no further such incidents have taken place.

All the major political parties agree on the integration of North Macedonia into the EU and NATO. Only a small and extra-parliamentary party, called United Macedonia, has mobilized on the agenda of cutting ties with the EU and NATO and joining a union with the Russian Federation. This party was prominent in the campaign to boycott the 2018 referendum, having organized poorly attended protests and blockades to prevent the implementation of the Prespa Agreement.

North Macedonia is an ethnically divided society. Given the power-sharing nature of the system, the ethnic cleavage has been salient for political mobilization. With the exception of the SDSM in the last elections and a small leftist party, all political parties appeal primarily to their own ethnic constituency. This creates a certain stability in the party system; however, it also keeps ethnic relations fragile. There are institutional instruments to remedy the situation. For example, all coalition governments have been multiethnic since 1992, which was introduced as an official power-sharing mechanism with the OFA. The implementation of the OFA also introduced other significant institutional instruments, such as equitable representation, minority veto, language rights and decentralization, that have improved the status of minority communities. However, since the 2015 wiretapping scandal and the ethnic diversification of the SDSM, the credibility of Zoran Zaev significantly increased among ethnic Albanians. Cross-ethnic voting became more widespread in the early parliamentary elections of 2016 and remained stable or even increased during the municipal elections in 2017 and the 2018 referendum. Nevertheless, the political leadership still uses ethno-nationalist rhetoric for political

Anti-democratic actors

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Cleavage / conflict management

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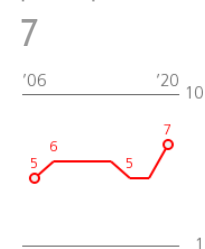
mobilization both among ethnic Macedonians and ethnic Albanians. Among the ethnic Macedonians, the VMRO-DPMNE has used the country's name change as a salient issue for mobilization. Among ethnic Albanians, the Besa Movement and the Alliance for Albanians have often criticized the DUI as Gruevski's partners, who do not do enough to advance the rights of ethnic Albanians. Overall, however, the new government has prevented cleavage-based conflicts from escalating.

North Macedonia's legal framework and institutional mechanisms are adequate to have civil society participate in policy-making. For example, the new government has continued with the practice of involving civil society in the policy-making processes that were established with the Strategy for Cooperation with Civil Society (2012–2017) and the related action plan. There have also been good practices in the past, when parliamentary committees organized public hearings with the participation of civil society. Over time, certain interest groups (chambers of commerce, professional organizations and various health groups) have come to play a stronger public role and to be more engaged in policy-making. Others yet, such as trade unions, had often been marginalized by being too closely associated with the government. This has changed in recent years through the emergence of new independent unions.

The former government (2006 – 2016) consistently antagonized relations with critical CSOs and watchdog organizations, accusing them of working against state interests. This trend has been reversed by the current government, which has consulted with CSOs and recruited a number of experts from different CSOs to work in the government. According to an EU report, public financing of civil society organizations remains inadequate and is not transparent. After the elections in December 2016, former Prime Minister Gruevski called for the “desorosozation” of the country – accusing critical civil society actors of acting as a fifth column instructed by the Soros Foundation to topple his government, and calling for new, “independent” civil society organizations to be formed. VMRO-DPMNE-leaning public figures started Operation Stop Soros (SOS) to continue the smear campaign and requested greater financial scrutiny of and consequences for critical civil society actors.

These tensions and pressure on civil society stopped with the appointment of the new government. At the same time, many prominent civil society activists have been employed by the new government as special advisers in the cabinets of the prime minister and other ministers or as holders of important executive positions. This trend has been interpreted variously. Those close to the VMRO-DPMNE considered it clear evidence of close ties between the SDSM and civil society, that worked against Gruevski's government, while others interpreted involving civil society experts in the work of the state institutions a positive development. The current government has also performed significantly better than its predecessor in terms of consulting various civil society actors, some ministries more than others, and in correcting course based upon civil society reactions when mistakes have been made.

Civil society participation



North Macedonia experienced a brief interethnic conflict in 2001. Major institutional steps have been made in the process of reconciliation, but the conflict still remains an important element for political mobilization and interethnic provocations. Even though there were very few civilian casualties compared to other conflicts in the Balkans, not all the cases of alleged civil war crimes were investigated. Members of the country's security forces were put on trial by The Hague Tribunal. One of them, the former minister of interior, was acquitted and is currently serving as a special adviser to Prime Minister Zaev. Another was found guilty and, after serving his prison sentence, was greeted as a hero upon his return. He is currently a member of parliament for the VMRO-DPMNE. At the same time, in 2011, parliament gave amnesty for war crimes allegedly committed by members of the NLA, the Albanian guerrillas, which were not processed by The Hague Tribunal. In addition, the DUI, the political party that emerged from the NLA, organizes annual commemoration events dedicated to the battles and fallen fighters in 2001. The commemoration starts on the day when the first battle was waged and ends on the day when the OFA was signed. The DUI also sponsored the opening of a museum dedicated to the NLA in a conflict-affected municipality.

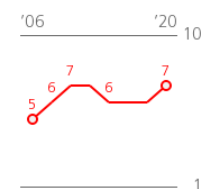
After the events of 27 April 2017 and court proceedings against more than 60 individuals, including members of parliament accused of terrorism, the prime minister called for reconciliation when asking for support for the constitutional changes necessary to implement the Prespa Agreement. This resulted in parliament passing a much-disputed Amnesty Law that legally absolved some of the participants of the 2017 mob attack on the legislature. However, a significant number of public intellectuals and members of former protest movements have interpreted these actions as a political deal to pass the constitutional changes and not a genuine attempt at reconciliation and justice.

17 | International Cooperation

During the review period, the new government made extraordinary progress in terms of international cooperation. Foreign policy is one of the areas in which the current government has made the most progress. This is particularly the case in terms of regional cooperation and EU and NATO integration. The EU remained substantially involved in helping political actors find a way out of the political crisis, especially after the violence in parliament on 27 April 2017. The ambassadors of the United States and the five biggest EU member states represented in Skopje acted in a concerted way to provide sustained support throughout all these events. All the EU institutions and the governments of the member states condemned the violence and called for immediate resolution of the tensions. International actors recognized and supported the election of Talat Xhaferi as the new speaker of parliament. However, the VMRO-DPMNE objected to the involvement of the international community,

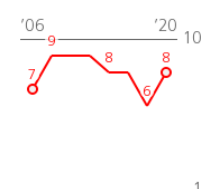
Reconciliation

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Effective use of support

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calling it foreign intervention. Russia consistently supported the VMRO-DPMNE throughout the crisis, especially after the events of 27 April.

The new government relies extensively on the political and economic support of international actors. There is significantly increased attention paid to using EU funds for structural reforms and asking for assistance in the realization of those reforms. The country is taking a more proactive approach to promoting opportunities for citizens to use available foreign funds.

The United States and the EU took active roles in the campaign for the 2018 referendum, encouraging voters to support the name change agreement, with numerous high-level officials visiting the country before and during the referendum campaign.

At the same time, while the government has enjoyed wide international support, adapting international advice and knowledge to domestic realities, especially in terms of reforming the public administration and the judiciary, still falls significantly short.

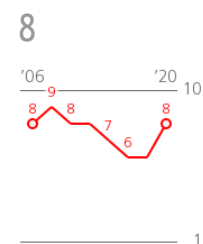
The government's credibility as a partner in international cooperation dramatically increased during the review period. The Accession Protocol for North Macedonia in NATO was signed by the permanent representatives to NATO on 6 February 2019 and is currently undergoing ratification in each member state. This followed the Prespa Agreement between Greece and North Macedonia signed on 12 June 2018. Additionally, the government signed a Friendship Agreement with Bulgaria in August 2017, easing tensions between the two countries and paving the way for future cooperation.

Brussels and the EU have made an important shift in approach with great appreciation for the politically tough decisions made by the new government. They have also noted the importance of the North Macedonian case for the credibility of EU's enlargement policy. At the same time, some member states, such as France and the Netherlands, have had reservations regarding the country's reform process and readiness to start accession negotiations.

While the new government has stepped up integration into the EU and NATO, Russia has consistently supported the political positions of the VMRO-DPMNE and the actions of President Ivanov, arguing that Western international actors are interfering in the internal affairs of North Macedonia.

In addition to the EU/NATO integration processes, the country has ratified the Council of Europe Convention on preventing and combatting violence against women and domestic violence (also known as the Istanbul Convention) and some ministries have undertaken important planning processes as they relate to the implementation of the U.N. Agenda for Sustainable Development 2030. At the same time, however, in January 2019, the European Court of Human Rights in Strasbourg decided that flaws in North Macedonia's laws regarding recognition of gender change violated the rights of transgender persons.

Credibility



North Macedonia has managed to significantly improve regional cooperation in the last couple of years, often being presented as an example to the other Balkan countries. North Macedonia adopted the Protocol 5 on Trade Facilitation, which was ratified in January 2018. The country committed to implementation of a Multiannual Action Plan for the development of a Regional Economic Area in the Western Balkans. This allows for further economic integration in the region, based on EU rules and standards.

In August 2017, North Macedonia signed a friendship agreement with Bulgaria. In the agreement, the countries recognize each other's territorial integrity, commit to resolving differing views of history and protecting the rights of each other's nationals without interfering in domestic affairs. The agreement formed the basis of Bulgaria's pledge to help North Macedonia in its bid to join NATO and the EU. The agreement was ratified narrowly by parliament, as it was boycotted by the VMRO-DPMNE although that party had been in charge of negotiating the agreement for several years.

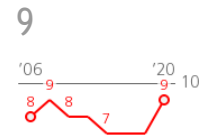
In June 2018, North Macedonia signed the Prespa Agreement with Greece, ending a 27-year dispute, stipulating usage of the terms "Macedonia" and "Macedonian", and importantly creating the basis for stronger cooperation between the two countries both bilaterally and within multilateral organizations. Greece is proactively supporting North Macedonia's EU integration, advocating start of accession negotiations in June 2019. Since signing the Prespa Agreement, there have been positive trends in strengthening economic cooperation between the two countries.

Relations with Albania are good. Their quality has primarily depended on the state of interethnic relations in North Macedonia. To that end, Albanian Prime Minister Edi Rama facilitated a meeting among the leaders of the ethnic Albanian parties of North Macedonia to help them reach an understanding on a common platform. President Ivanov cited the creation of this platform as his main reason for refusing to give the mandate to the new parliamentary majority to form a government, implicitly blaming Albania for meddling in the internal affairs of North Macedonia. Since then, however, relations with Albania have remained good.

Relations and cooperation with Serbia have been solid, if strained at times. The problems between the Orthodox churches of each country have significant political implications. Tensions between the two countries also occurred when, in August 2017, Serbia briefly recalled its embassy staff from North Macedonia in protest against the country's vote on Kosovo's membership in UNESCO. The allegations that former Prime Minister Gruevski was helped by the Serbian authorities when he escaped to Hungary have not helped relations between the two countries. Relations with Kosovo have remained generally good, despite North Macedonia's dissatisfaction with the Kosovo government's decision to financially support the families of its citizens involved in the terrorist attack in Kumanovo in May 2015.

Overall, North Macedonia has shown leadership and maturity in advancing international and regional cooperation.

Regional cooperation



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Strategic Outlook

The change in government was the start of a long, rocky road to restoring democracy and reversing the previous government's state capture. The resolution of a three-decade long dispute with Greece over the constitutional name of the country removed the main obstacles for integration of the country into NATO and EU. The Friendship Treaty with Bulgaria was another milestone in improving regional cooperation and creating strong allies to support EU and NATO integration.

It is of crucial importance for the government to both continue and intensify reforms to restore the rule of law. Decisive steps are needed in order to adopt and implement the judicial reform strategy and to increase the independence of the judicial system at all levels. The government needs to tackle the chronic problems of corruption and the lack of transparency in public procurement by strengthening the institutions responsible for preventing and fighting corruption.

In order to restore trust in institutions, the government has to show concrete results in increasing inclusionary practices in the policy-making process. Dialog among stakeholders and their contributions to policy-making can assure the sustainability of reform. The forthcoming presidential elections and possible parliamentary elections should be organized following the highest democratic standards. Political polarization has to be decreased. The government needs to take important steps toward building an intercultural society and increasing the integration between ethnic and political communities.

To improve the market economy, the government should introduce more incentives for domestic investors and find ways to integrate informal economic actors without jeopardizing their livelihoods. Public procurement needs to be more transparent and occur in full compliance with existing legal procedures. Educational reforms need to be aligned with labor market demands and greater focus should be given to increasing technical skills and expanding vocational training. Reforms to the health system have long been pending and ought to be implemented in due course. The government needs to keep improving its social policies, especially for excluded and marginalized groups. The existing national action plan for additional structures and policies need to be implemented in order to advance gender equality.

Decisive steps toward increasing the productivity of public administration and implementation of a merit-based recruitment policy and career system enshrined by the law are necessary. Digitalization and greater use of technology are crucial to creating a competitive bureaucracy and economy. Finally, the government needs to focus more on sustainability, including long-term solutions to the mining projects in the southeast and ways to tackle air pollution, both immediately and in the long term.

International support and further progress in the integration processes will be of great importance to full democratic and economic consolidation.