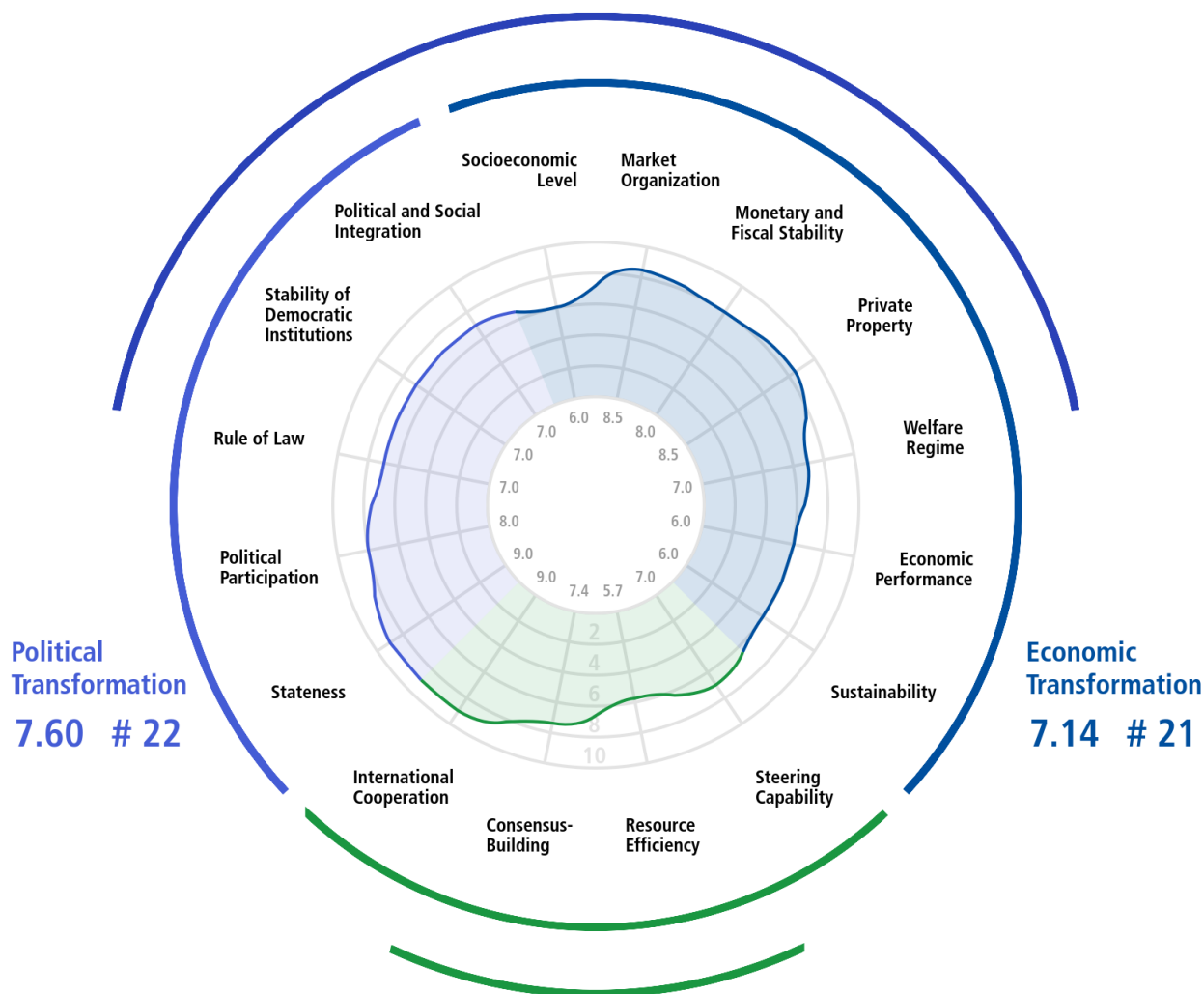


# North Macedonia

## Status Index

**7.37 # 19**

on 1-10 scale out of 137



**Political Transformation**  
**7.60 # 22**

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**7.14 # 21**

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**6.30 # 17**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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	<b>2.1</b>	HDI	<b>0.774</b>	GDP p.c., PPP \$	<b>16927</b>
Pop. growth <sup>1</sup>	% p.a.	<b>0.0</b>	HDI rank of 189	<b>82</b>	Gini Index	<b>33.0</b>
Life expectancy	years	<b>75.8</b>	UN Education Index	<b>0.704</b>	Poverty <sup>3</sup>	% <b>7.1</b>
Urban population	%	<b>58.5</b>	Gender inequality <sup>2</sup>	<b>0.143</b>	Aid per capita \$	<b>68.1</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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 became the 30th member of NATO on March 27, 2020, achieving one of its main strategic goals. The accession to the European Union, however, is going through a rocky patch due to two blockages to starting the accession negotiations within the last two years. After the French veto in June 2019 based on the requirements for a new method of accession talks, Bulgaria blocked the start of the accession talks for North Macedonia because of the historical disputes related to Macedonian nationhood and language identity. Namely, in a memorandum supported by all the parliamentary politicians and sent to the member states in August 2020, Bulgaria accused North Macedonia of a “state-sponsored anti-Bulgarian ideology” and of having conducted “ethnic and linguistic engineering,” calling for the country to “break with the ideological legacy and practices of communist Yugoslavia.” This led to North Macedonia’s declaring that the identity markers are non-negotiable and that it will focus on reforms within the country in the period ahead while hoping to resume discussions with Bulgaria after their parliamentary election in 2021.

North Macedonia held early parliamentary elections in July 2020 and regular presidential elections in April/May 2019. The ruling Social Democratic Union of Macedonia (SDSM) secured a narrow victory over the main opposition party, the Internal Macedonian Revolutionary Organization–Democratic Party for Macedonian National Unity (VMRO-DPMNE); Stevo Pendarovski, supported by SDSM, was elected president. After the parliamentary elections, SDSM kept the governing coalition with the ethnic Albanian Democratic Union for Integration (BDI), thus occupying both the presidency and the government. Both elections were fair and democratic, though with minor irregularities.

The COVID-19 pandemic hit North Macedonia under very special circumstances. As per the 2015 Przino Agreement, an interim government led by Oliver Spasovski (SDSM) and ministers from VMRO-DPMNE was appointed 100 days before early parliamentary elections scheduled for April 14, 2020 (later postponed to July 15). On February 16, 2020, the parliament dissolved

itself, meaning that the pandemic hit the country when it did not have fully functioning institutions. President Pendarovski declared a state of emergency on March 18, 2020, for the first time in the country's history. A lockdown and several curfews were enforced to keep the infection rates low. The government introduced five packages of fiscal and monetary measures to support the most vulnerable citizens and businesses. At the beginning of February 2021, the number of infections reached 100,000 and deaths 4,000 – one of the highest death rates per million inhabitants.

The government aimed to curtail state capture and to strengthen democracy and the rule of law. While it has made some progress since the change of government in 2017 – mainly regarding human rights and freedoms – many economic and political challenges remain. The government has delivered on some promises that were made in its 2016 election campaign, but not others. For instance, even though the government had planned the introduction of progressive taxation, it reversed course under pressure from the business lobby and paused the plans. The lack of progress results from multiple factors ranging from internal government coalition dynamics to external pressures and clashing interests within the government. Although some progress has been made to prepare the economy for competition in the EU common market, weaknesses remain in education and innovation, and limited public investments (e.g., in infrastructure). North Macedonia remains overburdened with an unwieldy public administration. The government has increased transparency, accountability and involvement of stakeholders in policy-making, but more work is needed to increase professionalism, transparency, efficiency, and equality in public administration. Likewise, the fight against corruption remains one of the biggest issues, while political will for difficult judiciary reforms seems to be weak among governing parties.

## 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 the 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 European Union 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 principle (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 European Union in 2001 aimed at liberalization of trade and establishing an institutional framework for cooperation. The European Union supported interethnic consolidation based on the OFA and considered 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 integration of North Macedonia in the European Union is still challenged by the domestic need for reforms and establishing efficient rule of law, but also externally by the ongoing enlargement debates inside the EU, as well as bilateral disputes with neighboring Greece and, more recently, Bulgaria.

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 the parliament. As a result of the successful ratification of the agreement by the parliaments in both countries, North Macedonia joined NATO as its 30th member state on March 27, 2020 after the Accession Protocol for North Macedonia to NATO was ratified in all the NATO member states.

A largely unsuccessful privatization process in the 1990s set the scene for a free market economy but left many unemployed and socially excluded and the country’s already weak industry decimated. Over the years, the country maintained 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 focus of higher foreign investments and growth is the main economic strategy of the governments. However, the positive development has been short-lived. Even though the government was able to protect the country from the negative impact of the financial and economic crisis in 2008 and continued to make considerable efforts to promote North Macedonia as an investment destination, failures to ensure the rule of law endanger the viability of economic reforms. In addition, internal and external debt increased along with social transfers and unproductive public spending, which called 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

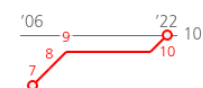
The Republic of North Macedonia has the monopoly over the use of force in its territory. Government institutions are able to establish control over the entire territory of the country, and there are no organized armed groups contesting the legitimacy of the state monopoly. The implementation of the Ohrid Framework Agreement (OFA), which brought a peaceful resolution to the armed conflict in 2001, largely subdued interethnic conflict and contributed to consolidation of the state's monopoly of use of force. In general, interethnic relations are still fragile and remain an easy target for constant politicization, especially given the lack of statewide attempts to deal with the past. The ethnically charged retrial of five ethnic Albanians over the murder of five ethnic Macedonians in the outskirts of Skopje in 2012 was finally resolved with a verdict after several delays. However, the lack of new evidence and similar verdicts did not put an end to speculations and, during periods in which COVID-19 restrictions were in place, led to ethnically motivated protests in Skopje of ethnic Albanians chanting "UCK" (a reference to the National Liberation Army, the Albanian rebel group involved in the 2001 conflict), which is considered a highly polarizing message that disturbs ethnic Macedonians. Border control is fairly stable, if not without some important challenges. Risks posed in rural regions by the clan-like organized crime groups in the north and west are under control by the organs of the state monopoly of power. The security hazard of further mobilization of radical fundamentalists from North Macedonia to join terrorist groups is minimized and is dependent on future global trends of terrorist escalations.

While interethnic relations are improving, the legitimacy of the nation-state remains challenged. Ethnic identification is strong and commonly used for political mobilization; ethno-national mobilization complicates the creation of a common state identity. Recent controversies include the debate around the inclusion of ethnic self-identification on official ID cards. Increased ethnic demands were again reflected in the last stages of the negotiations for the new governing majority. BDI, the biggest party of the ethnic Albanians, ran an electoral campaign featuring the

Question  
Score

Monopoly on the  
use of force

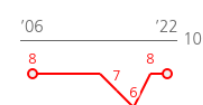
10



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State identity

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slogan “Why not?” and a single most prominent promise of an ethnic Albanian as the new prime minister. On the other hand, the ruling SDSM retains stable support among ethnic Albanians and the party created the first interethnic coalition with the Besa Movement by presenting a joint list of candidates in July 2020 elections. The oppositional VMRO-DPMNE continued to use ethnonationalist rhetoric both in relation to the Albanian minority and to the country’s name change following the Prespa Agreement with Greece. Similar strategies are deployed by ethnic Albanian parties, in government and opposition alike, which use ethnic symbolism and nationalistic narratives to increase their electoral support.

By law, all citizens have the same civil rights. The country’s various ethnic, religious, and cultural minorities are not excluded, *de jure* or *de facto*, from citizenship. However, some minorities, such as the Roma, continue to face significant discrimination in practice. The Ohrid Framework Agreement (OFA) implementation involves legal provisions to ensure the inclusion of ethnic minorities. Among them, the double (“Badinter”) majority principle requires that laws that directly affect the culture, language use, education, personal documentation, and use of symbols receive the support of the majority of members of parliament that represent minority communities. This has ensured minority inclusion both in the legislative and the executive branch. For example, the first ethnic Albanian deputy prime minister, who also leads the Ministry of Political System and Inter-Community Relations overseeing the OFA implementation, was appointed after the parliamentary elections of 2020.

However, there are strong concerns that the employment of minorities is politicized and still used to nurture clientelistic linkages with voters. The principle of “equitable representation,” intended to guarantee employment quotas for minority members in public institutions, has been used to put the clientele of the minority parties in government on the government’s payroll, without giving them administrative or work duties.

Ahead of the 2021 census, the first one in twenty years, debate on the citizenship law was politicized after the oppositional ethnic Albanian parties proposed making it exceptionally easy to obtain citizenship. The draft law proposed granting citizenship based on three witness statements that a citizen of the former Yugoslavia lived in North Macedonia at the time of independence in 1991. According to the opposition VMRO-DPMNE, the proposal presumably meant to issue “even more citizenships to Albanians from Kosovo who covet Macedonian passports for the ease of travel.” The political parties have claimed that at the moment, 70,000 people do not have citizenship but reside in the country. As of early 2021, the changes to the citizenship law were blocked by parliamentary procedures.

The separation of church and state is stipulated by the constitution, and the legal status of churches, religious organizations, and religious groups is established according to law. However, in practice, religious communities are not equal. The Macedonian Orthodox Church and the Islamic Religious Communities are favored and tend to have close ties to those in power. New Christian and Islamic denominations, especially the ones that are challenging the more dominant religious organizations, face difficulties in registration and activities.

Furthermore, church officials remain strongly involved in public affairs, and leading clerics sent concerning signals regarding respecting social distancing especially during the most important religious holidays such as Christmas, Easter, and Ramadan. For example, Orthodox bishops argued that sharing a teaspoon during communion will not spread the infection, while the head of the Islamic Religious Community declared “that the coronavirus is dead” in summer 2020.

However, the influence of religious organizations on legislation affecting the entire population appears rather low. For instance, both the Law on Pregnancy Termination and the Law on the Prevention and Protection against Discrimination were adopted in 2019 despite strong objections from MOC and IRC.

The administrative structures of the state are in place and provide most of the basic services throughout North Macedonia. 98-99% of the population has access to sanitation facilities and water sources. In the past, the country has in made efforts to reform public administration (i.e., enacted several new laws and created new strategies to promote reforms) and to improve the delivery of public services, including creating necessary infrastructure for e-government and e-services. However, the implementation of reforms faces significant challenges. A major challenge was to secure the necessary technical support for the digitalization of education. The other main challenge is the employment in the public administration through the clientelistic linkages (especially regarding the Democratic Union for Integration, BDI). The public perception echoes reports from different international organizations that the country has failed to develop a merit-based system for its public administration and employment remains based on party affiliation. The perception of corruption in public administration also remains prominent.

While basic services were not significantly limited or disrupted due to COVID-19, the pandemic further exposed some inefficiencies. For instance, many administrative procedures require a recent certificate from the registry books (no older than six months), even though some of these are not available electronically and require physical presence, exposing people to health risks.

Efforts continue to improve the quality of public service provision in crucial areas like social security, yet the enormous public administration remains a significant burden for the state budget.

No interference of religious dogmas

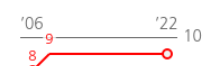
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Basic administration

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## 2 | Political Participation

Presidential elections were held in North Macedonia in spring 2019. In the second round, Stevo Pendarovski of the ruling Social Democratic Union of Macedonia (SDSM) defeated Gordana Siljanovska-Davkova of the opposition VMRO-DPMNE. The turnout was only 41.7% in the first round and 46.7% in the second round – just above the second-round minimum requirement of 40%. The country’s new name – formally ratified earlier that year – continued to divide ethnic Macedonians and eclipsed other campaign issues. Local elections in three municipalities on the same day filled mayoral positions left vacant by deaths and a resignation after criminal issues.

Election administration was professional, transparent, and impartial, enjoying the confidence of most stakeholders. The information systems of the State Electoral Commission (SEC) suffered some technical malfunctions that raised questions about information and communications technology (ICT) security. However, SEC published detailed preliminary results on its website soon after the end of voting.

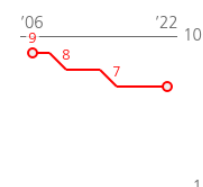
Both rounds of elections were calm and well-administered, and all candidates accepted the results. The overall assessment of the election by the OSCE mission was positive, as key procedures were followed. Some eligible voters were missing from electoral registers and some family and group voting was observed, particularly raising concerns about women’s right to vote freely and secretly. Clear indications of vote-buying were observed during the second round.

Early parliamentary elections initially scheduled for April 12, 2020, were postponed until July 15 due to the COVID-19 pandemic. Prime Minister Zaev called for early elections after North Macedonia failed to get a date for pre-accession negotiations with the European Union. Even though political parties disagreed over the necessity of holding elections at the time of an alarming increase in COVID-19 patients, SDSM stressed the absolute necessity of having a functional parliament (the previous parliament having been dissolved in February) and a new government that could make decisions on pandemic management to replace a technocrat government installed in January.

The elections took place under adjusted health protocols due to the pandemic. This included a separate early voting day for voters who tested positive for COVID-19 and those in self-isolation. The polling stations were adjusted to secure social distancing, and SEC introduced a comprehensive educational campaign. The elections were free and fair, without major incidents. Though it complied with health recommendations, turnout was low (51%). SDSM and their multiethnic pre-election coalition “We Can” which included the Besa Movement (an ethnic Albanian party) won 46 seats, two more than the VMRO-DPMNE-led opposition coalition. The Democratic Union for Integration (BDI) won the highest support

Free and fair elections

7



1

among ethnic Albanians with 15 seats, while the opposition Alliance of Albanians won 12 seats. BDI's campaign was predominantly focused on the promise of the first ethnic Albanian prime minister.

Soon after the voting ended, the SEC website was hacked, which resulted in disparities between votes counted and the data entered into the computer system of the Electoral Commission. This caused doubts over the validity of the official results. The major complaints about the campaign and the election day were related to political finance and misuse of budgetary resources. The State Commission for Prevention of Corruption (SCPC) was responsible for these cases, and it established violations in two of six complaints. One of the cases of abuse of budgetary resources was overturned by the Administrative Court.

Democratically elected political representatives have the effective power to govern. North Macedonia has no military, clergy, or political groups with veto powers that can undermine democratic procedures. However, business elites are believed to have significant influence in political processes. The separation of power between the different branches is constitutionally defined, but in practice, the executive dominates over the legislative branch, and the executive's tendency to influence the courts and the judiciary persists. The president holds a mainly ceremonial role, and the cooperation between the government and the president follows constitutional norms. Reforms have attempted to increase control over intelligence services and prevent overreach similar to the wiretapping scandal in 2015 – when, according to Zoran Zaev, who was the leader of the opposition at the time, over 20,000 citizens were under surveillance.

Freedom of association and assembly rights are guaranteed by the constitution. The law for citizens' associations and foundations, which was adopted in 1998 and amended in 2007 and 2009, enables citizens to form and join independent political or civic groups. The government respects this right.

However, the close alignments between the NGOs and political parties still persist from the political crisis of 2015-2017, when numerous civil society representatives assumed high-ranking positions in the cabinet of the prime minister and other institutions. Some of them maintain their government positions. The appointment of NGO representatives to government positions, along with some statements made by Prime Minister Zaev, initially undermined the role of the sector as a corrective to government and left the sector's independence under question. While some of the damage has since been repaired by the NGOs, the dividing lines between the government and the NGO domain are still perceived as blurred. The pressure against the civil society that characterized the period of the VMRO-DPMNE government has decreased, and it has escaped the constant stigmatization and attacks by the media and individuals under close control of the VMRO-DPMNE it experienced during that period.

Effective power to govern

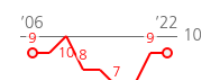
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Association / assembly rights

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The restrictions on assembly rights during the state of emergency were introduced on March 12, 2020, and were in place during different peaks of the pandemic, usually restricting gatherings in public spaces to two to five people at a time. In November 2020, the government banned domestic gatherings of over four people and in December, it banned gatherings at public squares and spaces to prevent social celebrations for Christmas and New Year Eve. Fifteen people participating in a May 31, 2020 protest named “Stop the breach of rights and freedoms, stop the vaccines, stop 5G antennae, stop the fake pandemic” were fined for breaching the rules. Beyond short periods of restrictions, the freedom of assembly has largely been unrestricted and there have been numerous unobstructed protests. Athletic and entertainment events remained restricted most of the time, and social distancing was obligatory at every event, including at the campaign meetings and rallies of the political parties.

The constitution guarantees the freedom of speech, and a legal framework for protecting the freedom of expression is in place. Government control of the media has been reduced compared to the period of rule by VMRO-DPMNE and Prime Minister Nikola Gruevski. There is no systematic control of the media, although individual occasional pressures and threats for legal processes against journalists are still present. In several instances, the Agency for Audio and Audiovisual Media Services has reacted strongly against government officials threatening media with lawsuits, labeling such efforts as pressure against the media.

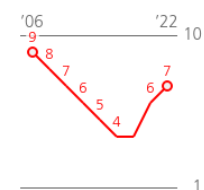
The national radio and TV public broadcaster retains the managing and editorial structure from the VMRO-DPMNE era four years after the change of government. The media landscape remains polarized, although the situation has improved slightly. The pressure of government structures on journalists has significantly decreased, and the existence of the opposition media is not endangered. The spread of false information is very high and increased during the COVID-19 pandemic. Hate speech remains present and is seldom addressed by relevant institutions. Online media remains highly under-regulated.

### 3 | Rule of Law

In North Macedonia, power is divided among the three branches of government: the parliament (Sobranie), the executive (the government and the president) and the judiciary. The president can veto legislation once but must accept it if the same bill passes again. Generally, the president collaborates well with the government – mainly because the president and the government come from the same end of the political spectrum, in contrast to the time when Gjorgje Ivanov, supported by VMRO-DPMNE, was still a president. The Constitutional Court evaluates and decides whether laws are in accordance with the constitution, and individual citizens can file a case to the Court to evaluate an entire law or part of it.

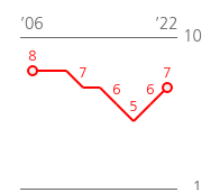
Freedom of expression

7



Separation of powers

7



The parliament is functional, but still highly polarized. The government remains dominant over the parliament in the legislative agenda but, given the slim majority in government, the quorum requirement can easily be politically instrumentalized by the opposition. The opposition VMRO-DPMNE, The Left (Levica, a new parliamentary group) and the Alliance for Albanians all use filibustering to block some proposals of the government. That has led to a blockage of the work of the legislature.

The COVID-19 pandemic hit North Macedonia in a peculiar period. In line with the 2015 Przino Agreement, a technocrat government led by Oliver Spasovski, a technocrat prime minister, and ministers from VMRO-DPMNE was appointed 100 days before the early parliamentary elections scheduled for April 14, 2020 (later postponed for July 15). On February 16, 2020, the parliament dissolved itself, meaning that the pandemic crisis hit the country when it did not have fully functioning institutions. A state of emergency was declared by President Pendarovski on March 18, 2020 and extended several times. As the parliament was dissolved, the government made the decisions necessary to deal with the crisis. A lockdown and several curfews were enforced to keep the infection numbers low. The fact that the opposition was part of the technical government during the first wave of the pandemics did not help to achieve national unity, as parties used this opportunity for blame-shifting.

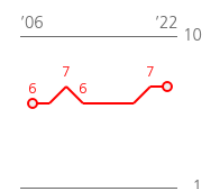
A set of reforms of the judiciary intended to decrease political control took place during the review period. On February 16, 2020, the parliament adopted a new Law on Public Prosecution with a two-thirds majority, and the government announced the completion of the legal framework for the judicial reform. The new law – a key condition for EU membership negotiations – will pass the control of major corruption and organized crime cases to the public prosecution office. While the judiciary governing structures have not changed since before the 2015-2017 political crisis, their loyalty has been shifting toward the new governing majority; the courts remain susceptible to political influence.

The independence of the judiciary is formally guaranteed by the country's legal framework and has gradually been strengthened in practice. There is 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 2020, good progress was made on the implementation of the judicial reform strategy, but systematic implementation of the strategy's action plan remains to be ensured.

New rules for the appointment, promotion, disciplining, and dismissal of judges have been introduced, and the judicial council has taken a more proactive role. The announcement for vetting judges – which raised high hopes of increasing accountability of the corrupted judiciary among citizens – has yet to be fully implemented. So far, it amounts to action taken against few individuals without serious systematic consequences.

Independent judiciary

7



The situation with the Special Prosecutor’s Office (SPO) has been especially concerning. SPO – the most trusted institution among citizens in 2017, and one that symbolized hope that those responsible would be held accountable – was involved in a large bribery and extortion scandal. Katica Janeva, the former special prosecutor, was found guilty of misuse of office and sentenced to seven years in jail. In a highly publicized “extortion” scandal, she was accused alongside Bojan Jovanovski, a showman turned businessman. The court found that Jovanovski, colluding with Janeva, used information from the SPO and asked for €1.5 million from Orce Kamcev – one of the country’s wealthiest entrepreneurs investigated by SPO – to get him out of detention and regain his passport. With the changes in the Law for the Public Prosecutor, SPO was abolished, and all active cases were delegated to the public prosecutor.

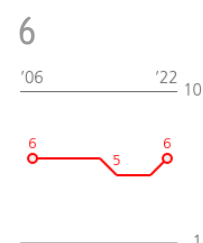
The legal framework for prosecution of office abuse is largely in place; however, the relevant institutions lack resources. They need to increase capacities and improve their horizontal cooperation, such as of the anti-corruption agency with the public prosecutor. At the same time, corruption remains prevalent, and attempts to decrease it have produced only small concrete results. In general, the legal resolution of corruption cases takes an extremely long time, including in high-level cases started by the former SPO’s office, and the courts remain inefficient in dealing with the processes. Still, several cases of office abuse, including the most prominent one against the head of the Special Prosecutor’s Office, Katica Janeva, were processed. In the case of Katica Janeva, it resulted in a jail sentence.

Civil rights are guaranteed by the constitution, and in principle, there are institutions to protect them, such as the ombudsman, the Commission for Protection of Discrimination and the Directorate for Personal Data Protection. Most of these independent bodies, however, became staffed with high-profile former or current politicians. The most prominent example is the selection of Naser Ziberi, BDI’s recent candidate for prime minister, for the new ombudsman. Similar trends appeared also during the selection of the new members of the Commission for Protection of Discrimination, even though some of them came from the NGO sector.

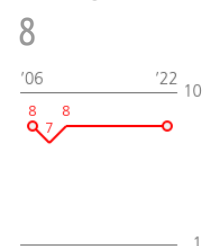
Some vulnerable groups are often subject to discrimination and the denial of basic liberties. The authorities’ selective application of established laws especially harms the Roma and the poor. Some progress has been made in securing basic access to health services to women from rural regions and Romani women.

A “Public Room” scandal revealed a secret group sharing nude pictures of women, including underage girls, without their consent on the Telegram messaging app. The slow reaction of the police and the prosecutor’s office and allegations that members of the police themselves had been involved shows a lack of capacity and willingness of the institutions to fight against this problem.

#### Prosecution of office abuse



#### Civil rights



The new government reintroduced LGBTQ+ as a protected category in the law against discrimination after the Constitutional Court had blocked the law. Although hate speech against the LGBTQ+ community has decreased and the government has shown higher levels of support for this group, members of LGBTQ+ groups and advocates of their rights are still targeted with physical violence, harassment, and derogatory language, even from journalists and official political representatives.

Finally, prisons have poor infrastructure and remain crowded. The number of incarcerated people is higher than the capacity of the country's prisons.

#### 4 | Stability of Democratic Institutions

The democratic institutions are relatively stable since slowly returning to normality after the prolonged political crisis and violence that ended in 2017. Although parliamentary debates are highly polarized and the opposition uses filibustering and absence when the majority is struggling to achieve a quorum, the parliament is stable and functioning.

The new government has full political control and since the ruling coalition (SDSM, BDI, and Besa Movement) also controls nearly 90% of the mayoral positions, the communication and cooperation between different levels of government are smooth. Collaboration between President Stevo Pendarovski, supported by SDSM, and the SDSM-led government is stable and uncontested.

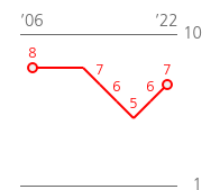
Citizens accept the legitimacy of democratic institutions. In principle, all influential political actors accepted democratic institutions in the past. The opposition continues to oppose the use of the new constitutional name of the country (for highly symbolical political purposes) but continues to participate in the political life of the country. The highly polarized environment between the government and the opposition is the chief obstacle to the higher efficiency of institutions. A consensus was achieved only in very few cases, such as the agreement about the Law on Prevention and Protection from Violence against Women and Domestic Violence.

#### 5 | Political and Social Integration

The Social Democratic Union of Macedonia (SDSM) and Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE) are the main political parties in North Macedonia. SDSM is a reformed social democratic successor of the League of Communists of Macedonia. For VMRO-DPMNE, VMRO refers to a Macedonian revolutionary movement in the early 20th century and DPMNE to “Macedonian national unity” as their core objective. The two parties have alternated in power and remain the main significant

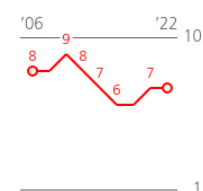
Performance of democratic institutions

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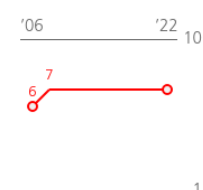
Commitment to democratic institutions

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Party system

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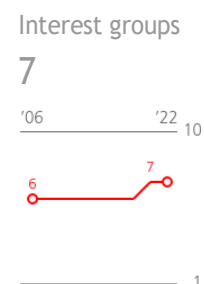
players, although smaller new and splinter parties have emerged. Since the electoral system was changed to proportional representation in 2002, SDSM and VMRO-DPMNE lead block coalitions in elections. Ethnic Albanian parties have sought political reforms to improve the status of their community. Democratic Union for Integration (BDI), founded by the leaders of the National Liberation Army, a rebel group involved in the 2001 conflict, has been part of the ruling coalition between 2002 and 2006, and since 2008. BDI's dominance among ethnic Albanians has been contested by the Alliance for Albanians (AA) promoting Albanian nationalism and mobilizing former supporters of the Democratic Party of Albanians, and the Besa movement, a conservative ethnic Albanian party currently included in the ruling coalition.

Ethnicity is the main political cleavage, and ethnic nationalism remains important for political mobilization, although political opponents within ethnic groups are also strongly polarized. In 2020, SDSM formed a pre-election coalition with an ethnic Albanian party (Besa Movement) for the first time, and SDSM has been gaining support in majority ethnic Albanian areas. However, voting largely continues to follow ethnic lines. A new anti-establishment party, The Left (Levica), entered the parliament in 2020, combining a progressive economically left platform with a nationalist agenda opposing the Prespa agreement, the agreement with Bulgaria, the law on languages, etc.

Clientelism plays an important role in party support. After coming to power, all major political parties find various ways to extend public goods to targeted groups. For example, the number of employees in public administration increased and subsidies for farmers and pensions increased. In return, the parties expect political and voter support, although not as explicitly as during the VMRO rule.

The number of splinter and new parties remains high, but party system fragmentation and electoral volatility have decreased. The power struggle inside VMRO-DPMNE might have possible consequences in the future. An initiative committee unrecognized by the party leadership announced an irregular party congress for the first half of 2021, seeking to change the party leader. SDSM has been recounting its membership before organizing the first direct elections of the party leader. This is, however, more symbolic given that Zoran Zaev, the current leader and prime minister, has consolidated power inside the party.

The government has declared openness and interest to collaborate with different interest groups. For instance, the Strategy for Cooperation between the Government and Civil Society 2018-2020 aimed to create a stronger working relationship between the NGO sector and the government. While in principle, there has been more communication between the two and certainly more openness from the SDSM-led government than the previous ruling coalition, the impact of civil society organizations has been limited. Often, the government is reactive, correcting its course after adverse civil society reactions to its plans.



Civil society organizations participate in public discussions at the national and local levels, but this practice is rather sparse. The official government's bodies hold public discussions infrequently. The legal requirements for public discussions have been subject to various interpretations.

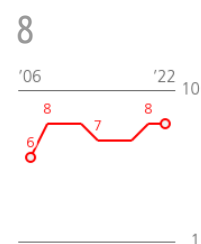
While the government has declared the establishment of a strong national tripartite social dialogue between government, workers, and employers to discuss public policies and laws, this has not worked in practice. Legal provisions for social dialogue are adequate, but the participation of social partners in formulating policy and in decision-making remains inadequate. Unions remain ineffective and largely reactive, which is perhaps unsurprising considering that the largest union is traditionally close to the party in power. Smaller independent unions have been active but have not influenced policies significantly. Collective agreements are either lacking or not binding.

The employers' organizations were very active during the COVID-19 pandemic, seeking support for businesses. The government attempted to fulfill their and trade unions' requests and suggestions to prevent social unrest. However, the government kept the main role in deciding policy, and social actors, mainly business associations, influenced them through private channels rather than formal ones. The general perception remains that the government nurtures close ties to and is influenced by the business community, especially as prominent former cabinet members in SDSM-led government are associated with business leaders.

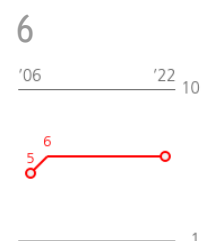
Public opinion polls show citizens' approval of democratic norms, even though trust in the institutions and especially in political parties remains low. A public survey from early 2020, for instance, indicated that citizens rank their trust in most institutions at around 3 or 4 on a 10-point scale. The opinion polls, however, also show that the primary concerns of most citizens are socioeconomic issues and economic stability rather than democratic norms and procedures. According to the Balkan Barometer 2020, trust in the main institutions (the parliament, the government, and the judiciary) is among the lowest in the Western Balkans. The trust in the rule of law institutions is particularly low.

The level of interpersonal trust is rather low, with some 2012-2016 studies showing a trend of the trust in one's neighbors continuously being within the 45-50% range. The trust is likely higher in rural areas and lower in urban areas. The trust between ethnic Macedonians and Albanians is very low – the general perception is that the other community is more privileged and tolerated. During the COVID-19 restrictions, some ethnic Macedonians raised concerns that the restrictions and curfew were much harsher during Christian Orthodox holidays than Muslim celebrations and vice versa. A similar sense of injustice also regards (dis)advantages in gaining job opportunities in public administration.

Approval of democracy



Social capital





Nevertheless, the country has an active civil society (in a broad sense), including several voluntary organizations throughout the country. A Law on Volunteering was adopted in 2007. During the COVID-19 pandemic, different grassroots initiatives of mutual support and solidarity emerged.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

The Human Development Index in 2019 (0.774) North Macedonia at rank 82 out of 189 countries, a slight decrease compared to 2018 (rank 80). This puts the country below Albania and all the other Yugoslav successor states except Kosovo. The Gini coefficient decreased compared to 2008 (34.2 vs 44.1), when it was the highest in the Western Balkans and among the highest in Eastern Europe. Currently, North Macedonia outperforms Serbia, Montenegro, and Bulgaria, but lags behind Albania and Kosovo. The poverty rate in 2017 was 9%, again the highest in the Western Balkan region. The COVID-19 pandemic has worsened this situation, given that the most vulnerable categories are the most affected. The government introduced a set of rescue measures including a direct stimulus for the unemployed, retired, and individuals with the lowest income. According to the World Bank and local civil society, close to one-third of the population lives in poverty, including those employed at minimum wage.

The official unemployment rate was 16.4% in 2020, the lowest since independence, and significantly lower than ten years ago (32%). Although the government pandemic rescue measures included an obligation for the employers to retain all their employees during the pandemic, a significant number of jobs have been lost since the outbreak of the health crisis according to projections. Unemployment is particularly high among women, who also account for 64.5% of the economically inactive population. The latter is primarily because women are expected to care for children and the elderly – especially when public services are not available or accessible – and due to their informal, often unpaid work in family farming. The situation is particularly alarming in rural areas.

In recent years, unemployment registration has become more stringent and access to higher education has improved. In addition, emigration and remittances have eased social pressures. However, long-term unemployment remains high, and youth unemployment is around 50%. The World Bank links high unemployment in North Macedonia to structural economic problems – for example, the failure of economic reforms and the diversification of industries.

Question  
Score

Socioeconomic  
barriers

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North Macedonia has a Gender Inequality Index value of 0.143, putting it at rank 35 out of 160 countries in the 2017 index. Due to mandatory quotas, women hold 39.1% of parliamentary seats. 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. For instance, female workers dominate in the textile, leather, and shoe industries, where workers' rights are most blatantly disregarded. Gender inequality also intersects with a place of residence and ethnicity – rural and Roma women are at particular risk of social, economic, and political exclusion.

Economic indicators		2017	2018	2019	2020
GDP	\$ M	11310.3	12679.9	12547.1	<b>12266.9</b>
GDP growth	%	1.1	2.9	3.2	<b>-4.5</b>
Inflation (CPI)	%	1.4	1.5	0.8	<b>1.2</b>
Unemployment	%	22.4	20.7	17.3	<b>18.4</b>
Foreign direct investment	% of GDP	3.4	5.1	4.4	-
Export growth	%	8.3	15.6	4.6	<b>-10.9</b>
Import growth	%	5.2	9.1	10.5	<b>-10.5</b>
Current account balance	\$ M	-96.7	-16.6	-418.6	<b>-424.2</b>
Public debt	% of GDP	39.4	40.4	40.6	<b>51.3</b>
External debt	\$ M	8544.3	8666.4	8986.3	<b>10606.7</b>
Total debt service	\$ M	876.7	1290.5	721.9	<b>1158.2</b>
Net lending/borrowing	% of GDP	-2.8	-1.8	-2.0	-
Tax revenue	% of GDP	17.2	17.6	17.2	-
Government consumption	% of GDP	14.9	14.3	14.0	<b>16.8</b>
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	3.8	3.8	-	-
R&D expenditure	% of GDP	0.4	0.4	-	-
Military expenditure	% of GDP	0.9	0.9	1.2	<b>1.3</b>

Sources (as of December 2021): 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 legal foundations for a competitive market economy are, by and large, established in North Macedonia. Administrative reforms to cut red tape and shorten the time of bankruptcy procedures have been put in place. Conditions for establishing a business are good according to the World Bank's 2020 Doing Business report. Doing so takes 15 days, six procedures, and costs 3.1% of the average per capita income.

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. The informal sector is still considerable – it declined from 40-45% of GDP to around 24% over a ten-year period. According to the EU Labor Force Survey, in 2016 informal employment represented 18.1% of total employment or around 130,000 individuals. The most prominent forms of the informal sector are unregistered labor, undeclared wages, and other irregularities in the enforcement of the Labor Relations Act.

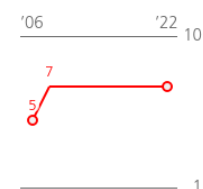
Anti-monopoly institutions and legislation are in place in North Macedonia. The Commission for Protection of Competition (CPC) is in charge of anti-monopoly measures. Legislative changes, including aligning the Criminal Code with the Law on Protection of Competition, allow for leniency procedures. The CPC has adequate staff but lacks expertise and a stable source of funding. Awareness of rules and procedures is also low among stakeholders. 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 an exemption to horizontal and vertical agreements by engaging in self-assessment. With the help of regulation, the CPC is attempting 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 is highly integrated into international trade, with a total 2019 trade-to-GDP ratio of over 133% according to the World Bank. The simple average MFN applied in 2019 was 6.7.

The country has liberalized trade with the European Union, according to the Stabilization and Association Agreement signed in 2001, which entered into 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. Its main trading partners for exports

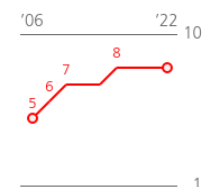
Market  
organization

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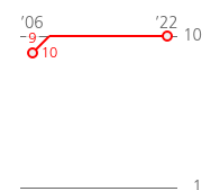
Competition policy

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Liberalization of  
foreign trade

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are Germany, Serbia and Bulgaria, while most of the imported goods come from the United Kingdom, Germany, Greece, and Serbia.

In 2019, the country exported goods worth \$7.2 billion (+4% compared to 2018) and imported goods worth \$9.4 billion (+4.6%). Regarding services, in 2019, North Macedonia exported \$1.8 billion of commercial services and imported \$1.4 billion. The overall trade deficit was at 14.2% of GDP in 2019 (World Bank). As in most countries, the COVID-19 pandemic significantly disrupted and reduced North Macedonia's international trade, with an estimated reduction of 13.8% for exports and 11.6% for imports. The expectation, however, is that both figures will rebound in 2021.

According to an 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 European Union, CEFTA, and the WTO also needs to be strengthened.

North Macedonia has a solid capital market, characterized by substantial foreign ownership of banks (75%). According to the World Bank, North Macedonia's financial stability indicators are better than those of its peers. Some 14 commercial banks operate in the country, but the three largest banks – Komercijalna Banka, Stopanska Banka Skopje, and NLB Tutunska Banka – still dominated with more than half of the market share in 2020.

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 4.6% – lower than the Western Balkan average. NPLs are mostly corporate and highly concentrated in some banks. The bank capital to assets ratio (11% in 2019) 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.

In August 2020, North Macedonia's central bank revoked the license of Eurostandard Banka AD Skopje due to noncompliance with minimum capital requirements. However, it is unlikely to have a significant negative impact on the banking sector, as the bank only accounted for 1.3% of the banking system. Nearly all of its retail clients received compensation from the Deposit Insurance Fund at a total cost of about \$84 million.

While the National Bank, in consultation with the Ministry of Finance and the Macedonian Banking Association, has twice (in March and in September 2020) allowed commercialized banks to offer their clients a six-month postponement of loan repayments, the banking sector has not faced a credit crisis.

#### Banking system

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## 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 that is mandated to have a strong governor. The rate of inflation, which was in double digits in the early 1990s, has remained very low since, at just 0.81% in 2019, following three years of deflation brought about by the economic situation in the European Union, North Macedonia's main trading partner.

The stability of the Macedonian denar prevents high inflation. The denar is de facto pegged to the euro at an exchange rate of 61.5. This is because 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 98.3 in 2019 – the lowest in five years. A lack of fiscal prudence and fiscal consolidation may strain the stability of the currency and prices. An increase in governing spending to deal with the consequences of the COVID-19 pandemic was based on borrowing and reserves.

In 2019, North Macedonia's current account balance increased to -\$352.9 million, from just -\$25.6 million in 2018. The total reserves in 2019 increased to \$3.3 billion from \$3.0 billion in 2018. The public debt in the pre-COVID period was relatively stable, around 40% of GDP. The government focused on securing price stability and external balance through macroeconomic policies, given the de facto currency peg to the euro. The country's fiscal discipline and well-functioning coordination between fiscal and monetary policy have been confirmed by international financial institutions. Tax revenues increased to 17.7% of GDP in 2018 (17.2% in 2017), continuing a steady increase since 2013. The European Union estimates that tax revenues have been overestimated on average by 6% in the last five years, causing a need for supplementary budgets and higher deficit targets.

Because of the COVID-19 pandemic, the country faced the deepest recession in two decades. It was one that affected all sectors – the economy was expected to contract by 4.1% in 2020 (World Bank Regular Economic Report). Public debt exceeded 50% of the GDP as the government introduced mostly temporary measures to help firms' liquidity problems, protect jobs and support the most vulnerable (IMF Covid Policy Tracker).

### 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, amendments were made to the Law on Real Estate Cadaster in 2014, which made it possible to register property free of charge in certain municipalities. The new government has extended the existing initiatives to allow citizens and legal entities to register their property without a fee. As a result of this type of initiative, more than 100,000 cadastral parcels, 60,000 cadaster parcels of agricultural land and 40,000 cadastral parcels of construction land were registered between 2014 and the present.

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

The legal framework for a functional private sector is in place. The new government has aimed to make decision-making more transparent and to reverse some problematic trends. They have also aimed to improve opportunities for private investment, both domestic and foreign. However, in the domestic economy, small enterprises focused on the domestic markets with poor links to international value chains still dominate. Enterprises also suffer from unstable regulation in areas such as licensing and judicial enforcement of regulations.

The share of state-owned enterprises (SOEs) remains high, especially in the energy, banking, water supply, communal utilities, and public transportation sectors. Many state-owned enterprises are unprofitable, and in 2021 the government prioritized their privatization or finding a private partner for several SOEs that have accumulated losses for the last decade. This might increase the market competition in those sectors.

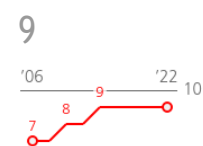
Private companies are given functioning legal safeguards. The privatization of state companies has proceeded consistently with market principles in recent years. However, in the aftermath of the fall of the planned economy, the privatization of companies was marked by a number of suspicious and harmful decisions, with many workers losing their jobs. As a result, some opposition parties have raised the issue of changing the statute of limitations for the privatization period, implying criminal activities in some cases. Meanwhile, privatization of agricultural land has also been initiated, with Prime Minister Zaev stating that he expects to have the debate on legislation concluded by the end of June 2021.

### Property rights



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### Private enterprise



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## 10 | Welfare Regime

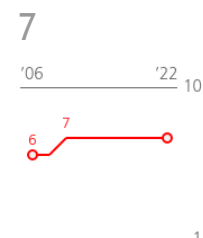
Social safety nets exist and one-third of the annual budget goes to social transfers, such as pensions, social and child protection. However, given overall economic performance, the safety net is not sufficient to compensate for poverty or other risks such as old age, illness, unemployment, or disability. The government has committed to building a new university clinical center in Skopje. Supposedly, this will be the greatest investment in the health care system since independence. The COVID-19 pandemic, however, showed the limited capacities of the health system, and efforts to adapt it to the needs of the pandemic were made through donations and expenditures.

Important progress has been made in introducing reforms of welfare policies, which will significantly increase payments to the most vulnerable categories of citizens. In response to the COVID-19 pandemic, the government implemented five packages of measures based on three main pillars: (i) financial transfers to the population to encourage the consumption of local goods and services; (ii) direct support for the economy, and (iii) agricultural aid (OECD). However, the government stimuli were very limited in creating an adequate safety net. It would be more accurate to describe them as neutralizing the dissatisfaction of citizens and businesses with the consequences of the pandemics.

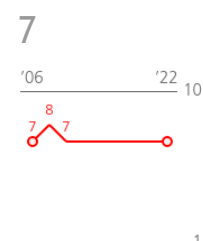
The Ministry of Labor and Social Policy has made considerable progress in terms of social inclusion and equal opportunity. The government has confirmed its commitment toward the LGBTQ+ community by adopting the Law on Prevention of and Protection Against Discrimination in 2019, which was previously overturned by the Constitutional Court. Primary education enrollment remains high (98.2%), and girls and boys enjoy equal learning opportunities. According to the World Bank, the enrollment ratio in secondary education is 80%, while it is 43.1% in tertiary education. 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 education.

Women have the same legal status as men, but they do not enjoy the same rights in practice. For example, they are under-represented in senior positions in the private and public sector and own less property. In 2020, women comprised only 39.3% of the total labor force, and the female inactivity rate remains one of the highest in the region. This is primarily due to the expectation that women will provide unpaid domestic care, a lack of institutional support, and unpaid work in family businesses and farming. Only few women feature in senior positions in the private and public sectors. However, a compulsory gender quota applies for political party lists in elections. Some progress was made on gender equality, notably through the

Social safety nets



Equal opportunity



ratification of the Council of Europe's Istanbul Convention in December 2017. The existing laws on gender equality are adequate, but often poorly implemented. The legal changes from January 2019 guarantee women the right to choose whether to have an abortion, removing obstacles introduced by laws in 2013.

## 11 | Economic Performance

The GDP per capita grew by 3.5% in 2018 following a trend from previous years. Because of the COVID-19 crisis, 2020 was marked by a sharp economic decline, with contraction recorded from the second quarter; a decrease is also projected for 2021.

In 2019, the Consumer Price Index (CPI) grew for the third year in a row (+0.8%) following three years of deflation because of the contraction in the European Union. Foreign direct investment was over 3.8% of GDP in 2019, a small decrease compared to 2018, and the current account deficit sharply increased in 2019 to -2.8% of GDP (World Bank).

Unemployment decreased and reached the lowest level since the country's independence in 2019, but registered unemployment remained one of the highest in the world (16.4%). Unemployment rose again during the COVID-19 crisis, with 40,000 newly registered unemployed citizens between March and August 2020; the economic activity rate has decreased to 55.9% in the fourth quarter of 2020 from 57.5% a year earlier. The Unemployment Agency estimates that only 12,580 of the newly unemployed were let go because of the crisis, while others decided to register as unemployed due to the measures introduced by the government.

In 2019, public debt was 40.2% of GDP, a slight decrease from 2018 (40.6%). The tax revenues remain around 17% of the GDP, but the European Union expressed concerns that tax revenues have been overestimated by an average of 6% in recent years. Public spending still grows and the level of capital investments was very low in 2020. This trend owes not only to the coronavirus crisis, but in recent years the realization of the capital projects planned in the budgets never surpasses 80%.

Output strength

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## 12 | Sustainability

The government shows increasing interest in dealing with environmental concerns. Through different subsidies, the government stimulates businesses and private enterprises to shift to renewable energy sources. There is an ongoing program of substituting old heating systems in schools with efficient and ecological alternatives. The country also makes efforts to encourage the use of natural gas to increase energy efficiency and environmental friendliness in businesses and households. Additionally, the current government endorsed the Green Agenda for the Western Balkans in November 2020 as part of the EU-Western Balkans Berlin Process. However, according to environmental NGOs, the Green Agenda does not go far regarding environmental sustainability - for instance, it foresees the building of many hydropower plants that would threaten biodiversity in the region.

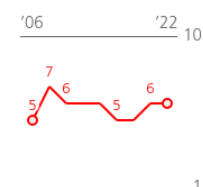
Air pollution is a severe problem in major cities. According to the World Health Organization, Skopje and Tetovo have the highest level of air pollution in Eastern Europe after Sarajevo in Bosnia. Several factors account for air pollution: the use of wood for heating (64% of households, according to World Bank 2019), traffic, and outdated metal industry facilities. A Clean Air Plan for 2019 (€2 million) foresees measures to cut pollution, build public awareness and enhance regulation and administrative capacity.

Major environment protection projects, such as the Lake Ohrid project, are supported by institutions that donate financial sources. However, this project is in jeopardy due to plans to build a large tourist resort on its shore. The great concerns about Lake Ohrid were confirmed in the 2019 UNESCO report that inscribed the lake on its list of World Heritage Sites in Danger.

Moreover, following several local referenda and an active environmental protest movement in the southeast of the country, where the VMRO government had issued many concessions for gold and copper mines (more than 80 since 2012), SDSM ran on a platform to withdraw the concessions. Some of the concessions have been withdrawn, while one withdrawal was challenged by the Administrative Court on procedural grounds. Environmental activists in that part of the country, where a large part of the population sustains itself through agriculture and farming, remain vigilant regarding any future developments.

Environmental  
policy

6



North Macedonia ranks at the low end of Southeastern Europe in the UN Education Index (0.704 in 2019). However, literacy is quite high (97-98%) and enrollment rates have improved, mainly because secondary education has become compulsory and access to higher education has improved through decentralized university programs. The education system is slow in addressing the mismatch between the skills demand in the job market and what is taught, although efforts are underway to modernize vocational education.

The quality of education has not substantially improved. Public expenditure on education (about 4% of GDP) is slightly lower than the EU average. Enrollment and completion rates of secondary (about 87% completion) and tertiary education have risen slowly and remain below the EU average. However, 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, with the country at rank 68 among the 70 included countries, ahead only of Kosovo and the Dominican Republic. Important efforts were made to adapt primary and secondary education to the needs of digitalization due to the COVID-19 pandemic. After initial troubles, the digital platform is operating and allowing the regular academic program to continue.

Educational infrastructure, resources, and capacities need substantial improvement and investments. R&D expenditure remains low – only 0.4% in 2018 and there is no formative strategy to increase the focus and investments in research and development. 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 funds were granted to individuals close to high government officials.

The functioning and management of public education institutions, including universities, is politicized. The latest attempt for reforming primary education that was announced in late 2020 earned great interest in the public and it is a matter of a new politicization mainly because of new approaches to the study of history. This topic overshadows the entire debate and distracts from the possible benefits of the reform.

Education policy /  
R&D

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## Governance

### I. Level of Difficulty

The structural constraints on governance are fairly high in North Macedonia. Although the unemployment rate reached the record lowest prior to the pandemic, it remained very high, with one of the highest youth unemployment in Europe. 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 farming. A high proportion of the population is at risk for social exclusion (over 40%). GDP per capita is rising and reaches around 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 have been delayed because of malpractice by the previous government.

The country has faced structural problems since independence (and even before), 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 in the 1990s contributed to the painful adjustment to a market-based economy. The economic embargo by Greece in the aftermath of independence also significantly harmed this landlocked country.

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

The infection rates and the excess death rates during the COVID-19 pandemic were very high. As of January 31, 2021, there were over 90,000 infections and nearly 3,000 deaths (one of the highest death rates per million in the world).

Structural  
constraints

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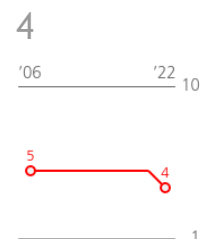
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Since independence, North Macedonia has enjoyed a vibrant civil society, with many civil society organizations (CSOs), social movements, and various associations. This is due to the legacy of the Yugoslav period when neighborhood associations were very active and promoted political engagement at the local level. There were also many civic organizations, ranging from women’s associations to youth organizations, from fire brigades to cultural and sports clubs. That civil society tradition continued in the post-independence period. 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 institutional capacities, given the donors’ focus on projects instead of organizational strengthening. Few CSOs are membership-based. The law for citizens’ associations and foundations allows CSOs to assume certain public competencies.

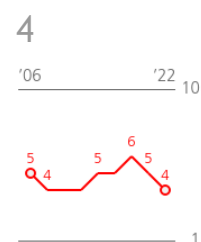
Civil society has been strongly politicized in the last decade. It went through a turbulent period during the rule of Nikola Gruevski and VMRO-DPMNE, when independent CSOs were subject to various attacks. It played an important role in the protests and the so-called Colorful Revolution that brought about the fall of Gruevski and government alteration.

Political tensions are ongoing, though the conflicts between members of the political elite no longer involve violence and hostilities. However, society remains highly divided along social, ethnic, political and religious lines. Government and opposition parties alike exploit the “ethnic card” to drive policy proposals which, in turn, further polarizes things. This polarization is then manifest in the fact that ethnicities are provided on personal ID cards and ethnic quotas are proposed in the hiring practices of private companies.

Civil society traditions



Conflict intensity



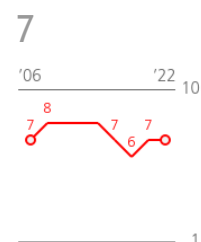
## II. Governance Performance

### 14 | Steering Capability

The government identifies EU and NATO integration as the main strategic priority alongside building “one society for all,” by which it means developing the economy, improving living standards, building a just society, and enhancing institutions and the rule of law. The new government that came into power in 2017 has also emphasized the fight against corruption as a priority. It also started a set of popular measures to ease the cost of living for the poorest, such as boosting the minimum wage. However, the introduction of progressive taxation was postponed following pressure from business associations and the lobby inside the ruling party, SDSM.

Question Score

Prioritization



The political capability to take on a longer-term perspective – especially on the main domestic issues such as the judiciary and the fight against corruption

– is determined by coalition interests. The thin parliamentary majority often struggles to secure a quorum, since the opposition strategically avoids plenaries when some members of the majority are absent. The compromises that are made prioritize party interests and the established clientelistic practices. Strategic priorities are followed mainly when directly related to the positive assessment in the European Commission (EC) annual progress reports. The government is committed to judicial reforms to establish the rule of law after a massive failure under the previous government. The EC has acknowledged good progress regarding its recommendations, particularly in addressing police impunity and improving the freedoms of expression and the media. However, perceptions of corruption have failed to improve.

COVID-19 did not significantly harm government prioritization; however, the executive's organizational capacity was fully focused on dealing with the pandemic.

The primary focus of the government was implementing judicial reforms and securing a qualified majority for the Law on Public Prosecutor. This was of crucial importance for securing a positive progress report from the European Union. However, implementation of the judicial reforms still in the early stages and has not yet had a tangible impact on citizens' lives. To date, no efficient strategy to fight corruption has been implemented, and efforts remain declarative.

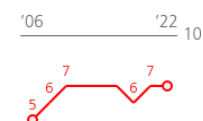
Because of the COVID-19 pandemic, the government had to focus on adapting the educational system for online learning. This process was successfully implemented. However, the government failed to develop a coherent and sustainable strategy for vaccination, causing North Macedonia to lag in early 2021.

The government displays some aptitude for policy learning. This was particularly clear in the digitalization of the educational system, where prompt measures had to be implemented with little notice. The government was also able to work on implementation of the recommendations from the European Union and to set a reformist pace to deal with the judicial reforms, even though some aspects of the judiciary have not yet been reformed. Due to the COVID-19 pandemic, the government had to push toward further digitalization. Unfortunately, no significant progress was made in many fields, including public administration and the judicial system.

Good progress has been made in planning public administration reform: for example, the Public Administration Reform Strategy and Action Plan for 2018 to 2022 and the Public Financial Management Reform Program for 2018 to 2021 were adopted. These should strengthen the principle of merit-based recruitment and help tackle the party line cleavages in public administration. However, the recruitment of loyal party supporters to public administration persists and the implementation of the two strategic documents lag behind.

#### Implementation

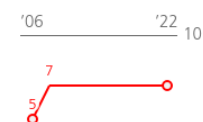
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#### Policy learning

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The reorganization of the public administration and increases in transparency as part of the Public Administration Reform Strategy were emphasized in 2020, and several projects supported by the European Union are ongoing in achieving these goals. The annual reports that follow the realization of the strategy and the action plan show real progress in achieving better efficiency and transparency, but these results are still far from the optimal level.

Meanwhile, civil society and other stakeholders have become more involved, even if insufficiently, in policymaking since 2017 than during the previous government.

## 15 | Resource Efficiency

Despite some progress, the government does not use resources efficiently. A merit-based system is not in place, as patronage practices remain widespread behind a facade of competitive recruitment. Also, the practice of politically motivated dismissals and appointments continued during the period under review.

The overall debt seems manageable but growing. However, public finances still lack transparency. While transparency in planning and implementation has increased, 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 of decreasing discretionary budgets of government ministers and more focus on responsible and efficient management of public money.

The government was inefficient in using the funds for capital investments, and these funds have been additionally directed to covering the costs of transfers and social care. The state auditor lacks funding and capacity to fully exercise its competencies. Although there is declarative support for further fiscal decentralization, administrative obstacles keep fiscal decentralization lagging behind. The fact that almost all mayors come from the ruling parties lessens the politicization of transfers to municipalities run by the opposition.

The winners of the snap elections in 2020 – the SDSM-led “We can” coalition and BDI – continued their cooperation in the new government. Although policy coordination among coalition partners is smooth, differences between partners remain visible, for example when the SDSM minister of labor and social policy revealed a possible scandal over the misuse of pension fund led by BDI officials. Administrative mechanisms for coordination between ministries exist and have been used especially during the COVID-19 pandemic. Policymaking in many domains seems to have been decentralized, which differs significantly from the centralized and personalist approach of the VMRO-DPMNE-led government (2006-2016).

Efficient use of assets

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Policy coordination

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In order to achieve a parliamentary majority to pass constitutional amendments for judiciary reforms, SDSM had to make policy goal trade-offs with the opposition and BDI. Given the importance of those areas for the start of EU accession negotiations, it remains to be seen how the reforms passed by parliament will translate into coherent actions.

The fight against corruption remains one of the most urgent issues in North Macedonia. Regulations and institutions to contain corruption – such as the State Commission for the Prevention of Corruption (SCPC) and the State Audit Office – are in place. Both enjoy considerable independence and significantly less government control and pressure than under the previous government. The SCPC has a more independent role and has shown a proactive role in identifying cases of corruption, conflict of interest, and transparency of public procurement. The SCPC also disclosed several cases of misuse of public funds for electoral campaigns.

However, the SCPC lacks personnel and logistic support; the latest recruits, based on commitments from the Ohrid Framework Agreement for a just representation of ethnic groups, failed to meet SCPC's needs adequately. The state paid these public servants, who were mainly employed through BDI's clientelistic schemes, though they never started working effectively.

In August 2020, the government appointed a deputy prime minister responsible for coordinating the fight against corruption, but the efforts so far remain declarative.

## 16 | Consensus-Building

Main political actors agree on establishing a stable democracy as a strategic long-term aim. All parties at least verbally agree with the aim of membership in the European Union and NATO (achieved in 2020), although ideas over how to reach this goal vary considerably. Democratic consensus remains hard to achieve. Political debate and the introduction to new legislative agenda are highly polarized; the opposition commonly uses filibustering to block or postpone government proposals.

All the main political actors support the market economy. The previous government tried to diversify international cooperation by reaching out to Russia, China, and India. Their efforts were underlined with the aim to diversify and increase foreign direct investment (FDI). The SDSM-led government has continued with policies that advance market economy but has also tried to improve the social safety net.

Anti-corruption policy

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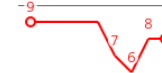


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Consensus on goals

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The military and police are largely under civilian control, and the new government has declared that it will increase the accountability of civilian intelligence services. 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 (BDI). BDI remained a junior coalition partner in government after the elections in 2016, as it has been for most of the time since 2002.

The state and judiciary institutions effectively managed the “weekend war” involving an armed ethnic Albanian group in May 2015. The resolution of the violent demonstrations in 2017 – when a mob, linked to high officials of VMRO-DPMNE, stormed the parliament building and injured several politicians – will take place through the law of amnesty and legal cases in the courts.

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 The Left, all political parties appeal primarily to their own ethnic constituency. While this creates a certain stability in the party system, it also keeps ethnic relations fragile. Institutional instruments exist to deescalate the situation – for example, all coalition governments have been multiethnic since 1992, strengthened by an official power-sharing mechanism in the Ohrid Framework Agreement (OFA). The implementation of OFA introduced further significant institutional instruments such as equitable representation, minority veto, language rights, and decentralization to improve the status of minority communities. The religious cleavage that is related to the ethnic cleavage only matters for some issues, such as abortion and LGBTQ+ rights.

North Macedonia’s legal framework and institutional mechanisms are adequate for civil society participation in policymaking. Good practices have occasionally been implemented when parliamentary committees organize public hearings involving civil society representatives. An example of this is the public debate on primary education reform, which included different actors with opposed positions and approaches.

However, in many areas, the political leadership still fails to consider and accommodate the interest of civil society actors. Over time, some interest groups (chambers of commerce, professional organizations, various health groups) have assumed a stronger public role and become more engaged in policymaking. Others, such as trade unions, have suffered from being closely associated with the government. However, new independent unions have emerged in recent years.

The relationship between the government and civil society is more cooperative compared to the public antagonization of civil society by the VMRO-DPMNE government (2006-2016). However, even though the processes and strategies for

Anti-democratic actors

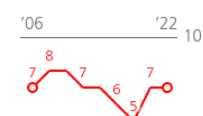
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Cleavage / conflict management

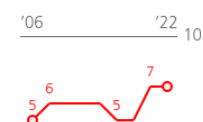
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Civil society participation

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collaboration have been introduced, the accommodation of interests of most civil society actors is still lacking.

The “Public Room” sexual harassment case (see “Civil rights”) led to strong appeals from the Platform for Gender Equality (a network of 24 civil society organizations) for the government to take action against online harassment. However, this has resulted in merely declarative statements of support.

North Macedonia experienced a brief interethnic conflict in 2001. The inclusion of ethnic minorities in the institutions of government and the decision-making process has been improved, but the conflict remains a locus of political mobilization and interethnic provocations. No major effort has been made for the country to deal with its past. Even though there were very few civilian casualties compared to other conflicts in the Balkans, not all alleged cases of war crimes were investigated. Members of the country’s security forces were put on trial by The Hague tribunal. One of them, a former Minister of Interior, was acquitted and serves as a special adviser to Prime Minister Zaev. Another was greeted as a hero after serving a prison sentence and became member of parliament for VMRO-DPMNE. In 2011, the parliament issued an amnesty for war crimes allegedly committed by the members of the National Liberation Army (NLA, an Albanian guerrilla group), which were not processed by The Hague tribunal. In addition, BDI, the political party stemming from NLA, has been included in government since 2002 with one short interruption in 2006-2008. Many of NLA’s military personnel have held high state offices, including Talat Dzaferi, the current speaker of the parliament. BDI organizes an annual commemoration of battles and fallen fighters in 2001 and sponsored the opening of a museum dedicated to the NLA in a conflict-affected municipality.

After the violent scenes in the parliament in April 2017 and court proceedings against over 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.

#### Reconciliation

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## 17 | International Cooperation

The government relies extensively on the political and economic support of international actors. Significantly increased attention is 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 implementation of the long-term strategy still falls short, mainly because of party interests, political corruption and lack of institutional capacities to operationalize this support.

The COVID-19 pandemic only increased the need for foreign support. Foreign aid greatly helped to strengthen the capacities of the health system and prepare it for the challenges of the pandemic. The European Commission signed a memorandum of understanding (MoU) with North Macedonia to pave the way for the disbursement of €80 million in macro-financial assistance (MFA) - the first MoU signed as part of a €3 billion package that the Commission proposed for ten enlargement and neighborhood partners in response to the economic fallout of the coronavirus pandemic. North Macedonia relies heavily on the EU's COVAX facility to secure immunization of the population. The government relied on this assistance almost exclusively, which delayed the start of the process of immunization.

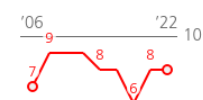
The United States and the European Union play a very important role in political and social life in North Macedonia, especially in times of crises. The role of the ambassadors of the United States and the permanent representative of the European Union is particularly important as guidance in reforming the society. However, 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. After the ratification of the Accession Protocol by all member states in February 2019, North Macedonia became the 30th NATO member on March 27, 2020. The Prespa Agreement between Greece and North Macedonia signed on June 12, 2018, as well as the commitments for releasing the tensions with Greece in the following period, has increased the credibility of the country as a cooperative partner willing to find compromises.

The European Union has made an important shift in approach with great appreciation for the politically tough decisions made by the new government. It also appreciates the importance of North Macedonia for the credibility of the European Union's enlargement policy. Even after the Bulgarian veto on starting the accession talks, the government kept the course of cooperation and kept its credibility as a nation dedicated to finding solutions.

Effective use of support

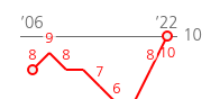
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Credibility

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The government's full commitment to EU and NATO integration resulted in not considering purchasing the Russian Sputnik V or the Chinese Sinovac and Sinopharm vaccines in earlier stages. Following the delayed start of the vaccination program, domestic criticism has emerged focusing on the great dependence on Western allies without considering other paths.

In addition to the EU and NATO integration processes, the country has ratified the Council of Europe convention on preventing and combating violence against women and domestic violence (also known as the Istanbul Convention) and ministries have taken important steps toward implementing the UN Agenda for Sustainable Development 2030.

North Macedonia continues to play a proactive role in regional cooperation. It participates in the initiative to create a free economic zone with Serbia, Albania, and Kosovo. The "Mini Schengen" Area intends to provide greater opportunities for trade, student exchanges, and encourage EU integration. Mini Schengen citizens will only need an ID card to visit other member states, saving time on border crossings. The World Bank expects the project to save \$3.2 billion. The plans for the area were declared in October 2019 followed by two further meetings in 2019. While COVID-19 slowed down the process, the commitment remains, and the zone was proclaimed on November 9, 2020.

The economic and political cooperation with Greece increased following the Prespa Agreement and commitment to good neighborly relations. Greece supported North Macedonia's EU accession even after the center-right New Democracy, previously opposed to the Prespa Agreement, came to power.

The positive relationship with neighbors resulted in several other initiatives such as a joint government session with Albania, a scheduled joint session with the government of Kosovo (postponed due to the pandemic), and an agreement with Serbia for purchasing 4,680 Pfizer/BioNTech COVID-19 vaccines which helped to start the immunization process in North Macedonia.

The relationship with Bulgaria, however, took a different turn. In the 2017 Treaty of Friendship, the countries committed to finding solutions for their "joint history," and an expert commission of historians from both countries started searching common ground on disputed historical issues. However, in August 2020, Bulgaria laid out its position on historical issues in an "Explanatory Memorandum on the relationship of the Republic of Bulgaria with the Republic of North Macedonia in the Context of the EU Enlargement and Association and Stabilization Process" to 26 EU countries. The document claimed that "ethnic and linguistic engineering has taken place" in North Macedonia since World War II. Bulgaria threatened to veto the start of the accession talks due to "state-sponsored anti-Bulgarian ideology" and "fake Macedonian identity." The government of North Macedonia remained focused on finding a solution even after the Bulgarian veto to accession talks in

#### Regional cooperation

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December 2020. Vlado Buckovski, a former prime minister, was appointed as a special representative to search for a solution with Bulgaria and an action plan for the implementation of the Treaty of Friendship is under consideration. The commitment for widening economic cooperation remains, and the government moves on with the plans for finishing Corridor 8, a rail and roadway connecting the two countries. Bulgaria faced a series of massive anti-government protests in 2020, and before the parliamentary elections scheduled for April 2021, significant progress was not expected.

## Strategic Outlook

The establishment of the rule of law and the fight against corruption remain the main challenges for North Macedonia. Very decisive concrete steps are needed to achieve significant results in these areas, especially to implement the adopted strategic documents, including allocating more human and financial resources. Additionally, governing parties must show a clear determination to address corruption among their own members.

The judiciary remains under political influence. The courts' lack of efficiency and the high perception of corruption makes the judiciary the least trusted institution among citizens. The announced vetting of judges is a political gesture rather than a fully developed strategy to remove corrupt judges. Regaining institutional trust depends on whether the government will show a willingness to establish a rule of law. It also depends on the allocation of human and financial resources and the government's determination to depoliticize the institutions, even if it comes at a certain cost to governing parties themselves.

The Bulgarian veto to the starting of EU accession talks may lead to a backlash in the democratic processes and result in more polarization and growth of political extremism. While the government has adopted a constructive approach and shows willingness to find a solution, the active role of the European Union in managing this crisis is very important. The stalling of accession talks and the delay of immunization because of vaccine geopolitics shows early signs of decreasing support for the European Union among the young and growth of support for Russia.

The COVID-19 pandemic will cause systematic social consequences, given that it hit the most vulnerable the hardest. Despite the extreme efforts of medical personnel, the pandemic exposed problems with health care and its limitations under a severe crisis. The immunization process, which is the only way to curb the pandemic, has been very slow and many citizens feel that the rich countries have left them behind. This is due to the failure of the European UNION to deliver vaccines via the COVAX facility, but also because of the government's failure to consider alternative suppliers of vaccines at an early stage. Additionally, the government launched the vaccination information campaign late, leaving part of the society skeptical and even prone to refuse vaccination.

Finally, the first census in twenty years took place in March-April 2021. Carried out during a pandemic, following two decades of significant emigration and uncertainty around population (and ethnic group) numbers, the stakes are high for the government to manage and successfully complete the census.