



Republic of North Macedonia
Ministry of Finance

ECONOMIC REFORM PROGRAMME

2023-2025

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ABBREVIATIONS

ABO	Average Bed Occupancy
AEC	Agency for Electronic Communications
AEPM	active employment policies and measures
AD ESM	Power plants of Republic of North Macedonia
AD MEPSO	Macedonian Electricity Transmission System Operator
BEPS	Base Erosion and Profit Shifting
ALOS	average lenght of stay, per days
BERD	Business enterprise expenditure on R&D
CACM	Capacity Allocation and Congestion Management
CF	Christiano-Fitzgerald filter
CIT	corporate income tax
CMO	Common market organisation policy
COPD	Chronic obstructive pulmonary disease
CPH	Centre for Public Health
CRM	Client relations management
CRPM	Center for Research and Policy Making
DANIS	Current tax Information System
DBNM	Development Bank of North Macedonia
DEU	Delegation of the European Union
DMS	dynamic message signs
DLP	Defect Liability Period
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECG	Electrocardiogram
EDP	Enterprenurial discovery process
EE	energy efficiency
EEI	energy efficiency improvement
EEF	Energy efficiency Fund
EIB	European Investment Bank
ERC	Energy Regulatory Commission
ERP	Economic Reform Programme
ESCO	energy serving company
ESCO	European Skills, Competences, Qualifications and Occupations
EQAVET	European framework for quality assurance of Vocational Education and Training
ETF	European Training Foundation
EU	European Union
FDI	foreign direct investment
FFV	fresh fruit and vegetables
FITD	Fund for Innovation and Technology Development
FRMPs	Flood Risk Management Plans
FX	foreign currency component
GDP	gross domestic product
GHG	greenhouse gas
GMA	guaranteed minimal assistance
GS	Government Securities
HLMD	High level market design
HEI	higher education institutions

HIF	Health Insurance Fund
HP	Hodrick-Prescott filter
ICT	information and communication technology
IFMIS	Integrated Financial Management Information System
IPA	Instrument for Pre-Accession Assistance
IPH	Institute of Public Health
IIP	International investment position
IS	Information system
ITIS	Integrated Tax Information System
ILO	International Labour Organisation
ITS	Intelligent Transport System
IMF	International Monetary Fund
LFS	Labour Force Survey
LLR	Law on Labour Relations
MAFWE	Ministry for Agriculture, Forestry and Water Economy
MAKStat	State Statistical Office Database
MAP	multi-annual plan
MCIP	monthly calculation for integrated payment
MIS SA	Management Information System for State Aid
ME, MoE	Ministry of Economy
MEMO	Organised Market Operator
MVP	monitoring and verification platform
MOEPP	Ministry of Environment and Physical Planning
MOES	Ministry of Education and Science
MF, MoF	Ministry of Finance
MISA	Ministry for Information Society and Administration
MSIP	Municipal Services Improvement Project
NCD	Non-communicable disease
NDC	Nationally Determined Contributions on Climate Change
NECP	National Energy and Climate Plan
NSE	Non-standard forms of Employment
NQF	national qualifications framework
NTTO	National Technology Transfer Office
OECD	Organisation for Economic Cooperation and Development
p.e	people equivalent
PESR	Public Enterprise for State Roads
PFA	Production Function Approach
PFM	Public Finance Management
PHC	primary health care
PLL	Precautionary and Liquidity Line
PM	particulate matter
PIMA	Investment Management Assessment
PISA	programme for International Student Assessment
PIT	personal income tax
PIT TB	personal income tax – tax balance
PPP	Public-Private Partnership
PRO	Public Revenue Office
RBMPs	River Basing Management Plans
RCVET	Regional Vocational Education and Training Centres

REDI	Roma Entrepreneurship Development Initiative
RES	renewable energy sources
REER	real effective exchange rate
RWIS	Road Weather Information System
S3	Smart Specialization Strategy
SA	State Aid
SBA	Small Business Administration
SDAC	Single day ahead coupling
SDGs	Sustainable Development Goals
SLCP	short lived climate pollutants
SME	small and medium enterprises
SSO	State Statistical Office
STP	Science and Technology Park
SWOT	Strengths,Weaknesses,Opportunities, and Threats
TAIEX	Technical Assistance and Information Exchange
TABULA	Tipology Approach for Building Stock Energy Assessment
TFP	total factor productivity
TEN-T Network	Trans-European Transport Network
UNECE	United Nations Economic Commission for Europe
UNFCCC	United Nations Framework Convention on Climate Change
UIS	UNESCO Institute for Statistics
VAT	value added tax
VET	vocational education and training
VNIL	validation of non-formal and informal learning
WB6	Western Balkan 6
WBIF	Western Balkan Investment Framework
WBTF	Western Balkan Trade and Transport Facilitation
WIM	weight in motion
WIIW	Venna Institute for International Economic Studies
WWTP	Wastewater treatment plant

1. Overall policy framework and objectives

The Economic Reform Program (ERP) 2023-2025 presents the medium-term macroeconomic and fiscal framework (Chapter 3 and 4), as well as reform measures (Chapter 5) in accordance with the Government's priorities, and is prepared on the basis of the Fiscal Strategy 2023-2027, the medium-term budget framework for the period 2023-2027, national sector strategies, regional strategies and documents, the green and digital agenda of the EU, as well as the Economic and Investment Plan of the EU for the Western Balkans. The Program is closely related to the recommendations in the EC Country Progress Report of October 2022, and in chapter 2 it provides the status of implementation of the recommendations of the joint conclusions of the Economic and Financial Dialogue of May 2022. ERP is a joint result of several ministries, institutions and the National Bank, which are part of an inter-institutional working group coordinated by the Ministry of Finance.

The program contains structural reforms that have been rolled over from the previous ERP 2022-2024, with appropriate additions important for this implementation cycle. The main objective of this approach is to ensure the monitoring of the implementation of the reforms until their final realisation, which ensures the sustainability of the priority reform agenda, but also provides an image of the country's capacities for implementing policies aimed at economic development.

The key challenges of North Macedonia on the way to achieving a decent level of competitiveness and inclusive growth are: 1) strengthening of human capital for inclusive development, 2) fostering the green transition and 3) improving the competitiveness of domestic enterprises, their integration into global value chains and formalisation of the economy. Identified in the previous ERP 2022-2024, they remain relevant and are in line with the challenges noted within the EC Assessment for ERP 2022-2024, and refer to: a) Improving the quality and relevance of the education system to increase employment and mitigating skills mismatches, b) Improving the competitiveness of domestic companies, including integration into global value chains and reducing the informal economy, and c) Modernising the energy sector and transitioning to green energy.

Last year will be remembered by the world for the highest inflation growth in the last few decades, the energy crisis, disruptions in supply chains, the conflict in Ukraine, and the still present uncertainty of new variants of Covid-19. 2022 was the third year in a row with shocks, which contributed to reduced economic growth, more difficult working conditions for companies, and vulnerable categories of the population were especially affected.

During 2022, the Macedonian economy was influenced by the challenges and uncertainties caused by global factors. In the first nine months of 2022, economic activity recorded a growth of 2.7%, with the highest growth rate recorded in the second quarter of 4.0%. Last year, the government adopted two packages of measures to deal with the energy and price crisis in the amount of about EUR 750 million. The first package was adopted in March 2022, in the direction of protecting the standard of living of citizens and maintaining the liquidity of companies, as well as measures for financial support of companies through the Development Bank. As inflationary pressures have not subsided, as well as the war in Ukraine, and in order to mitigate the impact of negative shocks, the rebalancing of the Budget in 2022 provided fiscal space for a second package of measures that was adopted in October 2022 which, in addition to providing support for the population and for the liquidity of companies, also provided support for investments in energy efficiency and renewable energy sources. Fiscal space was provided through the restructuring of budget expenditures, with the simultaneous optimisation of funding sources in order to increase the foreign exchange reserves and further preserving fiscal sustainability.

Staged fiscal consolidation, with a reduced budget deficit as a percentage of GDP from: 4.6% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026 and 2.8% in 2027, as well as the improved structure of public finances with a significant share of capital expenditures of 5.3% of GDP at the annual level, represent key elements of public finances in the medium term. Amid the European energy crisis and significantly increased prices in a global context, the redefined budget framework will enable greater protection of the standard of living of citizens, especially the vulnerable categories, financial support of the liquidity of companies and optimisation of borrowing costs, support of the monetary policy and creation of more favorable conditions for realisation of the projected economic growth rates in the short and medium term. Through the public debt management policy, the necessary funds are provided for financing the budget deficit and the repayment of debts from previous years, as well as funds for project financing, without causing an unjustified increase in the debt to a level that could threaten the stability of the economy and economic growth.

While dealing with the crisis at the same time, the government continued to work on reforms. One of the key reforms was the adoption of the new Organic Budget Law, which introduced medium-term budgeting and established a legal framework for Fiscal Council and fiscal rules. Reform of the tax system was initiated based on the tax strategy, and is based on the concept of expanding the tax base by revising tax costs and reducing the gray economy. Public Investment Management Department has been established in the Ministry of Finance, and harmonisation of the text of the draft Law on Public Private Partnership is in an advanced stage. Funds have been provided for the establishment of three systems in the direction of digitisation of processes, namely the Integrated Information System for Finance Management, the Information System for State Aid Management and the Information System for Tax Revenue Management of the Public Revenue Office.

The new Public Financial Management Reform Program 2022-2025 (adopted in June 2022) includes measures and activities aimed at improving the efficiency and effectiveness of public spending, fiscal discipline, debt sustainability and transparent management of public finances. Significant strategies that will be adopted this year are the Smart Specialisation Strategy, the Strategy for Formalisation of the Informal Economy for the period 2023-2025, as well as the Strategy for the Development of Human Capital 2030. Operational Plan for active employment programs and measures and services on the labor market for 2023 has been prepared, for which EUR 32 million have been provided, and in addition it is working on improving the legal framework for the labor market, as well as improving the quality of the educational and health system.

Of particular importance, with the aim of reducing the country's vulnerability to external shocks and increasing energy security, is the continuation of activities to improve energy efficiency, and in that direction, the preparation of the legal framework for establishment of the Energy Efficiency Fund, as well as increased use of renewable energy sources. In the coming period, activities will be intensified to establish a sustainable waste management system, which will contribute not only to reducing pollution, but will also be an incentive for the development of new projects in the area of the circular economy.

The implementation of the reforms will enable in the medium term to overcome the key challenges, which is necessary for sustainable economic recovery, greater resilience of the economy and fiscal sustainability.

2. Implementation of the policy guidance

Joint conclusions- Policy guidance with recommendations	Activity and stage of implementation
Policy Guidance 1	
<p>P 1: If needed, use the available fiscal space in the 2022 budget to cushion the potential impact of adverse shocks through targeted support to vulnerable households and firms, foresee in the medium-term fiscal plan accompanying the 2023 budget a gradual reduction of the primary deficit-to-GDP ratio to its pre-crisis (2019) level.</p>	<p>In 2022, in addition to the still present economic consequences of the Covid-19 pandemic, the country also faced pressures due to the increase in energy and food prices on world markets, which was additionally affected by the Russia's war against Ukraine. The rise in prices had an unfavourable impact on the family budget of the population and increased energy costs for companies, which were also faced with the unpredictability of global markets, especially export companies. The Government adopted two packages of measures to deal with the energy and price crisis in a total amount of about 750 million euros. The first package, adopted in March 2022, was aimed at two categories: measures and recommendations to protect the standard of living of citizens and maintain the liquidity of companies, as well as measures for financial support of companies through the Development Bank. Given that inflationary pressures have not subsided, as well as the war in Ukraine, and in order to mitigate the impact of negative shocks, with the Supplementary Budget in the 2022 a fiscal space was provided for a second package of measures, that were adopted in October 2022. Second package of measures aimed at protecting the standard of living of the citizens, especially the vulnerable categories, supporting the liquidity of companies, but also supporting investments in energy efficiency and renewable energy sources. The fiscal space was provided through the restructuring of budget expenditures.</p> <p>According to the Revised Fiscal Strategy for the period 2023-2025 (with prospects until 2027), a staged fiscal consolidation is foreseen, with a reduced budget deficit as a percentage of GDP, from: 4.6% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026 and 2.8% in 2027. The primary budget deficit is projected to decrease from 3.2% of GDP in 2023 to a level of 0.8% in 2027 (the primary budget deficit in 2019 is 0.8% of GDP).</p>
<p>P2: To establish a central unit for the</p>	<p>To implement this recommendation, the Ministry of Finance in 2022 adopted new acts on organisational setup and operation and systematisation of working posts, envisaging</p>

management of public investments in the Ministry of Finance and to ensure its proper functioning.	establishment of a new Public Investment Management Department. The Department should be staffed with initial number of employees through redeployment of employees and new recruitments, by June 2023. Trainings should be held for the employees of the Department on appraisal and monitoring of public infrastructure projects under the capacity development programs of the IMF and the World Bank, funded by EU.
P3: In accordance with the Tax System Reform Strategy, to design comprehensive tax reforms and draft legislative amendments that contribute to increasing revenues by expanding the tax base and accelerating the digital transformation of the Public Revenue Administration.	<p>In accordance with the Tax System Reform Strategy, in 2022 the Ministry of Finance drafted a package of tax policy reforms in the segments of profit tax, personal income tax and value added tax. The proposed reforms, which aim to expanding the tax base by eliminating non-productive tax expenditures and thereby strengthening the tax revenues collection, went through a broad consultative process with the business sector, academic community, non-governmental sector, and the political parties. The government adopted the proposed amendments to the Law on Profit Tax, the Law on Personal Income Tax and the Law on Value Added Tax and proposed them to the Parliament in December 2022. By the end of 2022, the Law on Personal Income Tax has already been adopted by the Parliament.</p> <p>Regarding the digital transformation of the Public Revenue Office (PRO), see more in Measure 19 – Establishing Integrated Tax Information System in the PRO.</p>
Policy Guidance 2	
P4: To submit the new Public-Private Partnership (PPP) Law for adoption to the Parliament and ensure its implementation, including the establishment of a fully functional PPP Register.	<p>A proposal of the Law on Public-Private Partnership (PPP Law) has been prepared and coordinated with the Secretariat for Legislation and all relevant institutions. The law with the corresponding tables has been submitted through the Secretariat for European Affairs (SEA) for re-opinion to the European Commission.</p> <p>The PPP Law is correlated with the Proposal Law on Concessions of Goods of General Interest, which is in the final stage of harmonisation with the Secretariat for Legislation. The goal is to submit these two draft laws simultaneously in the government procedure, during the third quarter of 2023.</p> <p>The effective implementation of the PPP Law is closely related to the establishment of the Single Electronic System for Public Private Partnership (SESPPP), which will generate the Register of awarded contracts for the establishment of PPP, which activity will follow the adoption of the law. The law will have a delayed application, during which period it is necessary to secure financial resources for the procurement of the SESPPP.</p>
P5: To ensure central monitoring of all fiscal risks related to state enterprises, PPPs and local self-government units by the Ministry of Finance.	<p>The operation of the state public enterprises at the central level, and their monitoring by the Ministry of Finance is regulated in the Law on Public Enterprises and the Law on Commercial Companies. The Ministry of Finance monitors the financial performance of these entities through annual and quarterly financial reports and financial plans that are reviewed/approved by the Government. At the same time, the obligations of these entities are monitored through a special recording system on a monthly basis. The fiscal risk in the current operation of these entities is manifested in the part of the obligations that are increasing, and as a result of the energy and economic crisis that directly affects the increase in expenses, while in conditions of reduced collection of receivables, the current liquidity decreases that directly affects the impossibility of timely servicing of the undertaken obligations of the enterprise. In that direction, the Government and the Ministry of Finance are continuously taking anti – crisis measures that also refer to state public enterprises, which aim at rationalisation of expenditures (primarily non-productive expenditures) and fiscal consolidation, which have a positive effect in mitigating the consequences of the crisis which is confirmed by the low percentage of increase in total due liabilities of only 1.3% compared to the previous year. At the same time, activities have been undertaken for medium-term planning of the operations of state enterprises by including the data for the period 2022-2027 in the Fiscal Strategy of the Republic of North Macedonia.</p> <p>In relation to local self-government units, the provisions of section VIII Financial Instability of the Law on Financing of Local Self-Government Units - Section IV Indebtedness are being followed. On a quarterly basis, municipalities submit a report on due and unpaid obligations to the Ministry of Finance. Also, based on the data on blocked accounts of the municipalities, the Ministry of Finance monitors the financial operations of the municipalities and the conditions for the occurrence of financial instability. It is also established in the law that the municipalities cannot borrow more than 30% of the total revenues of the current operating budget of the municipality in the previous year.</p>

	<p>In relation to PPPs, according to the Proposal of the Law on Public-Private Partnerships, Article 25 stipulates that the Ministry of Finance shall give a preliminary opinion on a proposed PPP project in relation to the adequacy of the foreseen financial obligations of the public partner arising from the project with those foreseen by the Budget, as well as in relation to the immediate and indirect financial benefits and risks of the project. The financial benefits and risks of the project include all potential cases that may have a negative impact on the financial position of the public partner. Pursuant to Article 75 paragraph (7) of the same law, the public partner through the EESJPP informs the Ministry of Economy and the Ministry of Finance at least twice a year about the implementation of the obligations arising from the contract for the establishment of a public private partnership.</p> <p>Regarding the concessions of goods of general interest in accordance with the Proposal Law on Concessions of Goods of General Interest in Article 52 it is provided that the Ministry of Finance within the framework of the Summary Register of Concession Agreements in accordance with the Law on Budgets maintains a separate register of concessions of goods from general interest. The grantor, that is, the authority responsible for implementing the procedure for awarding the concession of goods of general interest contributes to keeping the Register of concessions of goods of general interest through constant monitoring and cooperation with the Ministry of Finance.</p>
P6: To implement the new Budget Law immediately after its adoption by the Parliament and take the necessary legislative and organisational steps to enable the new Fiscal Council to start working.	<p>The new Budget Law was adopted on September 19, 2022 (Official Gazette No. 202/2022). It defines fiscal rules that come into force on 1 January 2023. The government can deviate from the established fiscal rules only in conditions of declared crisis. At the moment, a state of crisis has been declared in the energy sector. In 2023 Budget, funds are planned for the establishment and functioning of the Fiscal Council in 2023. The next steps for the establishment of the fiscal council are the election of three members by the Parliament, proposed by MASA, NBRM and SAO, and provision of premises and administrative service to support the council, for which the Ministry of Finance has already submitted written correspondence to the competent institutions.</p>
Policy Guidance 3	
P7: To carefully assess and analyse price movements and for the country to be prepared to tighten monetary policy, if necessary, to preserve price stability in the medium term.	<p>Around three quarters of the inflation in 2022 is due to the increased food and energy prices, which emphasises the impact of the imported price pressures. However, taking into account the transmission effects, the duration of the pressures, the uncertainty and the raising of inflation expectations, these shifts in inflation impose a need for a monetary response. The National Bank maintains the continuity of monetary tightening using a wider set of monetary instruments, which started since the end of last year, for the purpose of maintaining the stability of the exchange rate and the medium-term price stability. Since the end of the last year, the National Bank actively managed liquidity through interventions on the foreign exchange market and other instruments, towards withdrawing. Since April to December, the key interest rate has been continuously increasing (on eight occasions, to 4.75%), with additional changes being made in overnight and seven-day deposit facilities. Such monetary setup is supported and strengthened by the several changes in the reserve requirement aimed at reducing euroisation, as well as by systemic measures, i.e. by introducing a countercyclical capital buffer, which further strengthens the protective mechanisms in the banking system.</p>
P8: To maintain a transparent and accurate presentation of the quality of assets and their adequate provision, further reduction of institutional and legal obstacles in order to accelerate and effectively resolve non-performing loans, for all relevant institutions to continue reducing data gaps, especially in relation	<p>Within this framework, in the past period the National Bank worked on the following activities: a) To improve the management of non-performing loans, amendments to the Decision on the methodology for credit risk management were adopted in March 2021, which provide clear guidelines for the banks' actions when selling due, non-performing or written off claims from the credit agreements; b) A rate of the countercyclical capital buffer of banks for the exposures in the Republic of North Macedonia in the amount of 0.5% was introduced in July, which shall apply from 1 August 2023. In December this rate was increased by 0.25 percentage points, up to 0.75%, which shall apply from 1 January 2024; c) In March, June and August 2022, the National Bank changed the reserve requirement ratio of the banks, by increasing the ratio for the foreign currency liabilities and at the same time reducing the ratio for liabilities in denars; d) In December, decision for introducing new macroprudential instruments was adopted, in line with the Financial Stability Law, oriented towards credit demand quality, according to the European practice. Indicators for individual credit users are regulated by this decision, effective from 1 July 2023. Amendments to the regulation are underway, which will enable banks to notify the Credit Registry of the applied DSTI (debt service to income), DTI (debt to income), and LTV (loan to value).</p>

to the sector of real estate and additionally implement measures to promote the role of the local currency.	In the area of reducing the data gaps for the real estate sector, the SSO works on the preparation of real estate prices index based on data from administrative source (Real Estate Cadastre Agency). In the experimental stage, data have been submitted to Eurostat. At the same time, starting from 2021, the Financial Stability Report of the National Bank includes the analysis of the real estate market with data obtained from the Cadastre Agency, while the real estate price index calculated by the National Bank (Hedonic price index) is monitored on a regular quarterly basis. Moreover, there are ongoing activities in National Bank for preparing a draft Memorandum to enable the use of data from the Cadastre Agency on a regular basis.
P9: To keep the independence of NBRNM in the implementation of its key legislative tasks, including the employees, in line with the National Bank Law, and, for that purpose, to exclude the National Bank from the scope of the new Law on Administrative Servants and the Law on Public Sector Employees.	On 10.01.2023, the Government approved the Draft Law for changes and amendments to the Law of the National Bank of the Republic of North Macedonia and decided to submit it to the Parliament. With these changes, the Article 58-a will be deleted, according to which the employees of the National Bank had the status of administrative servants. Additionally, the Draft Law has envisaged the labour relations rules to be applied for the employees of the National Bank. Furthermore, the appropriate adjustment of the Law of administrative servants and Law on public sector employees in this direction will be considered, in line with the ERP Joint Conclusions, as well as European Commission Report for North Macedonia 2022, the IMF Report for consultation under Article 4 (published in January 2022) and Report by the FSAP mission (Financial Sector Assessment Program) in 2018.
Policy Guidance 4	
P10: To use the list of mapped parafiscal charges to assess, optimise and rationalise parafiscal charges at the central and local levels.	The recommendation is related to measure 11: Streamlining the use of parafiscal charges. In April 2022, the Ministry of Economy started the implementation of the project "Optimisation of parafiscal charges", which will last 12 months. Currently, experts are working on finalising the first draft version of the Proposal for a legal, institutional and technical framework in order to ensure transparency and predictability of parafiscal charges based on EU best practices. Three studies have been prepared - analysis of the national legal framework, experiences in the EU and a draft framework. A public consultation was held on December 28, 2022. The final framework document is expected to be completed in 2023. The second part of the project envisages the creation of a methodology for optimising and consolidating parafiscal charges from the list of mapped 377 parafiscal charges.
P11: To continue the digitisation of public services for business and citizens through upgrading and improving the use of e-portals for services.	The recommendation is related to the measure 10: Broadening the Scope of Digital Services provided on the National Portal for e-services. MISA continues with the process of digitalisation of the public services in 2022. During 2022 an increasing number of services were developed for citizens and legal entities. Twenty (20) services were developed from the Ministry of Culture and one (1) service from the courts. These services are already available on the National Portal for Electronic Services. Additionally, 5 services from the Pension and Disability Insurance Fund and one service from the Ministry of Internal Affairs have been developed and are in the testing phase. These services are expected to be published on the National Portal for Electronic Services in the beginning of 2023.
P12: To adopt a comprehensive new Strategy and Action Plan for the formalisation of the informal economy 2023-2025 and to ensure a high level of political commitment by all institutions relevant to coordination and implementation.	The Government of the Republic of North Macedonia, at the 93-rd session held on 18 October 2022, decided to oblige the Ministry of Finance to undertake the necessary activities to coordinate the development of the Strategy for the Formalisation of the Informal Economy 2023-2025 with an Action Plan. In 2023, activities will follow to ensure a high level of political commitment by all institutions relevant to coordination and implementation.
Policy Guidance 5	

<p>P13: To increase the number of employees and the technical/engineering capacity of the Energy Sector in the Ministry of Economy and the Energy Agency.</p>	<p>In 2022 two persons were employed in the Energy Department of the Ministry of Economy: one Junior associate for monitoring strategic documents in the energy sector in the Unit for monitoring strategic projects and strategic documents in the energy sector and one Junior associate for biofuels in the Renewable Energy Sources Unit.</p> <p>The Energy Agency has 34 systematised work places and only 9 employees. In 2022 one person is employed – Associate for strategic planning and the employment procedure for one Adviser for public procurement is expected to finish until February 2023. In 2022 two employees in the Energy Agency were retired. In 2023 no employments are planned.</p>
<p>P14: In accordance with the commitments of the Green Agenda for the Western Balkans: To adopt and implement the legal acts on energy efficiency, including the by-laws of the Law on Energy Efficiency.</p>	<p>This recommendation is related to reform measure No. 6 - Improving energy efficiency.</p> <p>The Law on energy efficiency was adopted in 2020. The Ministry of Economy prepared draft versions of the following by-laws: Regulation on energy characteristics of buildings, Regulation on energy control of buildings, Regulation on energy control of large retailers and Regulation on labeling of energy-using products. Public consultations have been held for the same and activities for their adoption will begin in the coming period.</p> <p>The Energy Agency prepares and publishes guidelines by which, inter alia, it provides guidelines and instructions regarding the energy performance contracts, procedures and documents for preparation and initiating the procedure for selection of ESCOs by the public sector entities, and in particular by the local self-government units, prescribes methodologies and rules related to the assessments of possible energy savings, including models for feasibility studies and other matters in relation to the energy services and the activities of the ESCOs. Also the Energy Agency prepares Rulebook for detailed regulation of the content and form of the energy efficiency programs that are adopted by the units of self-government, the manner for preparation, the content and form of the annual plan adopted by the units of self-government. Energy Agency adopted the following programs: Programme for training and improvement of energy auditors for large enterprises and Programme for training and improvement of energy auditors for buildings.</p>
<p>P15: After the development and adoption of the legal and regulatory framework, the planned Energy Efficiency Fund should be established.</p>	<p>In July 2022, a consulting team working on the implementation of the Energy Efficiency Fund presented in the Ministry of Finance a draft report with 4 options for the establishment of the Fund (Option Paper). After the received remarks/suggestions from the present representatives from the institutions (MF, ME, DBNM, etc.) the team prepared a final report, which was presented at a public hearing in the premises of the Chamber of Commerce of Macedonia on September 11, 2022. Representatives from the academic community, Energy and Water Services Regulatory Commission, international financial institutions, MoF, MoE, MTC, the Development Bank and citizens' associations took part in this hearing. The participants expressed their views regarding the proposed options for the establishment of the EE Fund. After choosing Option 2 - establishment of the Fund within the Development Bank of North Macedonia as most suitable for the establishment of the Energy Efficiency Fund, the consulting team began preparing the legal and regulatory framework. It is expected that the team will finish this activity by the end of June 2023, the basic legal and regulatory framework will be adopted and the next steps for establishment of the Fund will be planned.</p>
<p>Policy Guidance 6</p>	
<p>P16: To develop a new regulation for vocational education and training (VET) with a focus on inclusion, labour market needs and a new VET funding formula, as well as to provide an annual report on the improvement of higher education, including recommendations for a new formula for financing of higher education.</p>	<p>In 2022, the following activities were undertaken to implement this recommendation:</p> <ol style="list-style-type: none"> 1. The Ministry of Education and Science has prepared a working version of the Law on Vocational Education and Training, which has been shared with the wider professional public and relevant stakeholders. A working group was established for the new Law on Secondary Education, which was shared with the professional public. The new legal solutions will enable: harmonisation with the Law on Primary Education, inclusiveness, dual education, establishment of regional centres for vocational education and training, participation of students in the work of schools, mechanisms for cooperation with business communities, etc. 2. The Government tasked the Ministry of Education and Science by June 2023 to prepare a new methodology for determining the criteria for the distribution of block grants by municipalities for primary and secondary education, which will be based on a new formula with revised indicators. 3. At the session of the National Council for Higher Education and Scientific Research, held on 14.07.2022, was adopted the Annual Report on the work of the National Council for Higher Education and Scientific Research for the period from June 2021 to June 2022. 4. According to the four-year work program of the National Council, by the end of 2024 the adoption of the Proposal Decree on criteria for financing higher education is foreseen.

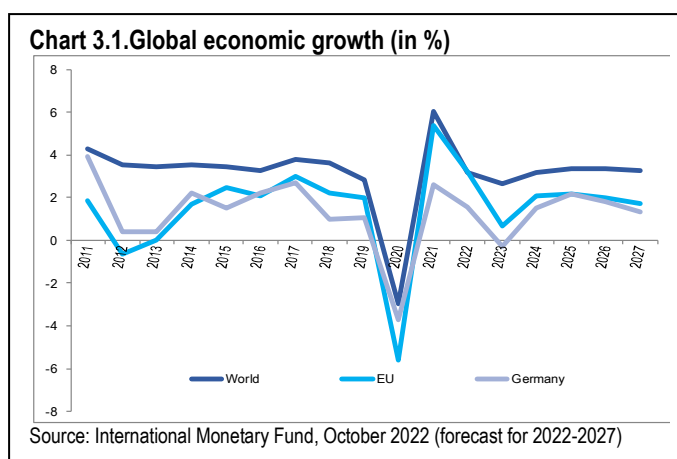
<p>P 17: Continue efforts to strengthen access to active labour market policies, particularly for the low-skilled unemployed and people in vulnerable situations.</p>	<p>The government allocated a budget of about 30 million EUR for the Operational Plan for active employment programs and measures and labour market services for 2022, which represents an increase of 20% compared to 2021. About 14,700 persons were covered, and the measures also targeted the unemployed with low qualifications and people in vulnerable situations. The Operational plan for 2022 focused on programs and measures adapted to the needs of the most vulnerable categories of unemployed persons and included active labour market measures aimed at stimulating and supporting job creation and increasing employability, especially of the unemployed youth, the long-term unemployed, beneficiaries of social assistance, the Roma, etc. Preparation of the Operational Plan for 2023 has begun. The total budget for active employment measures in 2023 has been increased to 32 million euros. The measure of the new plan will continue targeting and supporting the vulnerable unemployed on the labour market.</p>
<p>P 18: Further strengthening of capacity and cooperation between employment agencies and social work centres, as well as education and training institutions, in order to provide integrated services and measures to improve inclusion in the labour market.</p>	<p>Under the IPA project "Activation of Vulnerable Persons", funds were provided to further strengthen the capacity and cooperation between employment agencies and social work centres, as well as education and training institutions. Implementation began in October 2022 and will continue in 2023:</p> <ul style="list-style-type: none"> - Guidelines are being prepared for social work centres and employment centres for the preparation and implementation of individual plans for activation, as well as for the application of sanctions/repressive measures (which were not applied during the pandemic). - The mechanism of monitoring and monthly reporting of activation processes has been strengthened. - In order to strengthen cooperation, all employment centres and social work centres have appointed coordinators for activation. A plan has been prepared for organising joint consultative meetings with the appointed coordinators at the regional level. The consultative meetings and trainings will be organised for the appointed coordinators in the first half of 2023. - The amendments to the Operational Plan for active employment programs and measures introduced the Second Chance Programme, which will be implemented in cooperation with the Centre for Adult Education and educational institutions. Public calls for Second Chance were published on 31 December 2022.

3. Macroeconomic Framework

3.1 Recent Economic Developments

International Economic Environment¹. Global economy throughout 2022 is experiencing a number of challenges and uncertainty. Inflation higher than seen in several decades, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic, all weigh heavily on the global economic growth outlook. China's zero COVID policy and the frequent lockdowns have taken a toll on the economy and weighed heavily on global trade and activity, given the size of China's economy and its importance for global supply chains. Normalisation of monetary and fiscal policies that delivered unprecedented support during the pandemic is cooling demand as policymakers aim to lower inflation back to target. But a growing share of economies are in a growth slowdown or outright contraction.

Global growth is forecast to 3.2% in 2022 and 2.7% in 2023, being the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic. Over the medium term, global economic activity is expected to recover, with a projected average annual growth of 3.3% in the period 2024-2027. On account of stronger-than-projected outturn in the first half of the year, economic growth in the EU is projected at 3.2% in



¹International Monetary Fund "World Economic Outlook", October 2022.

2023, with a significant slowdown to 0.7% in 2023. In the period 2024-2027, average economic growth in EU is projected at 2.0% annually. This average for the euro area hides significant heterogeneity among individual member countries, with projected growth of 1.5% in 2022 and slowdown of 0.3% in 2023 in Germany, as our major trading partner, and over the medium term, i.e. 2024-2027, average annual growth of 1.7% is projected (Chart 3.1).

Gross Domestic Product. Economic activity in the Republic of North Macedonia in 2022 was impacted by the challenges and the uncertainty caused by global factors. Under such circumstances, the national economy experienced a solid growth of 3.2% in the first half of the year, with the growth rate moderately slowing down to 2% on annual basis in Q3 as a result of the further deterioration in the international environment, and the average growth in the first nine months reached 2.7%.

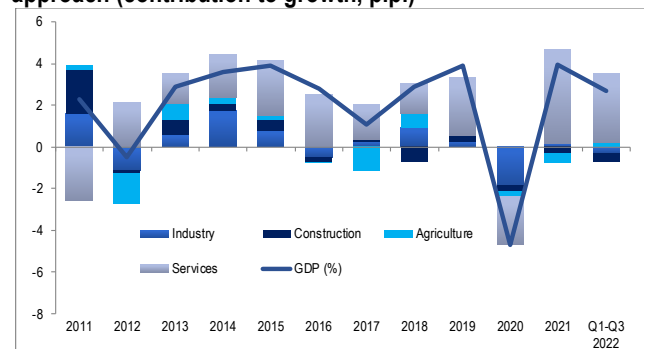
Economic growth in the first three quarters in 2022 was mainly a result of the favourable trends in the services and the agriculture sectors, with a positive contribution to the economic growth. Activity in the services sector grew by 5.7%, above all as a result of the favourable developments in trade, transport and hospitality industry, growing by 7.7%, with the strong post-pandemic recovery in this activity continuing. Solid growth was also registered at professional, scientific and technical activities, as well as real estate-related activities. Agriculture sector registered 3.2% growth in real terms during this period. Construction sector registered a 8.6% decline in real terms which, in line with the high-frequency data, was due to the unfavourable trends as regards both buildings and civil engineering structures.

In the first nine months, activity in the industrial sector declined by 1.7% amid 1.2% drop in Manufacturing. As per the monthly data on industrial production, electricity supply and mining of coal and lignite registered an increase in the first nine months as a result of the efforts to boost the domestic supply of electricity in times of energy crisis. Solid growth was also registered in the sectors in which companies in the the free economic zones operate, above all the automotive industry, which, even in times of crisis, managed to maintain high level of the activity, experiencing growth of both export and employment. On the other hand, manufacturing of food and beverages experienced significant decline amid increase of prices of commodities and raw materials and uncertainty in terms of their availability.

Analysed by the expenditure side of GDP, growth of economic activity in the first nine months was entirely a result of the stronger domestic demand, amid increased consumption and scaled up gross investments, while the contribution of net export was negative (Chart 3.4).

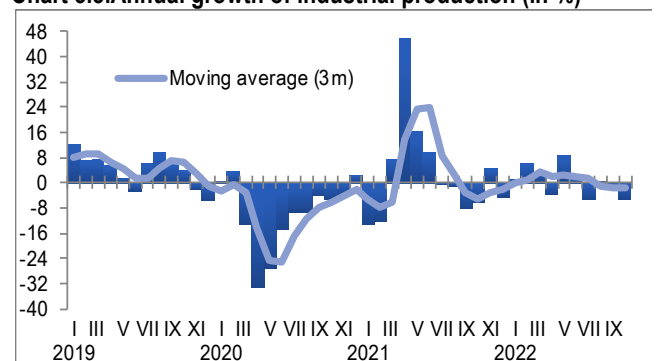
Gross investments picked up by 26.5%, thus their further recovery continued. High level of

Chart 3.2. Economic growth structure by production approach (contribution to growth, p.p.)



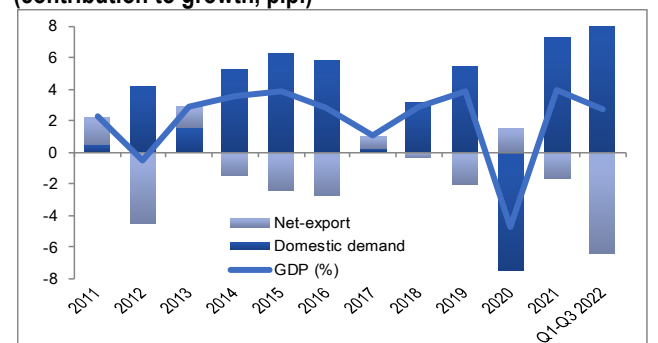
Source: SSO and MoF calculations

Chart 3.3. Annual growth of industrial production (in %)



Source: SSO

Chart 3.4. Economic growth by expenditure approach (contribution to growth, p.p.)



Source: SSO and MoF calculations

gross investments was, to a great extent, due to the increase of inventories stemming from the increased import of intermediary goods and raw materials, energy products, as well as the increased import of machinery and equipment, so as to mitigate the unfavourable effects from the war conflict on the availability and prices of these products, especially in the first half of the year. Consumption picked up by 2.0% in real terms, with private consumption, supported by the growth of wages, remittances, as well as the solid credit activities, increasing by 3.1%, and public consumption decreasing by 2.5% in real terms.

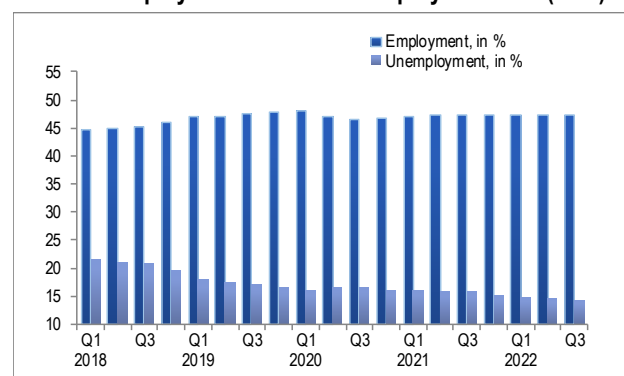
Export of goods and services grew by 14.5% in real terms, which was mostly a result of the boosted export of chemical products, iron and steel, as well as mineral oils and lubricants. Import of goods and services recorded higher growth than export, i.e. it increased by 20.1% in real terms, by which net export had negative contribution to the economic growth. Stronger import was mainly a result of the import of intermediary goods, surging by 36.3% in the respective period.

2022 Assessment. Developments in the first nine months of the year are the real basis for attaining the projected economic growth of 2.7% for the whole 2022, by retaining the same growth structure, more precisely somewhat improvement of the net export contribution is expected, while as regards the domestic demand, somewhat stronger private and public consumption is expected, with the growth of gross investments slowing down compared to the first nine months.

Labour Market. In the third quarter of 2022, positive movements in the labor market continued, with the unemployment rate decreasing to the level of 14.3%² (from 14.5% in the second quarter), amid a quarterly decline in the number of unemployed from 1.7%. (chart 3.5). The employment rate is 47.3%, and the number of employees is almost at the same level as the previous quarter. The biggest drop in employment is observed in the construction sector, followed by the service sector with a monthly decrease in the number of employees, while the industry and the agricultural sector recorded an increase in employment. The active population in Q-3-2022 constitutes 55.2% of the total working population and has decreased by 0.1 p.p. compared to the previous quarter.

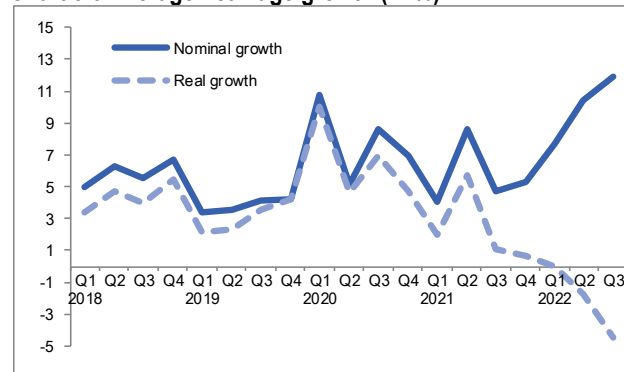
In the period January - September 2022, average net wage grew by 9.9% in nominal terms, intensifying in March and April as a result of the minimum wage increase. During the respective period, increase of average wage was registered in all sectors, most notably in the catering industry, arts and trade. Chart 3.6 shows the wage growth dynamics by quarters.

Chart 3.5. Employment rate and unemployment rate (in %)



Source: SSO

Chart 3.6. Average net wage growth (in %)



Source: SSO

External Sector. In the first three quarters of 2022, the deficit on the balance of payments' **current account** widened and amounted to 4.1% of GDP (versus 0.3% of GDP in the same period last year). Analysed by individual components, the widening is due to the increased trade deficit (mainly due to the energy trade deficit), which was only partially offset by the increased net inflows in secondary income, amid small positive changes in services and primary income. Within the secondary income, net income from purchased cash foreign currency on

² Data for Q1, Q2 and Q3 2022 were processed using population forecasts for 2022 in accordance with the 2021 Census (<https://www.stat.gov.mk/PrikaziSooopstenie.aspx?rbtxt=98>). Data for past years for this segment are not aligned with data from the last census, therefore most of the data analysis refers to changes on a quarterly basis.

the currency exchange market (used as an indicator of the cash private transfers) was higher by about 36% compared to the same period last year. The current account deficit in 2022 is expected to expand to 7.4% of GDP.

The financial account in the first three quarters of 2022 registered net inflows, amid higher net inflows in foreign direct investments and trade credits. The foreign direct investments in the first three quarters of the year registered net inflows of Euro 450 million, or 3.2% of GDP

(versus 1.7% of GDP in the same period last year), mainly as a result of the positive developments in equity and reinvested earnings, as well as the inflows on the basis of intercompany debt.

At the end of September 2022, the gross foreign reserves stood at Euro 3,754 million, which is an increase of 3% compared to the end of 2021, given the improvement during the third quarter. Namely, during the third quarter, the National Bank made a net purchase on the foreign exchange market, and there was also an inflow on the basis of a bond issue by the government on the German market. Cumulatively, the growth of foreign reserves results from the contribution of the foreign reserves management operations, the reserve requirement in euros and the transactions on behalf of the government³. Foreign reserves are maintained at an adequate level, providing an average import coverage of about 3.5 months in the next year.

Inflation. In the period January-September 2022, the average annual inflation equaled 12.4%. The inflation is mainly conditioned by the higher prices of food and energy, given the accelerated growth of these prices on the world market, influenced by the energy crisis and the geopolitical risks. Given the duration of these global price trends and the uncertainty about them, these pressures were rapidly transferred to the prices of other products and services in the price index. Structurally, within the headline inflation index, food contributed with 6.8 percentage points, energy with 2.5 percentage points, and core inflation with 3.1 percentage points. The average core inflation, excluding variable categories (food and energy), equaled 6.2% per annum (NBRNM calculations). The main contribution to core inflation results from the higher prices of the services related to restaurants and hotels, and further from the prices of non-alcoholic beverages, transport services, electrical appliances and products for personal hygiene, as well as from the prices of tobacco where there are also effects of one-time non-market price changes (higher excises on tobacco).

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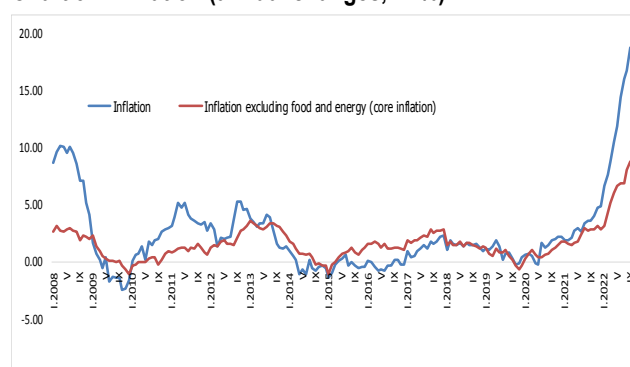
Monetary Developments and Exchange Rate. Amid disturbed global environment and growth of the world prices of primary products that accelerated inflation, at the end of 2021 the gradual tightening of the monetary policy started, first by withdrawing liquidity by the National Bank through the foreign exchange market operations. Since mid-April 2022, the National Bank has started to gradually increase its policy rate, as a preventive response to inflation expectations, in conditions of increased global uncertainty. In the period April-June, the key interest rate was increased three times by 0.25 percentage points from 1.25% to 2% and then in July and September by 0.5 percentage points to 3%⁴.

Table 3.1. Balance of Payments

(% of GDP)	2016	2017	2018	2019	2020	2021	I-IX 2022
Current account deficit	-2.6	-0.8	0.2	-3	-3	-3.1	-4.
Goods, net	-18.8	-17.8	-16.2	-17.3	-17	-20.2	-18.
Services, net	3.5	3.7	3.5	3	4	4.2	4.
Primary income, net	-4	-4	-4.2	-4.6	-3.9	-4.4	-3.
Secondary income, net	16.6	17.3	17.1	16	13.9	17.3	13.
Financial account, net							
(without foreign reserves)	5.8	-0.9	4.5	5.6	4.0	5.1	4.
FDI, net	3.3	1.8	5.6	3.2	1.5	3.3	3.
Portfolio investments, net	4.4	-0.2	3	-1.3	2.7	1.0	0.

Source: NBRNM, SSO; NBRNM forecast for GDP in 2022.

Chart 3.7. Inflation (annual changes, in %)



Source: SSO and NBRNM calculations

³ In November 2022, the Republic of North Macedonia concluded an arrangement with the IMF - Precautionary and Liquidity Line, whereby in the last quarter the funds from the first tranche were approved.

⁴ In October the key interest rate was increased by 0.5 percentage points, in November by 0.75 percentage points and in December by 0.5 percentage points, whereby its level reached 4.75%.

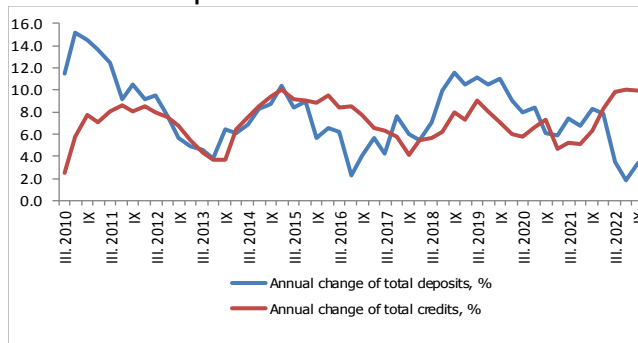
In August 2020, the ECB announced that it granted the National Bank of the Republic of North Macedonia a repo line in euros for the first time, with a possibility of utilisation initially until June 2021, then the utilisation was prolonged until March 2022, and taking into account the global effects of the Russian-Ukrainian crisis, the utilisation was again prolonged until January 2023 and with the latest prolongation until January 2024. The repo line is intended for providing additional foreign currency liquidity in the banking system, if necessary, which is a significant support in dealing with the crisis caused by the pandemic and the consequences of the Russian-Ukrainian conflict (no funds from this line have been used so far).

It is important to emphasise that the monetary and credit aggregates continued to grow. The annual growth of broad money M4 at the end of September 2022 was 2.9% (increase of 7% at the end of 2021). In September 2022, total private sector deposits were higher by 3.4% on an annual basis (7.8% at the end of 2021). Analysing by sector, slowdown in growth was registered in both sectors, whereby household deposits in September 2022 increased by 5.3% (by 7.1% at the end of 2021), with simultaneous growth in corporate deposits of 0.4% (by 11.6% at the end of 2021). At the end of September, the annual growth of total deposits resulted from the growth of household deposits. From structural point of view, the annual growth of total deposits is mostly due to the growth of short-term deposits, as well as the growth of transaction deposits as the most liquid component which partially points to the impact of the uncertainty on the decisions of economic agents. During the third quarter, long-term deposits also started to register positive monthly changes.

Observing by currency, denar deposits, including transaction deposits, from February 2022 onwards have been registering negative annual changes, which slowed down and at the end of September 2022 the annual fall amounted to 2.8%, while the growth in foreign currency deposits, including deposits with a currency clause, was 12.2%, indicating changed preferences of economic agents, which is usual in periods of crisis and uncertainty. Consequently, the share of deposits with foreign currency component (FX and FX clause) in total deposits at the end of the third quarter of 2022 was 45.2%, which is moderately above the level at the end of 2021 (43%), significantly lower though than the level at the onset of the global financial crisis (of about 60%). The growth of the share of foreign currency deposits in the first nine months of 2022 is more pronounced in the households (by 3.4 percentage points, on an annual level), while the share in the corporate sector decreased (by 1.7 percentage points).

Bank loans to the private sector continued to grow at a solid pace in the first three quarters of 2022, whereby the banking sector further supported the economy to overcome the consequences of the global crisis environment. At the end of September 2022, their growth rate was 9.9% (8.3% growth at the end of 2021). The growth of corporate lending (12.6%) was more pronounced, compared to the household lending (7.6%). In September, almost 60% of the annual growth of total loans stemmed from the growth of corporate loans, suggesting an increased contribution of lending to this sector compared to the end of 2021. According to the Bank Lending Survey, in the first three quarters of the year, the banks reported net tightening of the credit conditions for the companies, which for the households was present only in the third quarter, amid estimated net increase in the demand for corporate loans and gradual slowdown in the demand for household loans.

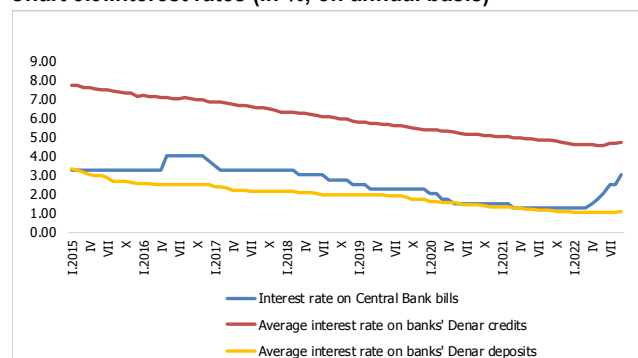
Chart 3.8. Bank deposits and loans



Source: NBRNM

* In the period VI.2016-VI.2017 and in Q3.2019 corrected for the write-offs.

Chart 3.9. Interest rates (in %, on annual basis)



Source: NBRNM

Interest rates of the banking sector have started to rise moderately since the middle of the year. The average weighted interest rates on denar loans and denar deposits were 4.67% and 1.06% per annum in September 2022, whereby compared to May 2022 they increased by 0.1 and 0.04 percentage points. Interest rate spread slightly increased compared to the end of 2021 and amounted to 3.61 percentage points. The average interest rates on foreign currency loans and foreign currency deposits started to grow in the third quarter and amounted to 3.98% and 0.42% in September 2022, which is by 0.07 and 0.02 percentage points more compared to June, whereby the interest rate spread remained unchanged compared to the end of 2021, at about 3.56 percentage points. Interest rate differential between total denar and foreign currency deposit interest rate marginally increased by 0.02 percentage points compared to the end of 2021, and equaled 0.64 percentage points in September 2022. Interest rates on newly received denar deposits in banks in the first nine months increased by 0.7 percentage points, amid a simultaneous slight decline in foreign currency deposits of 0.1 percentage points, whereby the interest rate differential in the newly received denar and foreign currency deposits increased and amounts to 0.8 percentage points.

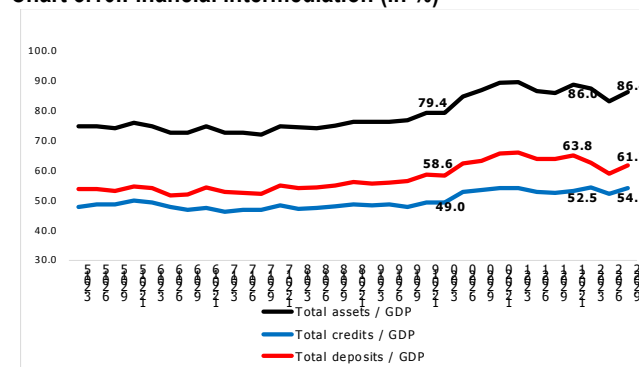
Banking System. The banking sector still has key importance for the stability of the financial sector, as its largest segment, in which the non-financial sector savings are concentrated, but also the assets of other financial institutions, which makes the stability of the banking sector a key linkage for the overall financial stability. The share of the banking system in the financial system, as measured by the amount of assets, has been gradually declining over the years, but is at the level of about 80% (79.4% as of 31.12.2021). As of 30.9.2022, the number of

banks in the Republic of North Macedonia is thirteen. From them, nine banks are in predominant foreign ownership, five of which are subsidiaries of foreign banks. Foreign banks (mainly EU) dominate almost all the important positions of the banking system's balance sheets.

During 2022, the banking system remained resistant to the external shocks and without visible negative effects on the banks' balance sheets, influenced by the military conflict between Russia and Ukraine, the challenges related to the energy crisis and the growing inflation. The banking system remained capitalised and liquid, providing banks with the capacity for continuous credit support to companies and households, but also for absorption of possible unexpected losses from their operations. Non-performing loans remained at a historically low level. The banks' profitability remained solid, whereby the profit remains the main source for further strengthening of their capital. The results of the latest National Bank cycle of stress testing of the domestic banking sector showed solid resistance to the assumed shocks. Overall, the latest developments in the banking system are favorable, but the risks to the entire macroeconomic context are especially pronounced and are predominantly associated with the external environment, which will have a corresponding impact on the activities and the risk profile of the banking system in the period ahead.

In the third quarter of 2022, the total financial potential of the banking system registered an increase. The banks' deposit base registered solid quarterly growth (3.1%) which was mostly due to sight deposits of households, and from currency aspect denar deposits registered higher quarterly growth than deposits with a currency component, contrary to the developments registered in the past two-year period (from the beginning of the pandemic). In the past few months, there have been certain favorable developments, i.e. increased propensity of depositors to hold their deposits in banks in denars and on longer terms, which can also be related to the measures taken by the National Bank to further differentiate the reserve requirement rates by currency aimed at further encouraging of savings in domestic currency. In assets, loans to non-financial entities continue to grow, amid the accelerated annual credit growth. As of 30.9.2022, the shares of total assets of the banking system, loans and deposits in GDP amounted to 86.4%, 54.1% and 61.7%, respectively.

Chart 3.10. Financial intermediation (in %)



Source: NBRNM

⁵ Source: Financial Stability Report for the Republic of North Macedonia in 2021, National Bank of the Republic of North Macedonia.

Credit risk. Credit risk is the most common risk in the overall risk profile of the banks. Amid numerous uncertainties arising from the environment in which the banking sector operates, mainly due to the prolonged Russian-Ukrainian military conflict, coupled with the energy crisis and the growing inflation, as well as the presence of the coronavirus, the credit risk that banks are exposed to remains moderate. In the third quarter of 2022, non-performing loans registered an increase (3.9%), which is twice smaller than the increase in the previous quarter. However, amid further credit growth, the share of non-performing in total loans marginally increased by 0.1 percentage points to a level of 3.3%. Observed by sector, the ratio between non-performing and total loans increased by 0.1 percentage points, to the level of 4.5% in the corporate loan portfolio, while in the credit portfolio comprised of households it remained at the same level of the previous quarter (2.2%). The banking system maintains relatively high coverage of non-performing loans with impairment for these loans (67.6% as of 30.9.2022), which, together with the satisfactory volume and quality of the own funds, limits the negative effects on the banks' solvency of a possible complete default on these loans.

Table 3.2 Main banking system indicators (in %)

	2014	2015	2016	2017	2018	2019	2020	2021	9.2022
Capital adequacy									
Capital adequacy ratio	15.7	15.5	15.2	15.7	16.5	16.3	16.7	17.3	17.7
Asset quality									
NPLs / total loans (non-financial sector)	11.3	10.8	6.6	6.3	5.2	4.8	3.4	3.2	3.3
Total impairments to Non-Performing Loans (non-financial sector)	104.7	108.4	114.9	110.7	118.9	109.6	141.1	134.1	131.3
Profitability									
ROAA	0.8	1.1	1.5	1.4	1.7	1.3	1.3	1.5	1.7
ROAE	7.4	10.4	13.6	13.5	16.0	11.7	11.3	12.9	13.7
Operational costs / total income	55.5	51.6	49.8	48.7	46.2	50.1	48.2	47.4	47.9
Liquidity									
Liquid assets/total assets	33.2	31.4	30.9	29.8	30.6	31.9	32.5	32.4	28.8
Liquid assets to total short-term liabilities	59.2	54.9	53.5	51.7	53.2	54.8	53.8	52.3	46.0
Sensitivity to market risk									
Net foreign exchange position / owned funds	17.5	11.1	14.5	6.2	3.8	6.0	10.1	2.1	10.7

Source: National Bank of the Republic of North Macedonia

Profitability. The banks' profitability is solid, although there is a slightly slower growth of profits. As of the third quarter of 2022, the banking system made profit which is higher by 11.5% compared to the same period last year. The increased profit mostly results from the lower impairment costs and the growth of net interest income and net commission income. The rates of return on average assets and average equity and reserves improved compared to the first nine months of 2021 and reached levels of 1.7% and 13.7%, respectively. The operational efficiency indicators registered various movements, given increase in the operating costs of 8.7% compared to the same period last year.

Liquidity risk. The banking system traditionally maintains a high volume of liquid assets, which enable its high resilience to shocks, but also capacity for a further credit support to the real sector. Unlike the first two quarters of this year, when the slowdown in the deposit growth (and the fall in deposits registered in some of the months after the outbreak of the war in Ukraine), amid simultaneous intensification of the credit support to the economy, resulted in a decrease in the liquid assets of the banking system, in the third quarter of 2022 they started to grow again (by 2.4%). Thus, the liquidity ratios of the banking system remained at a stable and satisfactory level, whereby liquid assets account for almost 30% of the total assets of banks, while the coverage of short-term liabilities and household deposits with liquid assets amounts to 46% and 58.1%, respectively. The Liquidity Coverage Ratio of the banking system equals 258.9%, which is more by 2.5 times compared to the regulatory minimum (100%) and confirms the sufficient amount of liquidity available to the Macedonian banking system.

Insolvency Risk. The banking system is well capitalised. On a quarterly basis, the solvency of the banking system improved, and the capital adequacy ratio increased by 0.4 percentage points, to a level of 17.7% as of 30.9.2022, which is a maximum level registered in the past ten years. The increase in the solvency and capitalisation ratios of the banking system results from the faster quarterly growth of own funds, which is mostly due to the new issues of ordinary shares issued by two large banks and to the issue of a perpetual bond of one medium-sized bank. Moreover, almost 55% of the own funds of the banking system account for the capital

supplements determined according to the supervisory assessment, but also for the capital buffers or are free funds, above the necessary minimum regulatory and supervisory requirements, which is especially important in conditions of crisis episodes, when they can be used as a tool to deal with challenges of different nature and intensity.

Stress testing. The resilience of the banking sector to shocks is also confirmed by the conducted stress-tests, which show good capacity of banks to absorb credit losses, even in case of extreme and slightly plausible shocks, which would mean more pronounced materialisation of the credit risk. The results of the conducted stress-testing in the third quarter of 2022 are better compared to 30.9.2021. The capital adequacy ratio of the banking system does not go below 8% in individual hypothetical simulations. The hypothetical shocks on the part of the credit risk have the greatest impact on the stability of the banking system, and the results of the stress-test simulations for materialisation of the credit risk indicate that it takes 17.4% of the regular credit exposure to the non-financial sector to receive a non-performing status, for the capital adequacy of the banking system to reduce to 8%. This is a better result compared to the previous quarter, when it took migration to a non-performing status of 16.4% of regular credit exposure.

Besides the regular quarterly stress testing⁶ in May 2022 the macro stress test was also conducted, i.e. stress-testing of the banking system by applying a scenario analysis, which simulates extreme, but theoretically feasible shocks in the macroeconomic environment, in order to assess the capacity for management and resilience of the banking system to shocks. For the purposes of this stress-test, two stress-scenarios were prepared: the first stress-scenario assumes stagflation in 2022, with a slow recovery of the economy in the next, 2023, while the second, even more extreme, stress-scenario assumes a sharp recession in two consecutive years, with maintenance of the inflation rates at a high level. The results of the conducted stress test indicate a generally satisfactory resilience of the banking system to macroeconomic shocks. Thus, in the first stress scenario, at the end of 2022, the share of non-performing loans in total loans reached a level of 5.4%, while in 2023 this share mounted to a level of 6.4%. Also in both years, the banking system would operate at a loss, which accounts for 3.2% of the average assets for 2022 and for 0.3% in the average assets for 2023. The capital adequacy ratio in 2022 decreases to a level of 13.5%, and in 2023 it falls to 12.7%. Finally, the indicator for the share of liquid assets in short-term liabilities goes down to a level of 40.3%, while the coverage of household deposits with liquid assets of the banking system decreases to 47.8%. In the second stress-scenario (assumed sharp and prolonged stagflation), the capital adequacy ratio of the banking system reduces to 10.8% in 2022 and drops below 8% in 2023, to a level of 5.8%. The indicator for the share of non-performing loans in total loans would reach a level of 7.9% at the end of 2023. Similar to the first stress-scenario, also in both years the banking system operates at a loss, but in this scenario it is much higher and reaches 4.9% and 4.1% of average assets in 2022 and 2023, respectively. However, this is a rather extreme and slightly plausible scenario that our economy has not faced in recent history.

Macro-prudential framework. In August 2022, the Law on Financial Stability entered into force and formally institutionalised the framework for establishing and conducting macroprudential policy, which includes taking measures and activities aimed at limiting systemic risks, increasing the resilience of financial system and its segments, thus achieving and maintaining financial stability. Following the European regulation and practice, the Law empowers competent authorities to take macroprudential measures that are essentially systemic, in addition to their regulatory function and supervisory competences for individual financial institutions. The National Bank will play a leading role in the designing and implementation of the macroprudential policy and the maintenance of financial stability. This law legally establishes the Financial Stability Committee as an interinstitutional body responsible for monitoring the implementation of macroprudential policy and for coordinating activities for identification and monitoring of systemic risks in each financial system segment and the overall financial system when taking macroprudential measures and preparing for and managing financial crises. The Committee will carry out its tasks through two subcommittees that are legally established as its auxiliary bodies: Subcommittee for monitoring systemic risks and proposing macro prudential measures and Subcommittee for financial crisis management. On 28 November 2022, the Committee held its first session, and discussed and adopted the Rules of Procedure of the Financial Stability Committee as well as the conclusions establishing the composition of the Committee and its subcommittees. Furthermore, at the session, the Committee members gave a brief overview of the latest developments in the financial system.

⁶ More details about the methodology of preparation of the stress tests applied by the National Bank can be found on the following website: http://www.nbrm.mk/WBStorage/Files/WebBuilder_FSR_MKD_2015_Prilog1.pdf.

The National Bank has so far undertaken multiple **macroprudential measures**, even before the adoption of the Law on Financial Stability, which derived from the Banking Law, allowing an introduction of four capital buffers. Three of them are currently set at a level greater than zero:

- capital conservation buffer, set at 2.5% of the risk-weighted assets, effective since 2017 and applicable to all banks,
- capital buffer for systemically important banks, ranging between 1% and 3.5% of the risk-weighted assets. According to the latest calculations (carried out once a year) using the 2021 data, there are 6 systemically important banks (one less compared to the previous calculation due to an acquisition). These systemically important banks should, by 31 March 2023, reach and maintain a capital buffer for systemic importance rate of 1% to 2.5% of the risk-weighted assets,
- in August 2022, the National Bank Council adopted a countercyclical capital buffer of 0.5% applicable from August 2023, aimed to respond to the estimated gradual accumulation of cyclical systemic risks arising from the surrounding, housing loans and apartment prices. In December 2022, the National Bank Council adopted Decision for increase of this buffer to 0.75%, effective from January 2024.
- Until now, the capital buffer for systemic risk has remained 0%, and the National Bank continuously monitors the movements and evaluates the need for introducing this buffer.

Corporate and Household Debt. The total debt of the domestic corporate sector in 2021 reported a growth of 9.9%, which is the highest since 2008. However, the post-pandemic economic recovery with more dynamic GDP growth allowed the corporate debt ratio at the end of 2021 to remain relatively similar to the previous year (68.5% of GDP, against 68.7%). Without short-term trade credits, as an instrument for financing foreign trade, which is usually interest-free, the total domestic corporate debt to GDP ratio is lower and equals 54.7% at the end of 2021, which is a decrease (of 0.8 percentage points) compared to 2020.

The household debt continued increasing gradually in 2021 and this year accelerated to 8.9% (7.9% in the previous year). At the end of 2021, however, total household debt to GDP was 30.4%, which is lower by 0.4 percentage points compared to the end of the previous year, but higher by 3.4 percentage points compared to the pre-pandemic 2019. In 2021, household debt to all creditors increased primarily due to the debt to domestic banks⁷ (which already prevails in total household debt, with 90.9%), followed by debt to non-residents (4.6%). In 2021, the debt to financial companies registered a faster growth (of 75.6%), whose share in total debt is still low (about 2%), and does not point to vulnerabilities across households. However, sensitivity is possible among some categories of borrowers with higher debt to income ratio, which limits their access to bank loans. However, household debt growth rate exceeds that of the disposable income and thus affects some creditworthiness indicators; yet the household solvency and liquidity indicators point to a relatively limited systemic vulnerability of this sector.

3.2 Medium-Term Macroeconomic Scenario

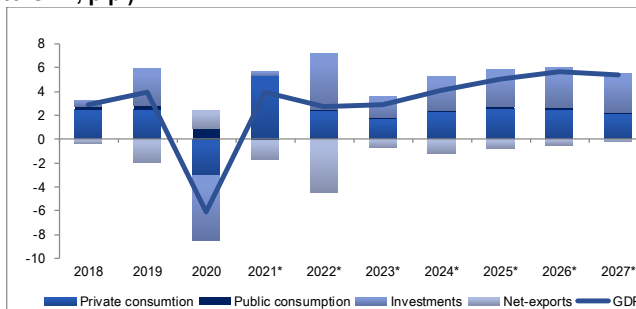
Escalating global economic and political relations, induced by the war in Ukraine, coupled by accelerating and persistent inflationary pressures, expectations for reduction of global trade and external demand and tightening of the global financial conditions, worsened the global ambient and additionally heightened the uncertainty of the economic prospects. On the other hand, measures the Government continuously implements to manage the energy and the price crisis are expected to safeguard the living standard of the citizens, ensure energy stability and preserve the companies' liquidity. At the same time, they will also provide for financial support to the business entities, in order to accelerate the economic recovery and create basis for accelerated economic growth in the coming period, amid expected gradual stabilisation of the global supply chains and more favourable investment environment.

Gross Domestic Product. In line with the baseline macroeconomic scenario, economic growth in 2023 is projected at 2.9%, with economic activity growth continuing to be driven by the domestic demand, while net export is expected to have a negative contribution amid more moderate growth of export and import of goods and services.

⁷ Debt to banks also includes mandatory write-offs, as required by regulations.

Economic policies and measures contained in the Fiscal Sustainability and Economic Growth Plan, the Public Investment Plan and Growth the Acceleration Plan, as a general framework, will contribute to increasing the growth potential and attaining higher growth rates in the medium term, i.e. doubling the economic growth compared to the average of 2.5% in the last decade. As per the baseline scenario, in the period 2024-2027, average economic activity growth will reach 5.0%. In addition to the economic policies and measures, global trends returning back to normal in the medium term, reduction of inflationary pressures and restoring business entities' confidence are expected to provide for scaling up of private investments. Moreover, growth is expected to be encouraged with state support aimed at strengthening the private sector and boosting the competitiveness, innovations and technological development of the enterprises, by providing alternative financing sources and instruments, one of the key aspects of the Growth Acceleration Plan. Medium-term growth will be boosted by domestic demand, while net export is expected to have a mild negative contribution, which will gradually narrow.

Chart 3.11. Expenditure structure of GDP growth (contribution to GDP, p.p.)



Source: MoF calculations based on SSO data (* - forecast)

Economic growth decomposition shows that investments will play a crucial role in maintaining economic activity and its intensification in the medium term (Chart 3.11). Despite the limiting factors arising from the global challenges and uncertainty on the investment decisions, high level of capital expenditures, driven by the mechanism for their execution, is expected to maintain the gross investments at a solid level, with an expected growth of 5.1% in real terms in 2023, remaining to be one of the key drivers of economic activity growth. In the period 2024 - 2027, investments are expected to record average annual growth of 8.5%, as a result of the expected scaled-up private investments, amid gradual restoring of business entities' confidence, more intensive inflows of FDIs, increased capital expenditures, as well as continuous support to private sector development and boosted competitiveness, support to innovations and technologic development of enterprises, with the structural reform measures being also focused thereon: Hybrid Fund for Green and Digital Start-Ups and Innovative SMEs (Measure 12) and Support to Development of the Innovation Eco System (Measure 16). NATO membership and start of EU membership negotiations will additionally have a positive contribution to investments.

As regards private consumption, effects of the price pressures expected to continue in the course of 2023 will reflect on the household disposable income, which will be partially neutralised by further indexation of the minimum wage, the pensions, the expected increase of average wage, as well as the government measures to mitigate the effects of the price shock, above all food and energy-related costs. Hence, private consumption is expected to grow by 2.4% in 2023. Favourable trends at private consumption are expected to continue in the period 2024-2027, when average annual growth of 3.5% is projected, underpinned by the expectations for further improvement of the labour market conditions, growth of private transfers and growth of household disposable income. Consumption during this period is expected to be also underpinned by strengthening the system for social inclusion of vulnerable groups of citizens (Measure 3).

Public consumption is expected to experience a moderate growth of 0.8% in 2023, in line with the efforts to reduce the non-priority budget expenditures, all to the end of ensuring additional space for private sector support, as well as implementation of the fiscal consolidation process by redesigning the public expenditures contained in the Fiscal Sustainability and Economic Growth Plan. Public consumption in the period 2024 - 2027 is expected to grow with a similar pace, i.e. 1% average annual growth is projected.

Expectations for declined foreign demand in the course of 2023 will impact the export of goods and services from the country, and it is expected to slow down to 4.5% in real terms. At the same time, good performance of companies in the industrial zones, expansion of the capacities and announcements for fresh investments will keep the export at solid level considering the circumstances. In the medium term, amid exhaustion of the unfavourable shocks that hit the global economy, stabilisation of the foreign demand and increased export potential in the country via inflow of FDIs, export is expected to have a solid contribution to the economic growth, i.e. it is projected to experience average annual growth of 8.5% in real terms in the period 2024-2027. Following

structural reform measures (Chapter 5): Implementation of Intelligent Transport System along Corridor 10 (Measure 9) and Strengthening the Market Rules in North Macedonia (Measure 17) are aimed at supporting the export of goods and services in the longer term, as well as the overall volume of foreign trade of goods and services in general.

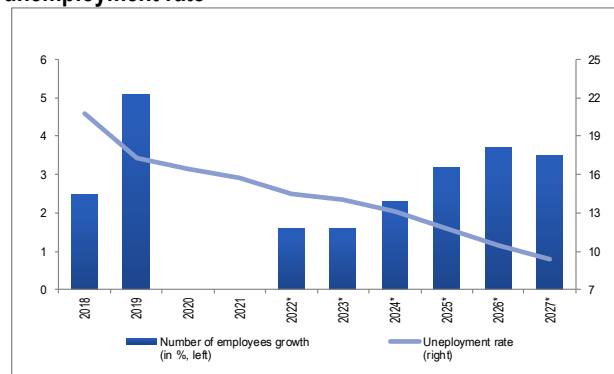
Amid more moderate growth of export and domestic demand, import is expected to increase by 4.3% in 2023. In the medium term, import demand is expected to stabilise, with average annual increase of import of goods and services projected to be 7.5% in the period 2024 - 2027, contributing to gradual narrowing of the negative contribution of net export to the economic growth (Chart 3.11).

Labour Market. Labour market proved to be resilient to the challenges in the past period, positive developments are expected to continue throughout 2023 as well, although with a slower pace as a result of the more moderate growth of economic activity. Active employment measures and programmes, as well as support to domestic and foreign enterprises geared towards job creation, will contribute to increase in the number of employed persons, projected at 1.6%, and will result in additional reduction of the unemployment rate next year at 14%.

According to the baseline macroeconomic scenario, by intensifying the economic activity in the period 2024 - 2027, employment growth is envisaged to speed up, i.e. average annual growth of 3.2% is projected (Chart 3.12). Such trends on the labour market will contribute to reduction of the average unemployment rate to 9.4% in 2027, with the average employment rate surging to 53.5%. In 2023, wages are expected to further increase, with growth projected at 7.3% amid increased minimum wage in March, as well as indexation of the wages with the minimum one and increased wages in the education sector. Accordingly, wages in the industrial and the services activities are expected to grow, above all in the high-productivity activities, such as information and communication activity, professional, scientific and technical activities. In the medium term, nominal growth of average wage in the period 2024 - 2027 is expected to be 6.1% annually.

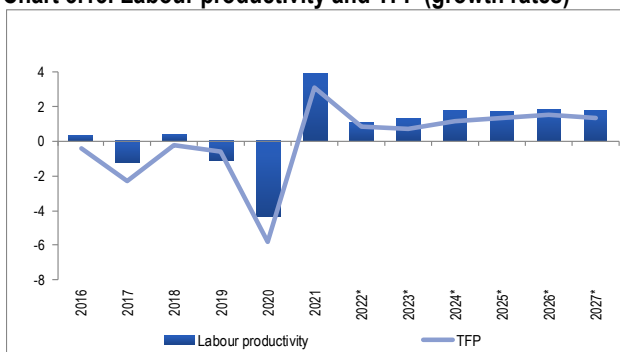
Sources of growth. In 2022 it is expected a positive growth contribution from both the growth of fixed assets (capital) and labor, due to the re-starting of employment growth after COVID-19 pandemic. It is also expected a positive contribution from total factor productivity (TFP)⁸ to economic growth. Chart 3.13 shows projections on both labour productivity and TFP up to 2027. In the period 2023-2027, productivity of production factors is expected to remain significant source of growth, i.e. TFP contributes approximately one fourth to the economic growth in this period. Physical capital, according to the projections on investment growth, in the analysed period, is expected to grow by 5% by the end of this period, contributing about one third to total economic growth. Labour is expected to contribute to economic growth around 41%.

Chart 3.12. Growth of number of employees and unemployment rate



Source: SSO and MoF forecast (* - forecast)

Chart 3.13. Labour productivity and TFP (growth rates)



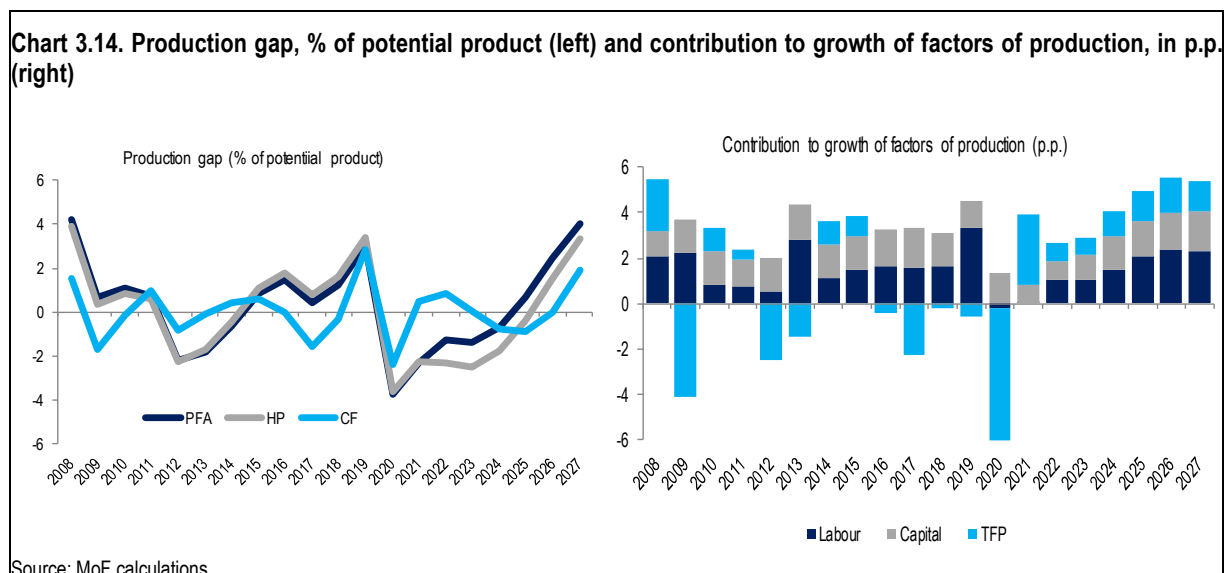
Source: MoF calculations (* - forecast)

⁸TFP is residual of growth of other factors to economic growth, labour and capital. As regards the calculation of physical capital, the so-called perpetual inventory method has been applied (see Berlemaann and Wesselhöft, Estimating Aggregate Capital Stocks Using the Perpetual Inventory Method, 2014), by applying a 4% depreciation rate to the accumulated capital. Average value of the share of income from capital is estimated at 35%, while the remainder of the income is from labour.

Potential growth and production gap. Calculation of potential output is the basis for estimating the cyclical position of the economy. Two groups of methods have been used to calculate the potential output. The first group of methods is based solely on historical data on real GDP, i.e. group of statistical methods (a-theoretical), whereby Hodrick-Prescott (HP) filter and Christiano-Fitzgerald (CF) filter are applied, while the second group, structural methods, applies the Production Function Approach (PFA). Results from the calculation of potential output are presented in the charts below, as well as in Table 5 in Annex 1.

According to the projections on real GDP growth in the upcoming medium-term period and the estimations on the trends of the potential output, amid economic recovery and the health crisis, the cyclical component of output was still in the negative zone in 2022 according to two Production Function Approach and with use of HP - filter. However, the CF filter is showing a relatively small (and temporary) positive output gap in 2022. In 2023 it is expected the output gap to move towards negative territory due to the slowdown in EU activity. The negative production gap is widening on the PFA and the HP filter, and the slight positive gap is eliminated in the case of the CF filter around 2025. By 2027 the two groups of methods are showing a positive output gap. (Chart 3.14). On the same chart we provide a breakdown of actual growth from the production function method. TFP growth here incorporates a cyclical component (contribution in 2020 for example).

Potential growth, following the slowed down dynamics in 2020, is estimated to gradually intensify in the coming period, underpinned by re-accelerated growth of employment, faster capital stock increase and a gradual increase of TFP growth. The sources of these are the Growth Acceleration Plan and the Public Investments Plan

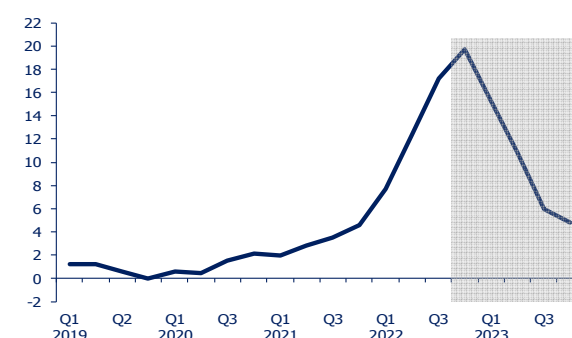


Inflation. The global supply factors resulted in acceleration of the global inflation in 2022, with its deceleration and stabilisation at lower levels being expected on a medium run. Foreign effective inflation⁹ for 2022 has been corrected upwards, so now it is expected to equal 9.1% (as opposed to 2% in last year's scenario). Foreign inflation is expected to slow down in 2023, being estimated at 6%, while in 2024 it would decelerate additionally to 2.4%.

⁹ The foreign effective inflation is calculated as the weighted sum of consumer price indices of the countries that are major partners of the Republic of North Macedonia in the field of import of consumer goods. The calculation of this indicator includes Bulgaria, Germany, Greece, France, Italy, Austria, Slovenia, Croatia and Serbia. Inflation in Croatia and Serbia has been adjusted for the changes in the exchange rate.

Since the end of 2021 and during 2022, the inflation rate in the domestic economy has been accelerating, mainly as a result of the intensified rise in import prices, especially food and energy prices, which explain three quarters of the realised inflation in the Macedonian economy. It is important to emphasise the high openness and import dependence of the economy, as well as the structure of the inflation index in which these two categories had a relatively high share. Towards the end of 2022, the average annual inflation rate in the Macedonian economy is expected to slow down slightly. Thus, after the price growth of 3.2% in the previous year, it is estimated that inflation will reach 14.3% in 2022, amid upward movements in all of its components. Compared to last year's scenario (expected inflation of 2.4%), the estimate for inflation in 2022 in this scenario is higher, due to higher performance, amid rising commodities prices, especially of food and energy in the world stock markets.

Chart 3.15. Inflation rate (in %, on annual basis)



Source: SSO; October forecast by NBRNM for 2022-2023

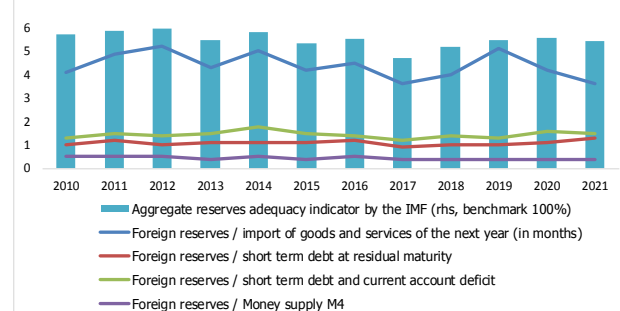
After a temporary acceleration in 2022, influenced by the global supply-side factors, the prices are being expected to start plunging in 2023, with the average inflation rate equaling 8% - 9%, on average, depending on the possible rise of electricity prices on the regulated market. This forecast is based on the expectation of a gradual easing of price pressures from import prices, the expected effects of the previous tightening of monetary conditions, as well as the expected effects of the Government's measure for temporary subsidisation of the electricity cost for the food industry. This measure should directly affect the producer cost structure, which is particularly important given that it is a matter of cost inflation.

With the expected stabilisation of the global primary commodities markets and lower import price pressures on domestic prices, the inflation is envisaged to decrease more in 2024 to 2.4%, thus reducing again to the historical average of 2% in 2025. The main risks in terms of the inflation forecast relate to the unpredictability of the primary commodity prices in world markets, which is especially associated with the uncertainty related to the global energy crisis, as well as with the possible further adverse effects of the pandemic and the Russian - Ukrainian conflict on their supply and demand. Additional risk also includes the possible more pronounced transfer of the growth of the prices of raw materials and of the costs for energy and transport on the final prices of products and services, in case of a more significant reduction of the profit margins of business agents.

Monetary and exchange rate policies.

Monetary policy is oriented towards preserving price stability by maintaining a stable exchange rate of the denar against the euro. In conditions of gradual inflation acceleration, under the influence of global factors on the supply side, since the end of 2021 the National Bank has started to gradually tighten the monetary policy, primarily by withdrawing liquidity through foreign exchange market operations. Gradual increase in the policy rate began in April 2022, which was raised on five occasions from a historic low of 1.25% to 3% in September¹⁰. Although the inflation growth is conditioned to a large extent by factors on the supply side, the tightening of the policy rate is motivated by the need to stabilise inflation expectations and the secondary effects of food and energy prices on other prices. In addition to the increase in the policy rate, the National Bank, on three occasions, made changes also in the reserve requirement rates towards reducing the allocation of reserve

Chart 3.16. Foreign reserves adequacy indicators



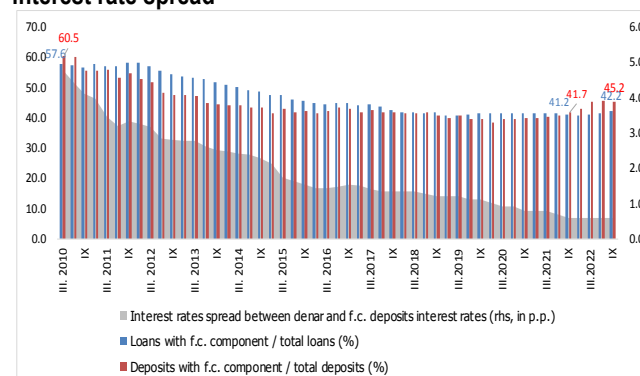
Source: NBRNM calculations

¹⁰ With the additional increases in October, November and December, the policy rate equals 4.75% in December 2022.

requirement for denar liabilities (from 8% to 5%) and increasing the allocation for the banks' foreign currency liabilities (from 15% to 18%). The COVID-19 crisis and the global energy crisis that followed consequently, were met with a high and adequate level of foreign reserves, consistently registering high growth in the several previous pre-crisis years, as well as generally stronger fundamentals of the economy, which facilitated the facing with the new crises. Considering the already developed analytical and forecasting capacity, as well as the availability of the already prepared non-conventional set of tools, the monetary reaction of the National Bank was appropriate again this time, too. At the end of the year, the monetary measures began to produce certain effects, mainly evident in the deposit interest rates of the newly received deposits at the banks and small improvements in the maturity and currency structure of the deposits. In addition, in order to further handle the consequences of the crisis, it is particularly important to highlight the approved access to foreign exchange liquidity in euros, which was provided to the National Bank by the European Central Bank, initially until June 2021, and then through three extensions prolonged until January 2024.

In line with the applied strategy of targeting the denar exchange rate, the National Bank constantly monitors the movements of the interest rate differential for instruments in domestic and foreign currency, as well as the currency structure of deposits and loans. The interest differential on deposits in domestic and foreign currency in the previous few years was mainly in decline, as a reflection of the relaxed domestic and global financial conditions, and in the conditions of monetary tightening that began towards the end of 2022, it registered a minimal increase. The multi-year trend of denarization (in the period from 2009 - 2015, the share of deposits with a foreign currency component in total deposits decreased by about 18 p.p., and the share of loans with a foreign currency component in total loans decreased by about 11 p.p.), also supported through an appropriate differentiation of the reserve requirement rates from a currency perspective, was briefly interrupted in 2016 influenced by greater internal uncertainty, after which the next three years were marked by moderate downward changes. Maintaining the benefits from deeuroization in previous years in turn increases the credibility of the monetary policy that aims towards stability of the exchange rate of the denar against the euro. In the period 2020-22, as a reflection of the uncertainty arising from the pandemic-driven crisis, and then the increased inflation expectations due to the global energy crisis and uncertainty, there was a moderate upward movement of the share of deposits with a foreign currency component (by 6.7 pp in September 2022 compared to the end of 2019). Increased euroization is also present among both the households and the enterprises (more pronounced among the households on a cumulative basis), with the increased euroization during 2022 entirely resulting from the household deposits.

Chart 3.17. Currency structure of bank deposits and credits and interest rate spread



Source: NBRNM Calculations

In order to support and strengthen the denarization process in the economy, the National Bank prepared and the Government adopted the Denarization Strategy at the end of 2018, which includes measures for comprehensive treatment of this issue, with the involvement of several competent institutions. During 2019, the implementation of the Strategy began, whereby seven measures were fully realised and two were significantly implemented, out of nine activities planned for this year. During 2020, in addition to further implementation of sustainable macroeconomic policies in the direction of maintaining macroeconomic stability, following activities were also undertaken: gradual increase in the spread between the interest rates on government securities in domestic currency and FX clause in the primary market in favor of the domestic currency, in order to increase the demand for domestic currency instruments; further increase in the issue of government securities in denars as opposed to the government securities with FX clause; activities for further development of financial education. The activities continued throughout 2021, through further implementation of sustainable macroeconomic policies, as well as the adoption of the first national Strategy for financial education and financial inclusion by the financial regulators. In 2022, in accordance with the provisions of the Denarization Strategy, changes related to the reserve requirement were made in order to support savings in domestic currency.

Observing the set of monetary instruments, the non-standard reserve requirement measure was reintroduced in March 2020, which allows reducing the base for commercial banks' denar reserve requirement for the amount of newly approved and restructured loans to companies that were most affected by the COVID-19 (by the end of 2019 this measure was aimed at export and energy sector). In the past period of implementation, the loans covered by this measure were generally aimed at transport and service activities, as the most affected sectors by the pandemic. In August 2022, the measure that released banks from reserve requirements was also introduced to the newly approved loans for green finance, in order to encourage both lending and the transformation of the economy towards greater use of renewable energy sources, which is crucial in this crisis period. In May 2020, the National Bank expanded the scope of securities it can accept from the domestic banks as collateral instruments when issuing the banking system denar liquidity. With these amendments the National Bank can also accept domestic government bonds with the longest maturity (15 and 30 years) and Eurobonds issued by the government on international financial markets, when conducting operations for purchasing securities on temporal or outright basis. For the purpose of maintaining and increasing foreign currency liquidity of the banking system in euro, the instrument auctions of foreign currency deposits was reactivated, where the domestic commercial banks can place foreign currency deposits with the central bank once a month with a maturity of 1 and 3 months, at fixed interest rates.

In the next three years, as until now, the monetary policy will keep the price stability by maintaining a stable exchange rate of the denar against the euro. The results of the evaluation models of the equilibrium denar real effective exchange rate¹¹ as of the last quarter of 2021, did not indicate major deviations from the equilibrium, and were maintained within acceptable range of +/-5% in the period 2004-2021¹². Regarding the monetary policy conduct, we should mention the results of the monetary transmission models that, with the latest update as of 2021, indicate a relatively high, but slower transmission of the change in CB bill rate to the interest rates on denar loans and denar deposits. This deceleration can partly be explained by the uncertainty and increasing risks in the domestic economy from the pandemic and negative economic effects from this health crisis. The deferred payment of loans during 2020 can have a certain impact on the decelerated transmission of interest rates, amid unchanged Overall, the macroeconomic indicators suggest strong effects of the global uncertainty from the Russia-Ukraine war on the global and domestic economy, while the recovery dynamics is accompanied by risks. The recovery of the domestic economy is expected to continue, and after the acceleration of the inflation in 2022 influenced by the global factors on the supply side, it is expected to slowdown in 2023 and gradually decrease to 2% in the medium term. The foreign position remains stable, amid expected narrowing of the current account deficit, financing according to the newly concluded engagement with the IMF, expected FDI inflows and further access to capital markets. Consequently, foreign reserves will remain in the safe zone in the next period as well. Further credit support of the domestic economy by banks is expected. The estimates are accompanied by high uncertainty, with mostly downward risks, primarily associated to the further unfolding of the global situation, the confidence of consumers and investors, current mismatch of supply and demand, which could lead to more pronounced and long-term disruption in supply and production chains, as well as price pressures.

The inflation expectations, external sector developments, import structure and effects on the foreign exchange market and foreign reserves, will be crucial for the monetary setup in future. There will be regular monitoring of the pace and structure of credit growth and of the movement of deposits and interest rate spreads. The coordination of the monetary and fiscal policy remains crucial for the following period as well. In the period ahead, the National Bank will continue to carefully monitor the trends and potential risks from the domestic and external surrounding in the context of the monetary policy setup.

¹¹ Source: NBRNM. According to the BEER (behavioral equilibrium exchange rate) approach for assessment of the equilibrium denar exchange rate, which is based on a narrower definition of the real effective exchange rate and is designed on the basis of the five EU major trading partners of the Republic of North Macedonia. Models (set by different specification and evaluated by various techniques), include productivity differential, trade openness, public consumption and total net foreign assets, as independent variables.

¹² IMF's analyses also indicate no significant deviation in the real exchange rate (IMF Staff Report 2021 Article IV Consultation, February 2022, p.8). According to the IMF methodology, deviations from the equilibrium level of +/- 5% indicate that the external position is generally consistent with the fundamentals and there is adequate policy nexus.

Bank deposit and loan forecast¹³ As a result of the global uncertainty, inflation expectations and energy crisis, the deposit growth in 2022 is estimated at a more moderate level of 3.9% annually at the end of 2022 (7.5% in 2021). In 2023 the deposit growth is expected to moderately accelerate and reach 6.5%. The solid growth of total deposits will continue also in the coming period, amid a forecasted average rate of annual growth of 8% in the period 2024 -2025.

The developments on the credit market indicate moderate acceleration in the credit activity in 2022, amid expectations for moderate slowdown of the growth rates in the next three years. Namely, the solid growth of loans in the first three quarters, supported by the measures taken by the National Bank to mitigate the adverse effects on the economy caused by the energy crisis, is expected to continue until the end of the year. It is estimated that at the end of 2022 the growth rate of loans will reach 9.2% (8.3% at the end of 2021). In the forthcoming period, a slightly more moderate lending activity is expected, with an average growth rate of slightly above 7% in the period 2023 - 2025, in conditions of moderate growth in the domestic economy, stabilisation of the expectations, increased demand for loans by households and the corporate sectors, as well as sound solvency and liquidity position of banks. As until now, the credit growth will be supported by gradual strengthening of the deposit growth as the main source and financing.

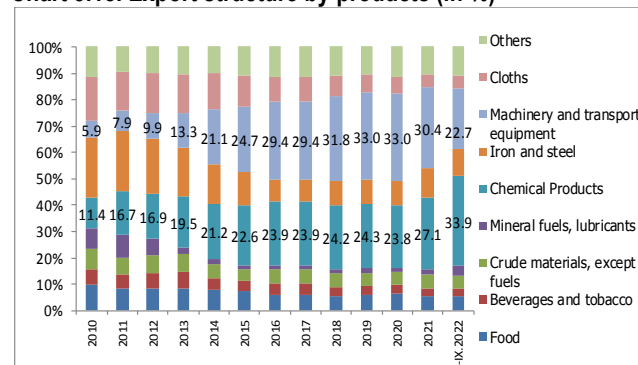
External Sector Structural changes in the economy over the last few years has strengthened exports and improved current account balance. Current account deficit in the period 2011-2021 averaged 2% of GDP (despite the previous multiyear average of about 6%). Stable current account performance in the pre-pandemic period points to strengthened economic fundamentals and greater external sector resilience to domestic and external shocks.

According to the trends and estimates for the last quarter of 2022, the current account deficit for 2022 is estimated at 7.4% of GDP, which is considerable widening compared to the previous year (3.1% of GDP), mainly reflecting the wider energy trade deficit. The estimated deficit for 2022 is higher than expected in last year's macroeconomic scenario, shown in last year's ERP (3.8% of GDP), reflecting the effects of global energy crisis that expanded trade deficit and consequently, current account deficit, despite the improvement in other current account items.

In the period January- September 2022, the total trade deficit¹⁴ expanded by 53.5% given the annual export growth of 20.1% and the faster import growth of 29%. A significant part (of about 83%) of the trade deficit expansion reflects the expansion of energy trade deficit, which shows that the expansion was mainly generated by the global energy crisis. Exports increase mainly reflects the higher export of chemical products and partially the machinery and transport equipment (electrical machines and spare parts and road vehicles), which mainly arises from the export of export-based companies with foreign capital, given their prevalence in total exports, with significant positive contribution of the export of iron and steel amid favorable price environment, as well as energy exports. Import growth is mainly due to the higher energy imports, given the higher energy import prices, increased import of raw materials and equipment, and less to food and beverages (amid higher food prices). The highest trade deficit in goods in the period under observation was registered in the trade with the Great Britain, while the highest surplus was reported in the trade with Germany.

Analysing the structure, as a result of the new capacities in the economy, in recent years, export structure has significantly improved. It is due to the gradual increase in the share of products with higher value added in exports, mainly chemicals, and machinery and transport equipment, which reached about 58% at the end of

Chart 3.18. Export structure by products (in %)



Source: SSO

¹³ The National Bank's external and monetary sectors forecasts relies on data from the 2022 Budget Revision from July 2022, the draft budget for 2023 and the Fiscal Strategy 2023-2025 (with prospects to 2027) from May 2022.

¹⁴ According to the foreign trade statistics, where the imports are presented on c.i.f. basis.

2021. Changes in export structure correspond with foreign direct investments, which in recent years, have been mainly concentrated in these sectors. On the other hand, there was a decrease in the share of traditional export products - iron and steel, and textile products, with their joint share declining from the dominant 40% in 2010 to 16% at the end of 2021, which confirms the larger production dispersion and the modernisation of export structure. Regarding the export of iron and steel, it should be borne in mind that despite the decrease during the global crisis, given the favorable price movements on the world market, its share in total exports has stabilised since 2017 and accelerated in 2021.

During the pandemic, the trade of new foreign-owned companies remained stable but slightly lower compared to the pre-pandemic period (close to 54% on the export side and close to 35% on the import side). The share of exports of these companies in total exports of goods remained relatively high, close to 53% of total exports in the first nine months of 2022. Given

that these companies import raw materials and equipment, the share of their imports in total import of goods also increased, yet sustaining at a lower level compared to the growth of exports (almost 32% share in total imports in the first nine months of 2022).¹⁵ The new foreign-owned companies reported a positive net foreign trade balance which averaged 1.5% of GDP in the period 2011- 2013, while in the period that followed, it intensified and peaked (5.4% of GDP) in 2018, preserving at 4.7% of GDP in 2019. In the pandemic 2020 and 2021, amid economic slowdown, the positive balance of these companies was reduced to 4.3% and 3.2% of GDP, respectively. In the first nine months of 2022, these companies reported a net export of 2.7% of GDP, while in absolute terms, the export for the specified period of 2022 already reached the level of the entire 2021, indicating favorable trends this year. It is estimated that there is still room for strengthening the links between foreign companies and local suppliers, which would additionally increase the secondary effects of FDI on the economy.

Chart 3.19. Geographical breakdown of export (% of total export)

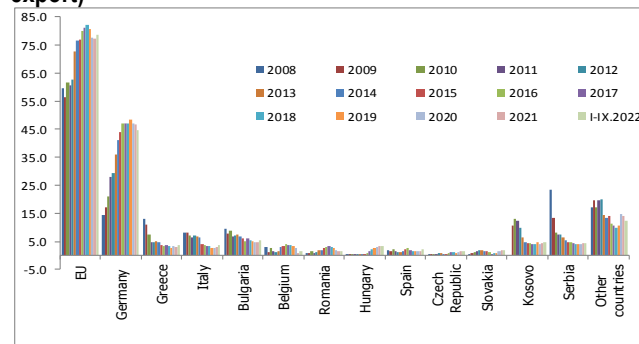
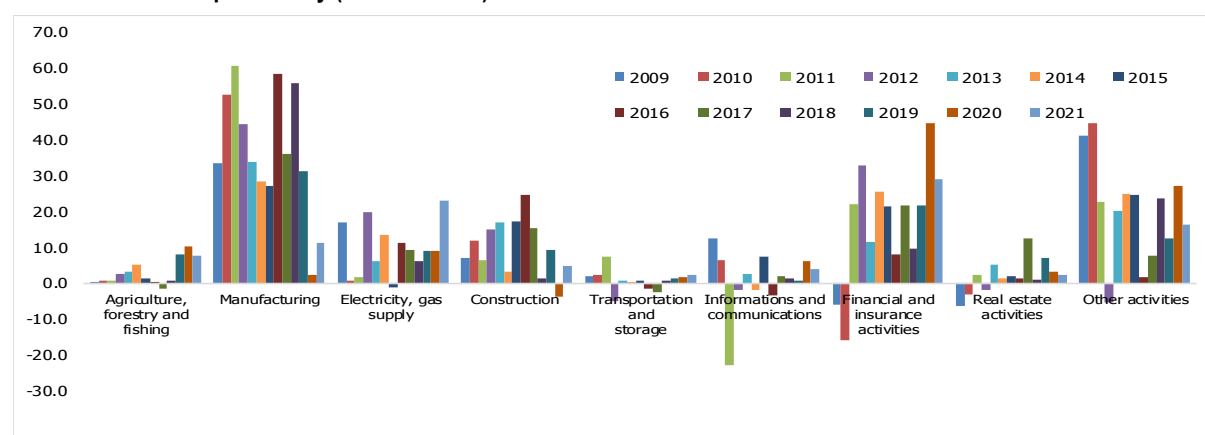


Chart 3.20. Net FDI per activity (% of total FDI)



Source: NBRNM

The analysis of geographic distribution of Macedonian exports confirms the EU dominance as a major export destination, which in the period January-September 2022 imported around 79% of the Macedonian exports, which is a significant increase compared to 2008 when nearly 60% of the Macedonian exports was oriented towards the EU. Within the EU, in recent years, the share of exports to Germany have seen a significant growth, with positive trends in the exports to Hungary, Romania and Czech Republic, amid low initial shares, and decreased share in exports to Greece, Italy and Bulgaria. In the period January-September 2022, total trade with the EU accounted for about 60% of the total trade of the Republic of North Macedonia, and the faster growth in

¹⁵ Source: NBRNM. According to the foreign trade statistics (customs declarations), where export of goods is presented on f.o.b. basis, and import of goods on c.i.f. basis.

imports than that in the exports of goods resulted in lower surplus (by about 24% compared to the same period last year).

In the period January-September 2022, the real effective exchange rate (REER)¹⁶ of the denar deflated by CPI registered a moderate annual appreciation of 1.1%, while excluding commodities, the denar REER, deflated by the same price index, appreciated by 3.6%, compared to the same period last year. Such movements in the two indices reflected the appreciation of the nominal effective exchange rate of the denar against the currencies of some of the trading partners, amid unchanged or slight change in relative prices. In the first three quarters of 2022, the nominal unit labor cost increased by 7.1%¹⁷ annually, reflecting productivity growth and further nominal wage rise.

The export market share of the economy in world exports has been growing since 2013, while in 2020, it slowed down moderately due to the pandemic.

For 2021, however, again an acceleration in the growth of export market share is estimated. The degree of trade

Chart 3.21. Exports and imports of companies with foreign capital (% of total)

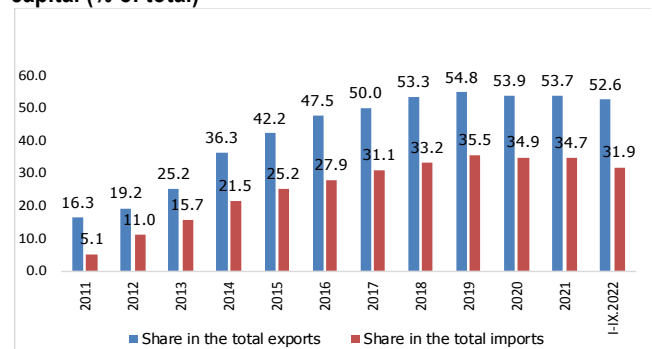
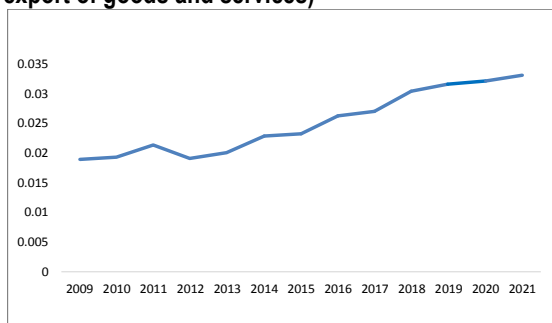
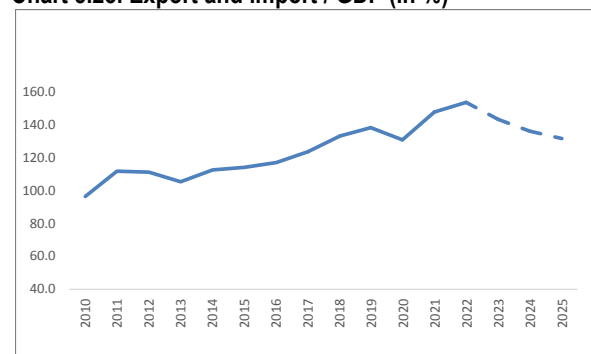


Chart 3.22 Export market share (% of the world export of goods and services)



Source: IMF WEO, NBRNM.

Chart 3.23. Export and import / GDP (in %)

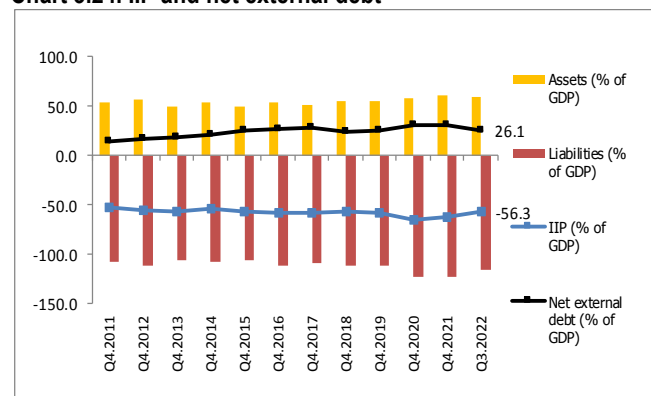


Source: SSO; NBRNM forecast for the period 2022-2025

openness of the Macedonian economy is generally high, with a marked upward trend in the period 2014 - 2019. In 2020, there was a short-term slowdown in total foreign trade due to the pandemic, followed by continuation of the growth in the next two years, to an estimated level of 154% of GDP in 2022 (the growth is partially due to higher prices). In the next three years, a moderate slowdown is expected, to around 132% of GDP in 2025.

International investment position and external debt. At the end of the third quarter of 2022, the net negative international investment position (IIP) in nominal terms increased by 8.4% compared to the end of 2021, amid somewhat higher increase in

Chart 3.24. IIP and net external debt



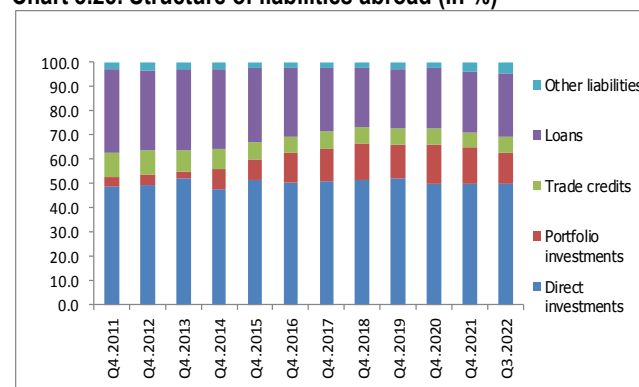
Source: NBRNM, SSO

¹⁶ NBRNM calculations. Within the REER, the calculation of the nominal effective exchange rate and relative prices includes 15 major trade partners of the Republic of North Macedonia by their share in foreign trade in the period 2010-2012 and a base period 2015.

¹⁷ Data on nominal unit labor cost are internal calculations of the National Bank and should be interpreted with caution. According to the 2021 Census of Population, Households and Dwellings, there was a structural break in the series for the number of employees in Q1 2022. For the purposes of consistent analysis of productivity and labor unit cost, the NBRNM has made certain adjustments to the data on the number of employees.

international liabilities compared to the increase in international assets. The widening of the negative IIP is mainly due to increased net liabilities in other sectors of the economy and in the banking sector as well as slightly lower central bank's net assets (although significantly recovered from the previous quarter). On the other hand, the net government liabilities¹⁸ decreased, contributing to partially offset the widening of the entire net debt position of the country. In relative terms, in September 2022 the net negative IIP was 56.3% of the estimated GDP, and compared to the end of 2021, it decreased by 5.7 p.p. of GDP.

Chart 3.25. Structure of liabilities abroad (in %)

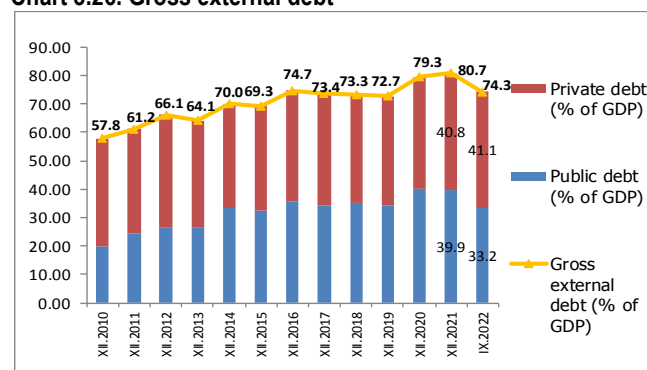


Source: NBRNM

Given the significant share of foreign direct investment as external liabilities (about 50% in recent years), typical for the converging countries, the analysis of external position also needs to consider other variables, such as net external debt, which includes only net debt instruments. At the end of the third quarter of 2022, net external debt accounted for 26.1% of the estimated GDP, down by 4.4 p.p. from the end of 2021, which is due to the decrease in public and private net debt (of 2.7 p.p. and 1.6 p.p. of GDP, respectively).

At the end of the third quarter of 2022, the **gross external debt** accounted for 74.3% of GDP (without the NBRNM repo transactions, which appear in almost identical amount on both the side of the liabilities and the claims on non-residents). Compared to the end of 2021, gross debt decreased by 6.4 p.p. of GDP. This decrease is mainly due to the reduced debt of the public sector (by 6.7 p.p. of GDP), given minor increase with the private sector debt (by 0.3 p.p. of GDP). The long-term debt, occupying around 70%, still dominates the debt structure.

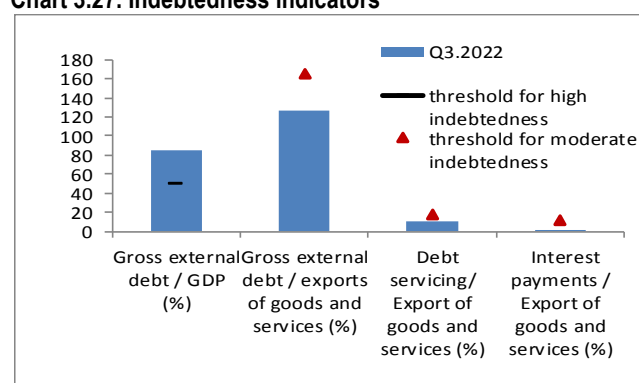
Chart 3.26. Gross external debt



Source: NBRNM

At the end of the third quarter of 2022, the coverage of short-term debt by residual maturity with foreign reserves was 0.9, which indicates slightly lower liquidity in terms of external payments due to the stronger growth in the short-term debt by residual maturity than increase in the foreign reserves compared to the end of 2021. The analysis of foreign indebtedness¹⁹ indicates a low indebtedness based on three indicators (gross external debt, debt servicing and repayment of interest, each relative to export of goods and services), whereas only gross debt-to-GDP indicates high indebtedness.

Chart 3.27. Indebtedness indicators



Source: NBRNM calculations

¹⁸ Government sector includes central government, local government and social security funds.

¹⁹ Tailored use of the World Bank method, where the calculation of the indicators is based on three-year moving averages of GDP and exports of goods and services, as denominators. The methodology also defines criteria of indebtedness, as reference values for indebtedness level.

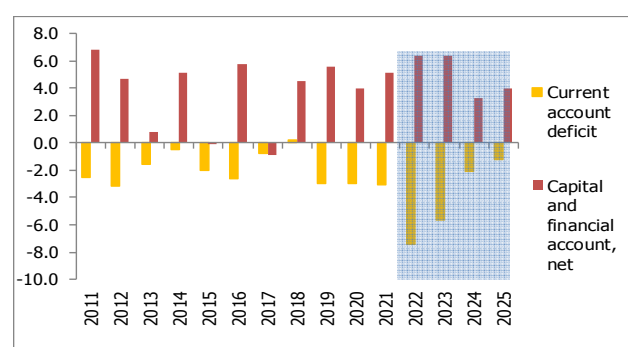
Forecasts of the Balance of Payments²⁰ After recovering from the pandemic in 2021, the global economic growth is estimated to have decelerated again in 2022, which is expected to continue in 2023, predicting a recovery in 2024. According to the latest forecasts, the increase in the foreign effective demand²¹ pertaining to the Macedonian economy is estimated at 2.4% in 2022, and in 2023 it is expected to slow down to 0.3% (4.3% and 2.3%, respectively, according to the last year scenario). In 2024, the growth pace of foreign effective demand is expected to accelerate to 1.8%.

Having in mind the consequences of the global energy crisis, recent external sector estimates indicate that after the widening of the current account deficit in 2022, in 2023 its gradual narrowing would begin, while in the next two years it would stabilise at a level below 2% of GDP. In the next three years, the needs for external funding are expected to be covered by external borrowing and foreign direct investments. Capital inflows are expected to help maintaining adequate level of foreign reserves and import of next year coverage of about 3.5 months.

After the growth in 2021 when there was a significant recovery of exports consistent with the gradual global relaxation of post-pandemic preventive measures, the recovery of foreign demand and a further positive effect of the foreign capital companies, the exports recorded a solid growth in 2022, as well. The export of goods and services is expected to keep registering moderate growth in the next two years. The import of goods and services in 2021 increased substantially, as well, due to the recovery in domestic demand and export activity. In 2022, additionally driven by price factors (especially in the case of energy), imports recorded a similar dynamic, registering an increase that exceeded the growth of exports. On average, for the next two years, import growth would be significantly more moderate, with an expected slowdown in energy prices on the world market. For 2022, amid faster increase in imports compared to exports, the trade deficit in goods and services is expected to widen to 21.9% of GDP (deficit of 16% of GDP in 2021). This assessment is based on the estimated higher trade deficit in goods, amid slightly higher surplus in services. The trade balance expansion is due to the increased deficit in the energy trade balance, amid estimated slight narrowing in non-energy trade balance. The estimated deficit in 2022 is higher than expected in last year's scenario (around 16% of GDP). In 2023, the deficit in trade in goods and services is estimated to narrow moderately (19.9% of GDP), but more noticeably in the next two years (14.8% and 12.9% of GDP in 2024 and 2025, respectively). This forecast is based on the expectation that the foreign trade would get back on track after the shock and the consequences of the energy crisis. In this light, in 2022, the energy trade deficit would expand significantly, but it would gradually narrow in the following period, while the non-energy deficit would gradually reduce starting from 2022, as a result of the effect of both the new and the traditional export activities. The services balance in the next three years would grow moderately (up to 5.5% of the GDP in 2025), given the solid export prospects of the services sector (in particular telecommunications, computer and information services).

A significant part of the trade deficit will still be financed by inflows of secondary income (which primarily reflects the net purchase on the currency exchange market as the main component of private transfers). As a result of reduced global activity and restrictions on cross-border movement due to the pandemic, net inflows from private transfers slowed to 12.6% of GDP in 2020, and already in 2021 they normalised, reaching 16.2% of GDP, which was slightly above the pre-pandemic level. In 2022 these inflows accelerated further and are estimated at 17.6% of GDP, while in the next three years they would register slight downward trend (close to 16% of GDP in 2025). The primary income deficit for 2022 and 2023 is estimated to reduce to 3.9% and 3.7% of the GDP, respectively, while in the following two years slight upward trend is expected up to 4.7% of the GDP in 2025, in line with the forecasts for growth in the foreign investors' capital income.

Chart 3.28. Balance of payments (in % of GDP)



* Source: NBRNM. Estimate for 2022 and forecast for 2023-2025

²⁰ Balance of payments forecasts and monetary and credit aggregates are based on SSO's GDP estimates for 2021 and the first two quarters of 2022.

²¹ Foreign effective demand is calculated as the weighted sum of GDP indices of the major trading partners of the Republic of North Macedonia. The calculation of this index includes Germany, Greece, Italy, the Netherlands, Belgium, Spain, Serbia, Croatia, Slovenia and Bulgaria.

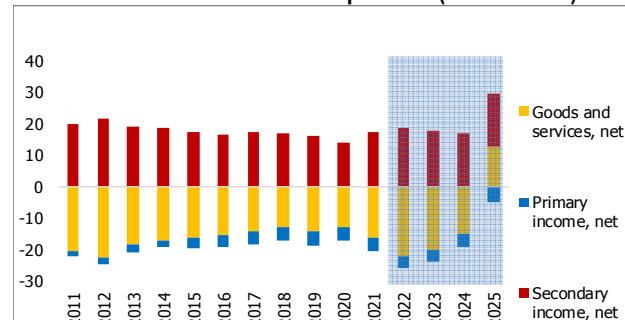
With such current account forecast, in 2022 the current account deficit is estimated to increase to 7.4% of GDP, mainly due to the widened deficit in goods, as opposed to the improvement in all other items. In the following year, the current account deficit would narrow moderately to 5.6% of GDP, while in the next two years, after the expected trade balance normalisation, there would be further gradual narrowing (to 2.1% in 2024 up to 1.2% of GDP in 2025). The gradual depletion of pandemic risks and the global stabilisation, both in the supply chains and the price pressures, especially on the energy side, would significantly improve the balance of goods and services. The narrowing of the deficit in goods to pre-pandemic levels of around 12% - 13% of GDP is in line with the expected medium-term effects of foreign capital companies (as well as expectations for further FDI inflows), which have already changed the structure of the economy and led to greater dispersion and modernisation of the production structure.

In 2022 and the next three years, the capital account inflows will be mainly generated from the expected FDI and

the expected external public and private borrowing. In 2022, most inflows came from the FDI and the external government borrowing (German Eurobond and net government borrowings). FDI in 2022 are estimated at 3.5% of GDP, which is a slight acceleration compared to 2021, regardless of current uncertainty. The recovery of the domestic economy growth after pandemic and the global energy crisis along with the moderate global economic growth are expected to create stable perceptions among investors and FDI inflows just over 3% of GDP in the next three years. This forecast is similar to last year's scenario and is due to the continuity of inflows of FDI

(including in years of crisis). In addition, such a forecast is supported by the ongoing policies to attract new FDI, further reforms aimed at improvement of the business environment, as well as prerequisites for the expansion of actual foreign capacities within the current regrouping of global supply chains towards nearby locations. Amid FDI net inflows, loans and portfolio investment, there are estimates for net inflows on the financial account of identical 6.4% of GDP in 2022 and 2023. In the next two years, the total net inflows would slow down at about 3% - 4% of the GDP (with stable FDI and expected repayment of the government debt on the basis of issued Eurobonds). Cumulatively, current and financial account flows forecasts are expected to ensure additional accumulation of foreign reserves in the next three years and maintain adequate coverage of the average imports of each coming year.

Chart 3.29. Current account components (In % of GDP)



* Source: NBRNM. Estimate for 2022 and forecast for 2023-2025

Financial Sector. Maintaining the stability of the financial system, its further development and increasing intermediation remain the main priorities in the area of the financial system. Therefore, the following activities will be undertaken:

- Law on Financial Stability is adopted and harmonised with Regulation (EU) No. 1092/2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board. Under the Law, Financial Stability Committee has been established, as a body to identify the threats and the risks to financial stability and to undertake, in a synchronised manner, macro-prudential measures for the purpose of maintaining the financial stability in the Republic of North Macedonia.
- Law on Payment Services and Payment Systems is adopted, harmonised with the following Directives: Directive (EU) 2015/2366 on payment services in the internal market, Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions, Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, Regulation (EU) No. 2015/751 on interchange fees for card-based payment transactions, Directive 98/26/EC on settlement finality and certain provisions of Regulation (EU) No. 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro.

Starting January 2023, enforcement of the Law on Payment Services and Payment Systems will provide for the following:

- opening the payment services market for providers of payment services other than banks, as well as for new issuers of e-money and increasing the competition in this segment;
 - establishing a harmonised prudential regime for granting authorisations to non-bank payment service providers and electronic money issuers, in order to ensure an appropriate level of security for the payment service users;
 - establishing harmonised operating rules to apply to all payment service providers and issuers of electronic money in order to ensure equal access to the payment services market;
 - minimising the systemic risks of the participants in the payment system, as well as maintaining the stability of the payment systems;
 - improving both the transparency and the comparability of fees charged for payment services and
 - access to payment accounts for a wider range of consumers.
- New Banking Law will be adopted by the end of 2023, thus harmonising the banking regulations with Directive 2013/36/EU on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms. The new Law will enable further strengthening of the capacity of banks for adequate management of risks related to their activities, as well as absorption of losses that may occur throughout the business operations.
 - Law on Bank Resolution will be adopted by the end of 2023, thus transposing Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms, and prescribing the instruments that can be applied by the competent resolution authority, as well as its rapid action powers in case of serious problems in the banks' operations.
 - Amendment Law to the Law on Deposit Insurance Fund will be adopted in the first half of 2023, thus further harmonising it with Directive 2014/49/EC on deposit guarantee schemes, in terms of increasing the amount of deposits subject to reimbursement, as well as reimbursement of deposits to legal entities, in addition to natural persons.
 - two new laws (Law on Financial Instruments and Law on Securities Prospects and Transparency Obligations for Issuers) in the field of capital market will be adopted by the end of 2023, which will be, to a great extent, harmonised with the latest EU Acquis in the field of capital market. The new legal framework will create conditions for development of new products and services on the financial market in the country, introduce new trading markets, provide a higher level of market stability, strengthen the powers of supervisory bodies, enhance transparency by providing high-quality information and improve the protection of investors and all market participants.
 - Directive 2011/61/EU on Managers of Alternative Investment Fund Managers and Regulation (EU) No. 345/2013 on European Venture Capital Funds are envisaged to be transposed by the end of 2023. Transposing the Directive will provide for both strengthening the rules and the procedures for the operations of private investment funds and regulating the procedure for approval of private investment fund managers. Therefore, technical assistance has been provided and consultants have been selected to work on the transposition of the Directive. Consultants working on the text of the Law and the working group, comprising representatives from the Ministry of Finance and the Securities and Exchange Commission, have started holding working meetings to review the text of the Law.
 - New Insurance Law will be adopted by the end of 2023. The new Insurance Law will be harmonised with the Directive 2009/138/EC on the taking-up and pursuit of business of Insurance and Reinsurance (Solvency II), thus providing for compatibility and competitiveness of the domestic insurance industry with the one of the EU Member States. The Law will provide for increased security and stability of the insurance sector, enhancing the insured persons' protection. Capital requirements on operations of insurance companies will be strengthened, supervisory measures will be prescribed, adequate to the irregularities identified in the operations of the companies, and efficient mechanisms on protection of the rights of consumers of insurance services will be established.
 - New Law on Intermediaries is planned to be adopted by the end of 2024, to be harmonised with Directive (EU) 2016/97 on insurance distribution (Insurance Distribution Directive - IDD). Under the new Law, level playing field of consumer protection will be ensured. The goal of the Law is to encourage equality and

competition under equal conditions between intermediaries, regardless of whether they are affiliated with an insurance company. As regards the consumers, they will be provided availability and distribution of insurance products through different channels and through intermediaries that cooperate with insurance companies, under similar or same conditions and rules.

Financial Companies. Financial companies operate on the financial market in the Republic of North Macedonia in line with the Law on Financial Companies (Official Gazette of the Republic of Macedonia, nos. 158/10, 53/11, 112/14, 153/15 and 23/16 and Official Gazette of the Republic of North Macedonia, no. 173/22). Pursuant to the Law, a financial company may carry out one or several of the following financial activities: loan approval; credit card issuance and administration; factoring and guarantee issuance.

As of 30th June 2022, 33 financial companies have been actively operating on the financial market in the Republic of North Macedonia, remaining the same compared to last year. Domestic capital has the largest share of 59.2% in the ownership structure of financial companies. Foreign capital participates with 40.8% therein.

Share of financial companies accounted for mere 0.8% in the structure of total assets in the financial sector in the Republic of North Macedonia. As of 30th June 2022, total assets of financial companies amounted to Denar 6,483 million (EUR 105 million), increasing by 19% compared to 30th June 2021, mainly as a result of the increase in financial placements.

170,227 new agreements were concluded in the first half of 2022 (88.5% of which were approved loans), being an increase by 33.8% compared to the first half of 2021 due to the recovery of this segment of the financial market following the pandemic-induced crisis. Value of the concluded agreements in this period amounted to Denar 5,196 million (EUR 84,5 million), increasing by 33,2% compared to the first half of 2021.

In the first six months of 2022, financial companies generated profit in the amount of Denar 584 million (first half of 2021: profit amounting to Denar 339 million).

Strengthening the market position by the financial companies in the recent period is an additional impulse to reflect more about the regulatory requirements and standards which the financial companies are to meet, all to the end of highlighting their importance and approach to the work on one hand, and boosting the confidence of the public in the importance and the relevance of these institutions on the other. Therefore, regulatory framework for the operations of the financial companies will be strengthened by adopting amendments to the Law on Financial Companies. Such amendments will provide for greater protection of the citizens - users of financial services rendered by the financial companies. Moreover, financial activity - factoring will be regulated to the end of greater use of factoring as an alternative sources of financing the companies. Amendments to the Law are undergoing government procedure at the moment.

Financial Leasing Providers. Financial leasing providers (leasing companies) on the financial market in the Republic of North Macedonia operate in line with the Law on Leasing (Official Gazette of the Republic of Macedonia, nos. 04/02, 49/03, 13/06, 88/08, 35/11, 51/11, 148/13, 145/15, 23/16 and 37/16 and Official Gazette of the Republic of North Macedonia, no. 173/22).

As of 30th June 2022, 7 leasing companies have been actively operating on the financial leasing market, being an increase by one company in relation to 2021. As for the ownership structure of the leasing sector, domestic capital predominates with 85.2% thereof. Foreign capital participates with 14.8% therein.

Share of leasing companies accounted for mere 1% in the structure of total assets in the financial sector in the Republic of North Macedonia. As of 30th June 2022, assets of the leasing sector amounted to Denar 7,421 million (EUR 120.7 million), increasing by 15.5% compared to the same period of the previous year. Thereby, share of the two largest leasing companies in the total assets accounted for 90%.

1,057 new agreements were concluded in the first half of 2022, being an increase by 20.8% compared to the first half of 2021. Value of the concluded agreements in this period amounted to Denar 1,910 million (EUR 31.1 million), being an increase by 29.5%. Legal entities retained the leading position in the structure of newly concluded agreements (84.2%). Observed by the subject of leasing, most of the newly concluded agreements are agreements for passenger vehicles (75.5%).

In the first half of 2022, leasing companies generated profit in the amount of Denar 107.4 million (first half of 2021: profit amounting to Denar 202.9 million).

3.3 Alternative Scenarios and Risks

Alternative Scenarios. Two alternative scenarios will be explained below, being related to some of the below mentioned risks.

The first alternative macroeconomic scenario assumes slower growth of foreign demand during in the period 2023 - 2027, especially the economic activity in the EU, as our most important trading partner. Such scenario implies slower growth of both export activity and industrial production, especially of the activities strongly integrated in the global supply chains and closely linked to the international trade flows. Hence, projected real growth of export would be lower by 1.9 p.p. on average annually compared to the baseline scenario, i.e. average annual growth of 5.8% is projected in the forecasting period.

Such scenario also assumes unfavourable effects on the inflow of capital in the country in the form of direct investments, implying slower growth of gross investments in the medium term, as a result of the lower growth of investments in the construction works, as well as machinery and equipment, also implying lower growth of import of capital goods. As result thereof, real gross investments would increase by 5.8% on average annually in the forecasting period, compared to the projected growth of 7.8% according to the baseline scenario. Lower growth of gross investments is mainly due to the slower growth of private investments, and to a lesser extent to the growth of public investments.

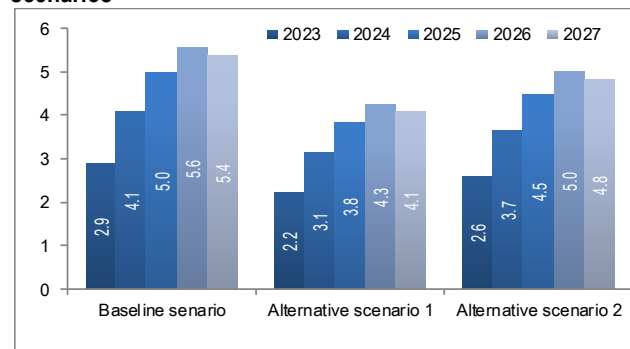
Effects on the consumption, both the private and the public, are also expected. Hence, average real growth of public consumption is projected at 0.7%, while real growth of private consumption is by 0.8 p.p. lower in relation to the baseline scenario, projected at 2.5% on average annually in the forecasting period. Lower growth of both export and domestic demand implies slower growth of import which, in the analysed period, is envisaged to increase by 5.1% on average annually, as opposed to the projected growth of 6.8% according to the baseline scenario. Such adjustments with respect to GDP components imply an average economic growth of 3.5% per year in the period 2023-2027.

The second alternative macroeconomic scenario is related to the risk of weaker contribution of domestic demand to the economic growth, amid lower realisation of infrastructure projects and execution of capital expenditures, as well as weaker impact from the support to the enterprises' investment activity. Under such conditions, real growth of gross investments is projected at 5.8% on average annually in the forecasting period, being lower by 2.0 p.p. in relation to the projection in the baseline scenario, whereby it is estimated that most of this effect is due to public investments. Thereby, weaker growth of investments implies lower real growth of imports which, under this scenario, is 6.5% on average annually in the forecasting period, compared to 6.8% projected growth according to the baseline scenario. Effects on the export in this period are expected to be somewhat lower, whereby contribution of net export to economic growth is less negative in the period 2023-2027 under the baseline scenario. However, more favourable net export demand does not offsets the negative effect of the weaker growth of investments on domestic demand and economic growth. Thus, under this scenario, growth of economic activity in the period 2023 - 2027 is projected at 4.1% on average annually, i.e. by 0.5% lower (Chart 3.30).

As regards labour market, sluggish economic growth implies slower growth of the number of employed and slower pace of reduction of unemployment rate compared to the baseline scenario. Hence, according to the first alternative scenario, average annual increase

of the number of employees would be 2.2% in the forecasting period, while unemployment rate is projected to decline to 10.4% in 2027. According to the second alternative scenario, growth of employment in the forecasting period is projected to be 2.6% on average annually, resulting in decline of unemployment rate to 9.8% in 2027, as opposed to the expectations for a reduction of the unemployment rate to 9.4% according to the baseline scenario.

Chart 3.30. Economic growth, baseline and alternative scenarios



Source: MoF forecast

As regards inflation rate, slower economic growth according to both alternative scenarios implies that the inflationary pressures by the demand are lower compared to the baseline scenario.

Effects of the alternative scenarios on the budget deficit are presented in point 4.7. Sensitivity Analysis.

Risks. Baseline macroeconomic scenario is accompanied by downward risks in relation to the projected growth. Uncertainty of the developments related to the war conflict in Ukraine, imposed sanctions on and by Russia, longer than expected high levels of inflation and monetary authorities' policies to manage it by tightening the financial conditions, the occurrence of new COVID-19 wave, they can all additionally limit the growth.

Projected growth of the domestic demand, which is expected to significantly contribute to boosting the economic activity, is related to risks, which refer primarily to the increase of gross investments, i.e. implementation of major infrastructure projects, as well as the potential effects from the support to both the domestic and the foreign companies' investment activity on the economy.

On the other hand, NATO membership and the start of EU membership negotiations can have a more significant impact on both the investment activity and the implementation of institutional and structural reforms in the country, increasing the growth potential. Long-term economic growth is to a great extent conditioned by the dynamics of implementation of the necessary structural reforms, which if enhanced, will provide for intensifying the economic growth, while the delay in resolving the structural drawbacks could hinder the faster and convergent economic growth of the country.

The continued escalation of geopolitical tensions caused by Russia's military invasion of Ukraine, amid protracted COVID-19 pandemic, worsened global environment, adversely affecting economic outlook and creating additional pressures on world prices. All this led to disruption of the trajectory of post-pandemic recovery and growing energy crisis. The main risks to the external sector scenario in the period ahead primarily arise from the global surrounding, particularly the uncertainty about the pace of recovery of our major trading partners (especially Germany, where above 45% of the Macedonian exports is placed).

Risks from the global environment remain downward, corresponding to the overall global environment. Namely, one of the main risks arises from the unpredictable character and geopolitical consequences from the war in Ukraine, which could additionally deteriorate the energy crisis, especially in Europe and could lead to a reduction in global industrial activity, but also to demand, which would also slowdown the economic recovery dynamics, as well as prolong the inflationary pressures. Moreover, an unfavorable external factor that has become particularly pronounced lately, in accordance to the implementation and announcement of new sanctions against Russia by EU, G-7 and Australia, is the possible disruption of global supply chains, transport and energy logistics, which could affect the regular production process worldwide. The greater tightening of global financial conditions than expected, with the start of the cycle of monetary tightening by central banks worldwide due to durable inflation increase, could adversely affect countries that depend on external financing or have increased public debt. Other global risks remain, which are influenced by geopolitical, information, security, social and climate factors. Any weaker external demand may have adverse effects on the presence of domestic exporters on foreign markets. The weaker global outlook for growth and the potential financial market instability could increase investors' risk aversion and consequently, risks of lower capital inflows of non-debt financing or possible capital outflows for funding parent companies. In addition, the movement of world prices is accompanied by uncertainty, with possible effects on domestic inflation and export prices.

On the other hand, a possibility for more pronounced positive effects of our country's membership in NATO, as well as the start of the EU accession negotiations, realisation of our country's latest development and investment plans in the medium term, as well as greater entry of FDI within global restructuring of the global chains towards nearby locations, remain as domestic positive risks which would increase the growth and competitiveness of the economy in the medium term.

The balance of payment forecast, after the widening of the current account deficit in 2022, suggests its narrowing and gradual return to the usual levels in the medium term. The negative effects of the war in Ukraine are expected to spill over into the coming year as well, but after the initial shock on the markets for primary products, they are expected to stabilise, although the risks remain. Additionally, the more efficient and more rational use of energy and increased domestic production are expected to contribute to gradual narrowing of the energy deficit. The assessment and extent of the effects of new export capacities in the economy is crucial for the trade balance forecast. The current scenario incorporates expectation for positive contribution from the automotive industry,

coupled with the recovery of the metal processing industry, as well as service sector. In addition, the upward risk remains for the companies with foreign capital which started or intensified their activities in the last couple of years. Changes in production structure are expected to further diversify exports and improve export performance, which is conducive to strengthening the economic resilience to external shocks. After the slowdown in 2020, an expected normalisation of net inflows from secondary income (within them, net purchased currency on the exchange market) in 2021 and 2022 was registered and solid levels of their share in GDP are expected in the following three years as well. After the uncertainty caused by the pandemic, net inflows from FDI returned to the usual average moderate levels, with similar expectations for the next three years, taking into account the continuity of these inflows (at a moderate level, even in the years of crisis), as well as continuation of the FDI attracting policies. There are positive impulses in this segment, which primarily refer to the latest trends to supply of the value chains from suppliers in nearby locations, including from our country, which would increase foreign direct investments in the following period.

It is estimated that the fast growth and endurance of higher food and energy prices, which are the input component in large part of other products and services, as well as higher foreign inflation, will lead to accelerated inflation this year (amid absence of pressures through the domestic demand channel). The assessment is that the undertaken government measures to protect the living standard of citizens from the price shock will mitigate the inflation impact this year. The latest forecasts for the developments on the world markets indicate gradual easing of the price pressures from import prices, whereby food and oil prices are expected to decline during the next year. Consequently, and partly influenced by the announced government measures for subsidising the electricity price for the food industry over the electricity supply crisis period, as well as due to the effects of the gradual monetary tightening, a slowdown of the inflation is expected in 2023. Furthermore, inflation is expected to stabilise, reducing to the usual level of 2% amid exhausted effects of the current increase in the prices of primary food and energy products on the world market and an assumption of absence of new shocks on the supply side. However, the risks to the forecast, especially in terms of the future movements of the energy and food prices are still significantly pronounced due to the uncertain military developments in Ukraine, as well as due to the possible further unfavorable effects of the pandemic which still lasts, whereby the uncertainty related to the spillover effects on the domestic inflation also remains great.

Observing the banks' expectations for credit growth, the pace of domestic economy, funding sources and the loan portfolio quality would, as before, affect the banks' risk perceptions and consequently, lending. The less favorable financial conditions are expected to affect the demand for loans in the next year, with an unfavorable effect also being expected because of the enduring global uncertainty. In the short to medium term, the effects of the prolonged crisis period on the credit portfolio quality will be particularly important for the credit growth. The reconstruction of capital buffers will also be crucial, in order to maintain the banking system resilience to unforeseen shocks.

The fore mentioned risks to the macroeconomic scenario for the next three years entail constant monitoring of the changes in the external and domestic economic setup in the period ahead and timely taking of adequate measures by policy makers.

4. Fiscal Framework

4.1 Fiscal Strategy²² and Medium-Term Objectives

Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections. It reflects the medium-term fiscal goals and strategic priorities of the Government of North Macedonia.

Key elements of the medium-term fiscal policy are redesigned and improved public finance structure, through increased share of capital expenditures, as well as gradual fiscal consolidation, by reducing the budget deficit as

²² Revised 2023 - 2025 Fiscal Strategy (with prospects by 2027) is published on Ministry of Finance website <https://finance.gov.mk/wp-content/uploads/2022/12/%D0%A0%D0%B5%D0%B2%D0%B8%D0%B4%D0%B8%D1%80%D0%B0%D0%BD%D0%B0-%D0%A4%D0%B8%D1%81%D0%BA%D0%B0%D0%BB%D0%BD%D0%B0-%D1%81%D1%82%D1%80%D0%B0%D1%82%D0%B5%D0%B3%D0%B8%D1%98%D0%B0-%D0%BD%D0%B0-%D0%A0%D0%A1%D0%9C-%D0%B7%D0%B0-2023-2025-%D1%81%D0%BE-%D0%B8%D0%B7%D0%B3%D0%BB%D0%B5%D0%B4%D0%B8-%D0%B4%D0%BE-2027-2.pdf>

percentage share of GDP, as follows: 4.6% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026 and 2.8% in 2027.

Main priorities as regards the tax system are fairness in taxation, increased efficiency and effectiveness of revenue collection, enhanced tax transparency, improved quality of services rendered by tax system institutions, by simplifying and speeding up procedures and reducing the administrative burden through many digital services, as well as by introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction. Main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of tax revenues on regular basis.

Table 4.1. General Government Budget

	millions of denars						%of GDP					
	2022*	2023*	2024*	2025*	2026*	2027*	2022	2023	2024	2025	2026	2027
Central budget												
Income	126,278	153,162	160,494	173,844	189,310	205,900	15.2	16.6	16.4	16.6	16.7	16.9
Expenses	167,346	191,150	192,815	203,851	220,682	236,970	20.1	20.8	19.7	19.4	19.5	19.5
Budget balance	-41,068	-37,988	-32,321	-30,007	-31,372	-31,070	-4.9	-4.1	-3.3	-2.9	-2.8	-2.6
Budget funds												
Income	91,433	98,372	106,013	112,903	118,662	123,971	11.0	10.7	10.8	10.8	10.5	10.2
Expenses	93,101	103,143	107,364	113,872	120,810	126,348	11.2	11.2	10.9	10.8	10.7	10.4
Budget balance	-1,668	-4,771	-1,351	-969	-2,148	-2,377	-0.2	-0.5	-0.1	-0.1	-0.2	-0.2
RNM budget (Central budget and funds)												
Income	217,711	251,534	266,507	286,747	307,972	329,871	26.2	27.3	27.2	27.3	27.2	27.1
Expenses	260,447	294,293	300,179	317,723	341,492	363,318	31.3	32.0	30.6	30.3	30.2	29.9
Budget balance	-42,736	-42,759	-33,672	-30,976	-33,520	-33,447	-5.1	-4.6	-3.4	-3.0	-3.0	-2.8
Local government budget												
Income	46,683	49,902	52,161	53,302	54,831	58,018	5.6	5.4	5.3	5.1	4.8	4.8
Expenses	46,683	49,902	52,161	53,302	54,831	58,018	5.6	5.4	5.3	5.1	4.8	4.8
Budget balance	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Budget of the general government (Consolidated Budget of RNM and Budget of municipalities)												
Income	264,394	301,436	318,669	340,050	362,803	387,889	31.8	32.8	32.5	32.4	32.1	31.9
Expenses	307,129	344,195	352,339	371,024	396,322	421,335	36.9	37.4	35.9	35.3	35.1	34.7
Budget balance	-42,736	-42,759	-33,670	-30,974	-33,519	-33,446	-5.1	-4.6	-3.4	-3.0	-3.0	-2.8

Source: Ministry of Finance * - forecast

In the next period, expenditure side of the Budget of the Republic of North Macedonia is fully created in support of achieving the strategic priorities, accelerating the economic growth, the EU integration process and the obligations deriving from the NATO membership and similar.

Fiscal decentralisation reform offers systemic solution for stable finances of the municipalities, implying accountable municipalities and delivery of quality and efficient services to the citizens. The reform rests on three pillars: enhanced fiscal capacity of municipalities and increased municipal revenues, strengthened financial discipline of municipalities, reduced arrears and cost-effective operations, as well as increased transparency and accountability.

Public debt management policy is aimed at ensuring the funds necessary to finance the budget deficit and repay the due debt liabilities from previous years, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country.

4.2 Budget Execution in 2022

In the period January - November 2022, total revenues of the Budget of the Republic of North Macedonia²³ were collected in the amount of Denar 219.3 billion or approximately 89.2% of the 2022 Budget, i.e. they were higher by 11.3% compared to the ones collected in the same period last year. Denar 129.7 billion out of this amount was tax revenues, being higher by 13.9% compared to last year. All types of tax revenues experienced growth compared to the analysed period last year, except for revenues collected on the basis of excises, which declined

23 Pursuant to the 2021 Modifications and Amendments to the Budget of the Republic of North Macedonia ("Official Gazette", no. 171/21)

by 1.3%. Revenues on the basis of social contributions were collected in the amount of Denar 69 billion, being higher by 9% compared to the ones collected in the respective period in 2021.

In the period January - November 2022, total expenditures of the Budget of Republic of North Macedonia were executed in the amount of Denar 243.1 billion, or around 84.3% of the 2022 Budget, i.e. execution was higher by 7.1% in relation to the same period in the previous year.

Within these frameworks, current expenditures amounted to Denar 223.6 billion or 87.4% of the projections, i.e. being higher by 6.8% compared to the same period in 2021.

In the period January - November 2022, capital expenditures were executed in the amount of Denar 19.6 billion (60%), being higher by Denar 2 billion or 11.3% compared to the same period last year. Under the annual Law on 2022 Budget Execution, new mechanism has been put into place, being aimed at improving the execution of capital expenditures, by which budget users are obliged to execute 15% of capital expenditures as of the first quarter inclusive, 40% of capital expenditures as of the second quarter inclusive and 65% of the capital expenditures as of the third quarter inclusive. Thus, the budget users are encouraged to execute the capital expenditures as projected. Additionally, at the expense of the budget users having underperformed, their resources can be reallocated to budget users showing good performance as regards the capital expenditures in line with the allocated budget.

During this period, state Budget deficit amounted to Denar 23.8 billion or 2.9% compared to the GDP projected in 2022, while primary budget deficit accounted for 1.8% (Table 4.2).

Table 4.2. Budget Execution as of November 2022 Inclusive

	Budget 2022	Supplement ary Budget 2022	Realoca tion I 2022	Reallocation II 2022	Real. Jan- November 2022	Real. Jan- November 2022	Real. Jan- November 2022/Realizatio n II 2022 (%)	Real. Jan- November 2022/Real. Jan- November 2021 (%)
	BO %							
Total revenues	238,899	245,758	245,758	245,758	219,316	196,964	89.2%	11.3%
Tax revenues and contribution	210,829	221,770	221,770	221,770	198,702	177,216	89.6%	12.1%
Tax revenues	136,458	143,173	143,173	143,173	129,712	113,921	90.6%	13.9%
Personal income tax	21,051	22,637	22,637	22,637	20,552	17,682	90.8%	16.2%
Profit tax	12,313	13,390	13,390	13,390	14,571	10,055	108.8%	44.9%
VAT(net)	62,240	68,442	68,442	68,442	59,670	53,065	87.2%	12.4%
Excises	28,779	26,910	26,910	26,910	23,330	23,635	86.7%	-1.3%
Custom duties	8,983	8,917	8,917	8,917	9,081	7,669	101.8%	18.4%
Other taxes	3,093	2,877	2,877	2,877	2,508	1,815	87.2%	38.2%
Contributions	74,371	78,597	78,597	78,597	68,990	63,295	87.8%	9.0%
Non- tax revenues	19,171	17,043	17,043	17,043	15,579	12,309	91.4%	26.6%
Capital Revenues	3,330	2,180	2,180	2,180	2,214	1,770	101.6%	25.1%
Grants	5,570	4,765	4,765	4,765	2,821	5,669	59.2%	-50.2%
Total expenditures	272,428	288,493	288,493	288,493	243,141	226,982	84.3%	7.1%
Current expenditures	234,192	256,384	255,808	255,906	223,563	209,392	87.4%	6.8%
Wages and allowances	32,679	33,234	33,234	32,819	29,165	28,276	88.9%	3.1%
Goods and services	20,656	23,106	22,844	23,476	17,132	16,475	73.0%	4.0%
Transfers to LGUs	22,321	23,150	23,441	23,441	21,127	19,521	90.1%	8.2%
Subsidies and transfers	20,810	30,775	30,170	30,930	26,914	23,949	87.0%	12.4%
Social transfers	127,654	135,898	135,898	135,867	120,417	112,457	88.6%	7.1%
Intrests	10,071	10,221	10,221	9,373	8,808	8,714	94.0%	1.1%
Capital expenditures	38,236	32,109	32,685	32,587	19,578	17,590	60.1%	11.3%
Deficit	-33,529	-42,736	-42,736	-42,736	-23,825	-30,018	55.7%	-20.6%
Deficit (% of GDP)	-4.2%	-5.3%	-5.1%	-5.1%	-2.9%	-4.2%		
Primary deficit (%od GDP)	-2.9	-4.0	-3.9	-4.0	-1.8	-2.9		
Deficit financing	33,529	42,736	42,736	42,736	23,825	30,018		
Inflows	45,103	54,513	54,513	54,513	31,416	71,822		
Domestic sources	26,630	26,630	26,630	26,630	12,855	18,448		
Foreign sources	21,769	66,024	66,024	66,024	25,513	51,195		
Deposits ("-" is accumulation of account)	-3,296	-38,141	-38,141	-38,141	-6,952	2,179		
Outflows	11,574	11,777	11,777	11,777	7,591	41,804		
Repayment upon domestic borrowin	5,529	5,542	5,542	5,542	2,622	6,123		
Repayment upon foreign borrowin	6,045	6,235	6,235	6,235	4,969	35,681		

Source: Ministry of Finance

4.3 Budget Plan for 2023

2023 Budget has four main goals:

- managing the consequences from the energy crisis and the increased inflation;
- continuing the fiscal consolidation and strengthening the fiscal sustainability;
- creating conducive environment for economic recovery and sustainable economic growth, and
- uninterrupted financing of the basic functions of the state and supporting the judiciary reforms and the Euro-Atlantic integration (EU and NATO).

Fiscal consolidation and redesigned budget policy, via scaled-up capital investments, are key elements of fiscal policy aimed at supporting the macroeconomic stability, accelerating the economic growth, thus strengthening the growth potential of the national economy.

The health crisis put the public finance sustainability in a new light, strongly urging the need to balance the short-term stabilisation objectives and the need for long-term fiscal sustainability. Such circumstances have foisted the necessity for an expansionary fiscal policy to support the economy amid pandemic, which, on the other hand, led to rapid budget deficit and public debt increase.

Amid price pressures induced by the energy crisis and increase of food prices on the global stock markets, Government of the Republic of North Macedonia adopted set of measures, above all aimed for the citizens, extending direct support to the most vulnerable categories, implementing energy saving activities, as well as administrative limitations of prices. Implementation of the respective measures has contributed to cushioning the increase of food and fuel prices, supporting the companies, and greater energy efficiency.

Thus, a need arises to rationalise public expenditures in the medium term, as well as measure the results of expenditure execution to the end of increasing the spending effectiveness and achieving fiscal sustainability in the medium term.

During 2023, it is planned to continuously improve the Budget planning system via redesigned expenditures, better control of costs, as well as undertaking certain draft measures related to revenues and expenditures.

In order to achieve fiscal consolidation, following is envisaged on the expenditure side of the Central Budget: policy for reducing expenditures related to goods and services at budget users, as well as their more realistic planning; setting spending standards, and policy for improving both the structure and the execution of capital expenditures.

Total revenues of the 2023 Budget of the Republic of North Macedonia are projected in the amount of Denar 282.1 billion, being higher by 14.8%% in relation to 2022, while expenditures are projected in the amount of Denar 324.8 billion, being higher by 12.6% in relation to 2022.

The projected revenues and expenditures result in a budget deficit of 4.6% of the projected GDP or Denar 42.7 billion in absolute terms. Forecasted deficit is in line with the projections set in 2023-2027 Fiscal Strategy and the commitment to fiscal consolidation. Such budget deficit confirms the sustainability of the projections, the commitment to budget discipline, the redesign of the budget spending, by increased share of capital and infrastructure-related expenditures in the total expenditures.

2023 Budget revenue projections are based upon the following assumptions: revenue performance throughout 2022; expectations for economic growth; and improved efficiency and effectiveness of the public revenue collection system.

For the purpose of attaining the revenue projections, measures and activities have been planned aimed at: enhancing the existing tax regulations; reducing the tax evasion; introducing advanced technologies; modernisation and automation of the working processes; strengthening the revenue collection capacities of the institutions, increased and more efficient collection of tax revenues, strengthening the institutional coordination.

Thus, the tax system optimisation provides for a fair, efficient, transparent and modern tax system based on contemporary digital technologies and innovations, all to the end of attaining an accelerated, inclusive and sustainable economic growth.

Tax revenues in 2023 are projected in the amount of Denar 162.6 billion, being higher by 13.6% compared to the revenues projected in the 2022 Budget. VAT accounts for the most of the projected tax revenues with 48.3%, while excise duties account for 17.9% thereof.

Table 4.3. Budget of the Republic of North Macedonia (Denar million)

	2017	2018	2019	2020	2021	Budget 2022	Revised Budget 2022	Budget 2023	Difference Budget 2023- revised Budget 2022	Difference Budget 2023- Budget 2022	B 2023/P 2022 (%)	B 2023/B 2022 (%)
TOTAL REVENUES	179,706	188,513	203,946	189,554	218,021	238,900	245,758	282,052	36,294	43,152	14.8	18.1
Tax Revenues and contributions	157,537	170,991	178,894	173,464	196,317	210,829	221,770	250,688	28,918	39,860	13.0	18.9
Tax on Income, Profit and Capital gains	104,647	114,456	116,728	106,900	125,690	136,458	143,173	162,600	19,427	26,143	13.6	19.2
PIT	15,263	17,559	18,706	18,625	20,552	21,051	22,637	26,500	3,863	5,450	17.1	25.9
CIT	11,353	14,745	11,554	10,497	10,871	12,312	13,390	14,700	1,310	2,388	9.8	19.4
VAT(net)	47,870	49,254	52,059	46,893	58,194	62,240	68,442	78,500	10,058	16,260	14.7	26.1
Excises	23,093	25,092	26,087	22,450	25,548	28,778	26,910	29,200	2,290	422	8.5	1.5
Customs Duties	5,175	5,604	6,033	6,738	8,480	8,983	8,917	10,700	1,783	1,717	20.0	19.1
Other taxes	463	520	674	510	641	738	678	730	52	-8	7.7	-1.1
Tax Revenues (SRA)	1,430	1,682	1,615	1,187	1,404	2,356	2,199	2,270	71	-86	3.2	-3.7
Social Contributions	52,890	56,535	62,166	66,564	70,627	74,371	78,597	88,088	9,491	13,717	12.1	18.4
Pensions	35,604	37,981	41,921	45,044	47,819	50,305	53,411	60,384	6,973	10,080	13.1	20.0
Unemployment	2,261	2,426	2,622	2,757	2,918	3,075	3,084	3,392	308	318	10.0	10.3
Health	15,025	16,128	17,623	18,763	19,890	20,992	22,102	24,312	2,210	3,320	10.0	15.8
Non-Tax Revenues	13,429	12,271	18,800	11,173	13,882	19,171	17,043	19,894	2,851	723	16.7	3.8
Capital Revenues	1,316	2,197	2,369	1,846	1,928	3,330	2,180	2,800	620	-530	28.5	-15.9
Grants	7,424	3,054	3,883	3,071	5,894	5,570	4,765	8,669	3,904	3,099	81.9	55.6
TOTAL EXPENDITURES	196,562	200,070	217,447	243,421	256,906	272,428	288,494	324,810	36,317	52,382	12.6	19.2
Current Expenditures	176,699	187,923	199,634	227,306	233,498	234,192	256,385	276,059	19,674	41,867	7.7	17.9
Wages and allowances	26,204	26,355	27,754	29,775	31,010	32,679	33,234	34,880	1,646	2,201	5.0	6.7
Goods and services	15,344	14,554	16,265	15,423	20,110	20,656	23,106	23,631	525	2,975	2.3	14.4
Transfers to Local SG	17,014	18,057	19,097	21,373	21,218	22,321	23,150	26,687	3,537	4,366	15.3	19.6
Transfers to Local SG Units/VAT	2,067	2,154	2,216	2,342	2,238	2,711	2,619	3,764	1,145	1,053	43.7	38.8
Transfers to Local SG Units	14,947	15,903	16,881	19,031	18,980	19,610	20,531	22,923	2,392	3,313	11.7	16.9
Subsidies and transfers	15,006	20,542	20,285	34,905	30,635	23,967	33,749	32,987	-762	9,020	-2.3	37.6
Social Transfers	94,743	100,723	108,131	117,799	121,439	124,497	132,924	144,951	12,027	20,454	9.0	16.4
Pensions	51,822	54,232	56,320	60,216	62,289	64,350	67,665	75,000	7,335	10,650	10.8	16.6
Transitional costs	6,262	7,011	8,859	8,608	9,233	9,870	10,559	11,800	1,241	1,930	11.8	19.6
Unemployment benefits	703	1,181	1,472	1,576	1,388	1,400	1,400	1,526	126	126	9.0	9.0
Active measures for employment	908	1,062	1,267	1,359	1,365	1,818	1,869	1,889	20	71	1.1	3.9
Social benefits	8,008	8,290	9,416	11,347	12,120	11,009	13,223	12,671	-552	1,662	-4.2	15.1
Health care	27,040	28,947	30,797	34,693	35,044	36,050	38,208	42,064	3,856	6,014	10.1	16.7
Interest Payments	8,388	7,692	8,102	8,031	9,086	10,071	10,221	12,923	2,702	2,852	26.4	28.3
Capital expenditures	19,863	12,147	17,813	16,115	23,408	38,236	32,109	48,751	16,642	10,515	51.8	27.5
Budget balance	-16,856	-11,557	-13,501	-53,867	-38,885	-33,529	-42,736	-42,759	-23	-9,230	0.1	27.5
FINANCING	16,856	11,557	13,501	53,867	38,885	33,529	42,736	42,759				
Inflow	34,438	39,697	29,569	95,695	81,480	45,103	54,513	94,875				
Domestic	20,459	16,843	19,669	37,307	23,689	27,130	27,130	33,626				
Foreign	3,046	32,556	8,632	65,247	61,258	21,269	65,524	66,876				
Deposits	10,933	-9,702	1,268	-6,859	-3,467	-3,296	-38,141	-5,627				
Outflow	17,582	28,140	16,068	41,828	42,595	11,574	11,777	52,116				
Domestic	9,301	12,212	10,314	26,567	6,123	5,529	5,542	15,611				
of which continuous DHV			9,775	6,589	4,680	5,095	5,095	12,091				
Foreign	8,281	15,928	5,754	15,261	36,472	6,045	6,235	36,505				
MEMORANDUM												
Net domestic borrowing	11,148	4,621	9,345	10,730	17,566	21,601	21,588	18,015				
Net domestic borrowing (continuous DHV)	12,276	8,660	1,711	22,545	19,009	22,035	22,035	21,535				
Net foreign borrowing	-5,535	16,328	2,578	49,496	24,786	15,224	59,289	30,371				
Primary budget balance	-8,468	-3,865	-5,399	-45,836	-29,799	-23,458	-32,515	-29,836				
Primary budget balance, % of GDP	-4.4	-2.0	-2.6	-24.2	-13.6	-9.8	-13.3	-13.3				
Budget balance, % of GDP	-9.4	-6.2	-6.6	-28.4	-17.8	-14.0	-17.4	-15.1				
TOTAL REVENUES, % of GDP	29.1	28.5	29.4	28.3	30.3	30.9	29.5	30.7				
TOTAL EXPENDITURE, % of GDP	31.8	30.3	31.4	36.4	35.7	35.2	34.7	35.3				
BUDGET BALANCE, % of GDP	-2.7	-1.7	-1.9	-8.0	-5.4	-4.3	-5.1	-4.6				
Capital expenditures, % of GDP	3.2	1.8	2.6	2.4	3.2	4.9	3.9	5.3				

Source: Ministry of Finance

Main objective of the tax policy remains to be achieving sustainable economic growth and development and fiscal consolidation of public finances in the medium term, thereby providing for legal safety of taxpayers and collection of public revenues on a regular basis, by implementing the main priorities, as follows:

- greater fairness in taxation, in order to ensure that everyone meets its social obligation and pays its fair share of tax;
- increased efficiency and productivity of the tax system for the purpose of improved revenue collection, via more efficient fight against illicit activities and tax evasion and a strengthened institutional capacity, as well as reduction of the tax arrears;

- increased tax transparency, including enhanced exchange of information between tax authorities and other entities, to be, in particular, based on e-services, which will result in enhanced fiscal literacy and increased voluntary compliance;
- improved quality of services, designed to simplify and speed up the procedures and reduce the administrative burden, by increasing digitalised services, better management of the import-export licenses' issuance, elimination of unnecessary non-tariff barriers and improved internal and tax controls; and
- green taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction, i.e. discourage them to pollute the environment.

Under 2023 Budget, around Denar 19.9 billion is projected to be generated on the basis of non-tax revenues (administrative fees, concessions and other non-tax revenues) and Denar 2.8 billion as capital revenues (on the basis of sale of agricultural land and social flats, as well as on the basis of planned dividend from AD Macedonian Telecom).

Social contributions, as genuine revenues of the Pension and Disability Insurance Fund and the Employment Service Agency, are projected in the amount of Denar 88.1 billion, being by 12.1% higher in relation to 2022.

During 2023, Denar 8.7 billion is envisaged on the basis of donations, which are planned for the budget users to use through special revenue accounts for specific projects, as well as on the basis of disbursements under the EU pre-accession funds. The projected amount also includes a donation from the European Commission intended for financing the energy sector measures.

Table 4.4 Budget of the Republic of North Macedonia (% of GDP)

	2017	2018	2019	2020	2021	Budget 2022	Revised Budget 2022	Budget 2023	Difference Budget 2023- revised Budget 2022	Difference Budget 2023- Budget 2022	B 2023/R 2022 (%)	B 2023/B 2022 (%)
TOTAL REVENUES	29.1	28.5	29.4	28.3	30.3	30.9	29.5	30.7	1	0	3.7	-0.8
Tax Revenues and contributions	25.5	25.9	25.8	25.9	27.3	27.3	26.7	27.2	1	0	2.2	-0.1
Tax on Income, Profit and Capital gains	16.9	17.3	16.9	16.0	17.4	17.7	17.2	17.7	0	0	2.6	0.1
PIT	2.5	2.7	2.7	2.8	2.9	2.7	2.7	2.9	0	0	5.8	5.7
CIT	1.8	2.2	1.7	1.6	1.5	1.6	1.6	1.6	0	0	-0.8	0.3
VAT(net)	7.7	7.5	7.5	7.0	8.1	8.1	8.2	8.5	0	0	3.7	5.9
Excises	3.7	3.8	3.8	3.4	3.5	3.7	3.2	3.2	0	-1	-1.9	-14.8
Customs Duties	0.8	0.8	0.9	1.0	1.2	1.2	1.1	1.2	0	0	8.5	0.1
Other taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0	0	-2.7	-16.9
Tax Revenues (SRA)	0.2	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0	0	-6.7	-19.1
Social Contributions	8.6	8.6	9.0	9.9	9.8	9.6	9.4	9.6	0	0	1.3	-0.5
Pensions	5.8	5.7	6.1	6.7	6.6	6.5	6.4	6.6	0	0	2.2	0.8
Unemployment	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0	0	-0.6	-7.3
Health	2.4	2.4	2.5	2.8	2.8	2.7	2.7	2.6	0	0	-0.6	-2.7
Non-Tax Revenues	2.2	1.9	2.7	1.7	1.9	2.5	2.0	2.2	0	0	5.5	-12.8
Capital Revenues	0.2	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0	0	16.1	-29.4
Grants	1.2	0.5	0.6	0.5	0.8	0.7	0.6	0.9	0	0	64.4	30.7
TOTAL EXPENDITURES	31.8	30.3	31.4	36.4	35.7	35.2	34.7	35.3	1	0	1.8	0.1
Current Expenditures	28.6	28.4	28.8	34.0	32.4	30.3	30.8	30.0	-1	0	-2.7	-1.0
Wages and allowances	4.2	4.0	4.0	4.4	4.3	4.2	4.0	3.8	0	0	-5.1	-10.3
Goods and services	2.5	2.2	2.3	2.3	2.8	2.7	2.8	2.6	0	0	-7.6	-3.9
Transfers to Local SG	2.8	2.7	2.8	3.2	2.9	2.9	2.8	2.9	0	0	4.2	0.4
Transfers to Local SG Units/VAT	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0	0	29.9	16.6
Transfers to Local SG Units	2.4	2.4	2.4	2.8	2.6	2.5	2.5	2.5	0	0	0.9	-1.8
Subsidies and transfers	2.4	3.1	2.9	5.2	4.3	3.1	4.1	3.6	0	0	-11.7	15.6
Social Transfers	15.3	15.2	15.6	17.6	16.9	16.1	16.0	15.8	0	0	-1.4	-2.2
Pensions	8.4	8.2	8.1	9.0	8.6	8.3	8.1	8.2	0	0	0.2	-2.1
Transitional costs	1.0	1.1	1.3	1.3	1.3	1.3	1.3	1.3	0	0	1.0	0.4
Unemployment benefits	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0	0	-1.5	-8.4
Active measures for employment	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0	0	-8.6	-12.7
Social benefits	1.3	1.3	1.4	1.7	1.7	1.4	1.6	1.4	0	0	-13.4	-3.3
Health care	4.4	4.4	4.4	5.2	4.9	4.7	4.6	4.6	0	0	-0.5	-2.0
Interest Payments	1.4	1.2	1.2	1.2	1.3	1.3	1.2	1.4	0	0	14.3	7.8
Capital expenditures	3.2	1.8	2.6	2.4	3.2	4.9	3.9	5.3	1	0	37.2	7.1
Budget balance	-2.7	-1.7	-1.9	-8.0	-5.4	-4.3	-5.1	-4.6	0	0	-9.6	7.1

Source: Ministry of Finance

Total budget expenditures in 2023 are projected in the amount of Denar 324.8 billion, or by Denar 36.3 billion more compared to 2022 Budget. Next year's Budget expenditure projections have been prepared on the basis of the following assumptions:

- harmonisation of the revenue projection with the planned economic trends;
- ensuring fiscal consolidation, economic recovery and accelerated growth;
- regular and undisrupted fulfillment of all legal obligations;
- continuous disciplined budget policy and strengthened control over public spending;
- support to the national economy, the private sector and the citizens;
- increased and accelerated implementation of infrastructure projects, attracting foreign investments and innovations of domestic companies and
- priority for the integration processes of the Republic of North Macedonia in the EU, and the obligations arising from the NATO membership and similar.

Current expenditures in 2023 are projected in the amount of Denar 276.1 billion, being higher by 7.7% compared to 2022, are intended primarily for regular payment of wages to the public sector employees, timely and regular payment of pensions, guaranteed minimum income and other social allowances, payment of agricultural subsidies, support to small- and medium-sized enterprises, support and subsidising of innovation activities, as well as support to the energy sector.

Under the current expenditures, the following is projected:

a) expenditures related to wage payment are projected in the amount of Denar 34.9 billion, being higher by 5% in relation to 2022. Commitment to optimising the number of public sector employees, as well as increasing the incentive for professional and high-quality fulfillment of the working tasks, remains to be adhered to in the course of 2023.

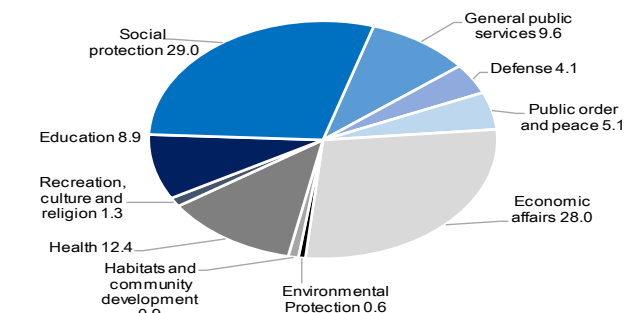
b) expenditures related to goods and services are projected in the amount of Denar 23.6 billion as in 2022. Despite the current price pressures, projected amount in the goods and services category provides for uninterrupted functioning of the institutions, as well as additional amount of funds for financing the increased energy and transport costs.

Projected amount in this category is based on consolidation and rationalisation of the operating costs at the budget users. In addition, funds necessary for fulfilment of the obligations arising from the NATO standards are provided.

c) current transfers and subsidies are projected in the amount of Denar 204.6 billion, being higher by 7.8% or by around Denar 14.8 billion compared to 2022, including the following:

- social transfers projected in the amount of Denar 144.9 billion, as follows:
 - Denar 75 billion is allocated for payment of pensions in line with the new pension calculation methodology, according to which, pension indexation is carried out as per the CPI trends, accounting for 50%, and the increase in the average wage paid to all employees, accounting for 50%, all to the end of providing decent living standard for the retirees,
 - Denar 12.7 billion is allocated for payment of social protection benefits for the most vulnerable categories, also including the social protection system by introducing a guaranteed minimal income, thus redesigning the types and the targeting of social assistance, as well as ensuring social safety of the elderly,
 - Denar 1.5 billion is allocated for payment of unemployment benefit,
 - Denar 1.9 billion is allocated for implementation of active employment policies and measures, aimed at creating employment programmes, measures and services to the end of improving the functioning of the labor market, supporting the job creation, employing young persons, supporting employment of

Chart 4.1. Expenditures of the Budget of the RNM for 2023 by functional areas (as% of total expenditures)



Source: Ministry of Finance

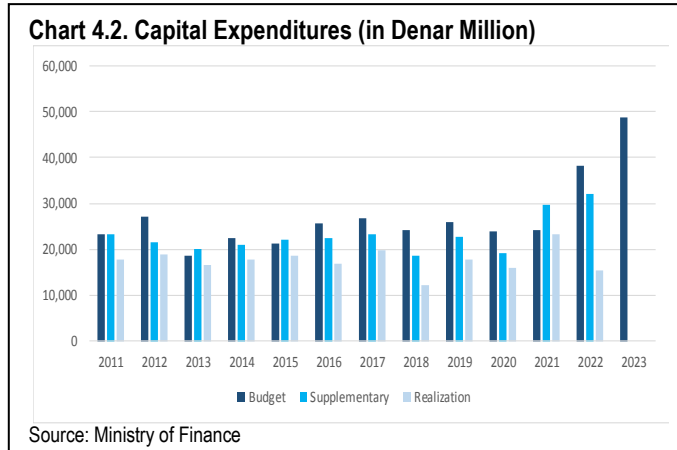
disabled persons, including the working-able household members, beneficiaries of guaranteed minimum income (GMI), in the active employment policies and measures,

- Denar 42.1 billion, including additional Denar 3.9 billion, is projected for health protection compared to 2022, funds to be allocated through the Health Insurance Fund. Most of the projected funds are allocated for financing the healthcare services and settlement of arrears of public health institutions.
- subsidies for managing crisis situations are intended for supplying the necessary energy products and stimulating the domestic supply of electricity, all to the end of mitigating the effects of the increased market price of electricity.
- agricultural subsidies provide support to the agriculture sector, to the end of increasing the domestic vegetable and animal production, stimulating the generation of yields, increasing the productivity and boosting the competitiveness, as well as cushioning the price pressures on the commodities through the Emergency Fund. New models will be introduced in the course of 2023 intended for subsidising the agriculture, including new criteria for awarding subsidies (basic subsidy and additional support), to the end of increasing the food manufacturing based on generated yield. Under the new model, priority is given to crops and products of strategic relevance for the state.
- subsidies to the private sector, intended for supporting small and medium-sized enterprises, boosting the competitiveness, innovation activity, technological development and research, new investments, supporting the export and conquering new markets, supporting job creation and similar. Attention is also focused on gender responsive budget policies, inter alia, through financial support for women entrepreneurship.
- transfers to LGUs are projected in the amount of Denar 26.7 billion, intended for financing the competences transferred to the municipalities and grants to municipalities on the basis of projected increase of VAT revenues from 4.5% to 5.5% in 2023. Denar 3.7 billion is projected therefore, being higher by Denar 854 million or by 29% compared to 2022. Total transfers to LGUs include funds allocated for operating costs and payment of wages to employees in the institutions for which the LGUs are being transferred competences, i.e. wages for employees at schools, kindergartens, elderly homes, cultural institutions and firefighters. Funds on the basis of the additional increase of VAT percentage for the municipalities will be distributed in two new funds - Performance Fund and Equalisation Fund. Municipalities showing higher own revenue collection will be awarded funds from the Performance Fund, while the Equalisation Fund will be aimed towards offsetting the differences considering the fiscal capacity of the municipalities. In fact, municipalities showing positive results and higher own revenue performance will be awarded more funds from the Performance Fund, while municipalities with lower revenue performance due to the limited resource capacity, but showing fiscal effort and good results in collecting their own revenues, will be awarded funds from the Equalisation Fund.

Block and earmarked grants are intended for financing the operating costs and payment of wages to employees in the institutions for which the LGUs are being transferred competences, i.e. wages for employees at schools, kindergartens, elderly homes, cultural institutions and firefighters.

Additional Denar 2.4 billion is intended for financing the increased wages by 15% in primary and secondary education at local level and 15% for day-care teachers and nursery nurses in the kindergartens, as well as for financing the higher transport and electricity costs.

Capital expenditures are projected in the amount of approximately Denar 48.8 billion or by around 51.8% more compared to 2022 projections, whereby funds therefore are projected to be provided from several sources such as: budget funds, IPA funds and loans. They are intended for intensification of the implementation of



infrastructure projects, i.e. investments in road and railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environmental protection and judiciary.

In the course of 2023, budget funds in the amount of around Denar 15 billion are projected as substantial investments in the field of road infrastructure, related to the design process, construction and use of Corridor VIII: Tetovo - Gostivar section/highway extension, construction of new highway Trebenishta - Struga - Kjafasan, construction of Gostivar - Bukojcani section, as well as Corridor Xd, Prilep-Bitola section. In addition, as regards road infrastructure, Public Enterprise for State Roads will prepare Feasibility Study for construction of Tetovo - Prizren road.

2023 projected deficit in the amount of Denar 42.7 billion, as well as the debt repayment amounting to Denar 52.1 billion (Denar 36.5 billion out of which as external debt and Denar 15.6 billion as domestic debt), will be financed via domestic and foreign borrowing.

Principal repayment on the basis of external debt in the amount of Denar 36.5 billion includes the regular servicing of liabilities towards foreign creditors, as follows: Eurobond repayment in the amount of Denar 27.7 billion, IBRD in the amount of Denar 2.3 billion, IDA in the amount of Denar 0.9 billion, EBRD in the amount of Denar 1.2 billion, EIB in the amount of Denar 0.8 billion, CEB in the amount of Denar 0.6 billion, IMF in the amount of Denar 2.7 billion and the remaining Denar 0.3 billion towards other bilateral creditors (IFAD, KfW, Japanese Bank for International Cooperation, etc.).

Principal repayment on the basis of domestic debt in the total amount of Denar 15.6 billion pertains to repayments of 2-year, 3-year and 5-year government bonds in the amount of Denar 12.09 billion, repayment of denationalisation bonds in the amount of Denar 0.4 billion and repayment of short-term loan in the amount of Denar 3.07 billion. Remaining long-term bonds with maturities of 7, 10, 15 and 30 years do not fall due in 2023.

Domestic borrowing is projected in the amount of Denar 33.6 billion, which will be provided by borrowing with GS and/or domestic loan. Borrowing on the domestic market will provide for financing under favorable terms and conditions, using the favorable interest rates. At the same time, for the purpose of optimising the government securities' portfolio, all to the end of reducing the refinancing risks, Ministry of Finance will be also committed to extending the maturity of government securities' portfolio, and a new, more sophisticated platform for carrying out the primary issues of government securities - Bloomberg Terminal will be put into place, thus providing for increased participation of foreign investors on the domestic market.

Foreign borrowing is planned to be carried out by issuing debt securities on the international capital market, via tranche disbursement under the already approved IMF Precautionary and Liquidity Line - PLL, as well as via withdrawal of loan funds under favourable terms and conditions approved by IFIs and credit lines intended for project and budget financing. Thereby, the choice of a financing source will be based on the favorable ongoing developments on the international capital market.

For the purpose of prudent public finance management, Ministry of Finance will consider the possibility for active debt portfolio management through liability management activities.

In order to continuously strengthen the government securities financial market and pursue the worldwide practice, Ministry of Finance undertakes activities aimed at diversifying the sources of financing and introducing new types of financing instruments, which will be applied differently, as follows:

- Development Bonds - for the purpose of more efficient development of the financial markets, the ultimate goal being to improve the GS market, new instrument, so-called "Development Bonds", is envisaged to be introduced in the medium term, which will be indexed, thus stimulating the financing of development projects in the country, at the same time providing for revival of the financial markets in the Republic of North Macedonia. This type of financial instrument can bear a certain coupon and will be initially intended for the population, i.e. the individuals, with a possibility to be also available to the banks, the pension funds and other participants in the financial markets. Moreover, introduction of this instrument is in line with the Denarization Strategy of the Republic of North Macedonia, with the investors being given a new possibility to manage their portfolio and risk protection.
- Green Bonds - these bonds are intended to stimulate and support environment improvement and protection projects, designed specifically to support eco projects. Unlike the existing bonds, green bonds

will be used solely for investment projects or green development, with the proceeds used for covering the capital expenditures. Introducing this instrument will provide for the development of the financial market in the medium term.

- Project Bonds will be an alternative way of financing infrastructure-related projects. They will offer an opportunity for institutional investors to participate in infrastructure projects through listed, tradable securities that can offer superior risk-adjusted returns.
- Developments Bond for the Citizens will be issued for the purpose of mobilising capital, in the form of citizens' cash savings. They will provide for attaining triple effect, i.e. lower amount of cash as one of the measures aimed at reducing informal economy, citizens generating yields from their savings, with these funds being geared towards economic development.

In the coming medium-term period, fiscal policy will be aimed at further consolidation of the public expenditures, boosting the economic activity through capital expenditures and infrastructure investments, improving the conditions for doing business and job creation. Thereby, commitment to disciplined budget spending will continue to be pursued, emphasising both the restrictiveness and the control over less productive costs, on one hand, and the increase of investments in capital projects on the other. Set basic fiscal policy postulates in the period to come are envisaged to provide for gradual fiscal consolidation by gradually reducing the deficit level, while supporting the economic growth and development in line with the set Budget goals, thereby attaining the priorities and the policies of the Government, geared towards improving the quality of life of citizens.

4.4 Medium-Term Budgetary Outlook

Fiscal Strategy comprises medium-term guidelines and goals of the fiscal policy, main macroeconomic projections, amounts of the main categories of projected revenues and expenditures, as well as budget deficit and debt projections. It reflects the medium-term fiscal goals and strategic priorities of the Government of North Macedonia.

Key elements of the medium-term fiscal policy are redesigned and improved public finance structure, through increased share of capital expenditures, as well as gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: 4.6% in 2023, 3.4% in 2024, 3.0% in 2025, 3.0% in 2026 and 2.8% in 2027.

Main priorities as regards the tax system are fairness in taxation, increased efficiency and effectiveness of revenue collection, enhanced tax transparency, improved quality of services rendered by tax system institutions, by simplifying and speeding up procedures and reducing the administrative burden through many digital services, as well as by introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction. Main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of tax revenues on regular basis.

In the next period, expenditure side of the Budget of the Republic of North Macedonia is fully created in support of achieving the strategic priorities, such as accelerating the economic growth, the EU integration process and the obligations deriving from the NATO membership and similar.

Fiscal decentralisation reform offers systemic solution for stable finances of the municipalities, implying accountable municipalities and delivery of quality and efficient services to the citizens. The reform rests on three pillars: enhanced fiscal capacity of municipalities and increased municipal revenues, strengthened financial discipline of municipalities, reduced arrears and cost-effective operations, as well as increased transparency and accountability.

Public debt management policy is aimed at ensuring the funds necessary to finance the budget deficit and repay the due debt liabilities from previous years, as well as funds for project financing, thereby not increasing the debt to a level that can jeopardise the stability of the economy and the economic growth of the country.

2023-2027 Fiscal Policy reflects the commitment to further strengthening of public financial management and fiscal sustainability, which is to contribute to maintaining macroeconomic stability and gradual fiscal consolidation.

In the coming medium-term period, private consumption of citizens and additional support for the business sector related to innovative and export activities, will be continued, to be also accompanied by boosted both competitiveness and productivity, as well as modernisation and digitalisation of processes.

Medium-term priorities will be geared towards scaling up investments through direct support of investment activities of companies, promotion and facilitation of the investment climate, job creation through active employment measures, as well as support and development of micro, small and medium-sized enterprises. Hence, the support will be implemented by establishing development funds, innovation support funds, guarantee funds, equity funds, venture capital funds and similar instruments for support of export-oriented companies, small and medium-sized enterprises, as well as social enterprises. Thereby, public-private partnerships, concessions and other instruments for financing public capital projects are also planned to be put into place, to be coupled by financing private sector projects.

Table 4.5. 2020-2027 Budget of the Republic of North Macedonia (Denar million)

	Final account 2020	Final account 2021	Supple mentary Budget 2022	2023*	2024*	2025*	2026*	2027*
Total revenues	189,554	218,021	245,758	282,052	298,556	319,558	341,780	366,547
Tax revenues and contributions	173,464	196,317	221,770	250,689	268,694	287,898	308,642	331,885
Tax revenues	106,900	125,690	143,173	162,600	175,030	188,304	202,742	219,278
Contributions	66,564	70,627	78,597	88,089	93,664	99,594	105,900	112,607
Non-tax revenues	11,173	13,882	17,043	19,894	20,932	22,130	22,282	22,932
Capital revenues	1,846	1,928	2,180	2,800	3,530	3,530	3,530	3,730
Donations	3,071	5,894	4,765	8,669	5,400	6,000	7,326	8,000
Total expenditures	243,421	256,906	288,494	324,811	332,226	350,532	375,299	399,993
Current Expenditures	227,306	233,498	256,385	276,060	282,444	297,412	317,061	337,726
Wages and Allowances	29,775	31,010	33,234	34,880	36,281	37,781	39,481	41,085
Goods and Services	15,423	20,110	23,106	23,631	24,153	24,945	25,845	26,200
Transfers to LGUs	21,373	21,218	23,150	26,687	28,210	28,971	29,870	32,737
Subsidies and transfers	34,905	30,635	33,749	32,987	26,975	28,877	31,837	34,973
Social Transfers	117,799	121,439	132,924	144,951	151,191	160,061	169,097	178,502
Interest payments	8,031	9,086	10,221	12,923	15,634	16,776	20,931	24,228
Domestic	2,742	3,026	3,703	4,416	5,261	5,819	6,711	8,163
Foreign	5,289	6,060	6,518	8,507	10,373	10,957	14,220	16,065
Capital expenditures	16,115	23,408	32,109	48,751	49,782	53,120	58,238	62,267
BUDGET BALANCE	-53,867	-38,885	-42,736	-42,759	-33,670	-30,974	-33,519	-33,446
Primary budget balance	-45,836	-29,799	-32,515	-29,836	-18,036	-14,198	-12,588	-9,218
Total revenue,% of GDP **	28.3	30.3	29.6	30.6	30.4	30.4	30.2	30.2
Total expenditures,% of GDP **	36.4	35.7	34.7	35.3	33.9	33.4	33.2	32.9
Budget balance,% of GDP **	-8.0	-5.4	-5.1	-4.6	-3.4	-3.0	-3.0	-2.8
Primary budget balance,% of GDP **	-6.8	-4.1	-3.9	-3.2	-1.8	-1.4	-1.1	-0.8

Source: Ministry of Finance and projections by the Ministry of Finance (*)

Government remains committed to fiscal sustainability, supporting the economy with investments in infrastructure projects, redesigning the public finance structure by increased share of capital expenditures, as well as strengthening the process of planning, executing and reporting as regards the public finance.

Thus, budget deficit is envisaged to be gradually reduced from 4.6% of GDP in 2023 to 2.8% of GDP in 2027.

Total revenues of the Budget of the Republic of North Macedonia (Central Budget and Funds) for the period 2023-2027 are projected to around 30.4% of GDP.

Revenue projections in the coming medium-term period are based on revenues generated in the previous years and the effects from the planned tax reforms.

Projected growth of tax revenues is a result, above all, of the broadened tax base at certain types of taxes stemming from the higher consumption, the average wage increase and the greater profitability of companies, as well as on the basis of the expectations for improved tax revenue collection as a result of further simplification

and digitalisation of the tax procedures, enhanced tax control, informal economy reduction, accompanied by the further achieving the goals and the priorities set under the 2021-2025 Tax System Reform Strategy.

Thereby, highest increase is projected at VAT revenues, due to the expected rise in the final consumption and prolonged inflation in the economy, while projected increase of PIT revenues is based on the expected wage increase and increase of compensation under agreements for occasional and temporary rendering of services, increase of generated income from capital, as well as the increased number of taxpayers in the PIT system as a result of further reduction of unemployment rate.

Tax revenue projections in the period 2023 - 2027 also include the expected fiscal effects from the implementation of the envisaged changes in the tax policy in the first phase of the tax system reforms, pertaining to reforms in VAT, profit tax and PIT tax policy. On cumulative basis, fiscal effect from the implementation of the reforms at these three tax instruments is expected to amount to around Denar 4.1 billion annually, accounting for more than 0.5% of GDP. Fiscal effect from the implementation of the reforms in the second phase, primarily including changes to the tax policy as regards excises, is expected to gradually increase, reaching 0.7% of GDP by 2027.

Intensified activities related to implementation of the 2021 - 2025 Tax System Reform Strategy will continue in the coming period as well, aimed at establishing a fair, efficient, transparent and modern tax system based on contemporary digital technologies and innovations in taxation, all to the end of attaining an accelerated, inclusive and sustainable economic growth.

Main objective of the tax policy remains to be ensuring legal safety of taxpayers and collection of tax revenues on regular basis, geared towards achieving the strategic goals and priorities of the country.

Main priorities of the 2021-2025 Tax System Reform Strategy include:

- greater fairness of taxation, in order to ensure that everyone meets its social obligation and pays its fair share of tax,
- increased efficiency and productivity of the tax system for the purpose of improved revenue collection, via more efficient fight against illicit activities and tax evasion, and a strengthened institutional capacity, as well as reduction of the tax arrears,
- increased tax transparency, including an improvement of the exchange of information between tax authorities and other entities, to be, in particular, based on e-services, which will result in enhanced fiscal literacy and increased voluntary compliance,
- improved quality of services rendered by tax system institutions, designed to simplify and speed up the procedures and reduce the administrative burden, by increasing digitalised services, better management of the import-export licenses' issuance, elimination of unnecessary non-tariff barriers and improved internal and tax controls, and
- introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through public duties, to environmental pollution reduction. Effects of this priority are also expected to reflect on the budget revenues, as well as the environment.

For the purpose of accomplishing these priorities, numerous measures have been envisaged, aimed at optimising the tax base, by abolishing the non-productive tax exemptions and preferential tax regimes, reducing the tax evasion, reducing the tax arrears, and enhancing the capacities of the tax and customs administration.

In fact, the tax policy reform package as regards profit tax, personal income tax and Valued Added Tax provides for abolishing the preferential tax regimes, disrupting the neutrality of the tax system, adversely affecting the principle of fairness and contributing to increased inequality in the society by favoring certain categories of taxpayers or activities, disrupting the robustness of the system, thus creating a substantial room for tax arbitrage and/or evasion, which cause inefficiency in the real economy.

Increased tax revenue collection will, by expanding the tax base, contribute to enhancing the effectiveness of the tax system, as well as the redistributive public finance function, which will create greater fiscal room for support of the strategic priorities and fiscal consolidation in the medium term.

In order to reduce the informal economy, measures have been envisaged, aimed at its improved detection, strengthened efficiency of the inspection services, raising the awareness about the informal economy and the tax morale in the business sector and the society as a whole, as well as addressing the informal economy in the e-commerce. Main goal of the measures aimed at reducing the informal economy, was establishing a fair and loyal competition among all market actors, as well as strengthened tax revenue collection.

During 2022, modifications and amendments to the Valued Added Tax and the Law on Excise Duties, all to the end of cushioning the adverse shocks triggered by the energy crisis, as well as mitigating the effects on the inflationary effects in the economy.

Modifications and amendments to the Law on Value Added Tax provided for temporary reduction of the regular VAT tax rate from 18% to a preferential rate of 10%, pertaining to the supply of oil derivatives and natural gas, as well as a temporary VAT exemption as regards the supply of basic products for human consumption, the application of a preferential VAT rate of 5% on supply of electricity to households was extended until the end of 2022.

Modifications and amendments to the Law on Excise Duties provided for temporary excise rate cuts on unleaded gasoline, gas oil as engine fuel and gas oil as heating fuel, depending on the increased price of energy products on global stock markets.

Ministry of Finance will continue to attentively monitor the developments in the real economy, and propose new antic-crisis measures in the tax area, if deemed necessary.

As regards the upcoming period, the Law introduced in July 2019, stipulating refund of one portion of the VAT to individuals (MyVAT) continues to be applied, providing for additional income for each household, i.e. strengthening their purchasing power, stimulating consumption and hence higher VAT revenue collection, thereby also contributing to reduced tax evasion and informal economy.

Excise Law simplifies and improves the manner of reporting excise duty for small producers of alcohol, while also putting a system for electronic monitoring the excise goods in place, all to the end of the more efficient administering of the excise duties thereon.

Taxation of motor vehicles pursuant to the new Motor Vehicles Tax Law which, in addition to the basic tax parameter, also envisages introduction of an environment pollution indicator, contributes to improvement of environment quality, among the other, via the stipulated increase by 25% in average annually in the next 4 years.

From the point of view of tax procedures and other public revenues, as for the coming period, the adoption and the entry into force of the new Law on Tax Procedure, as well as the Law on Modifications and Amendments to the Law on PRO, the Law on Modifications and Amendments to the Law on Property Taxes, the Law on Modifications and Amendments to the Law on Administrative Fees and the Law on Utility Fees, all to the end of facilitating the tax processes, their digitilisation, as well as improving and promoting inter-institutional cooperation.

In the period to come, Ministry of Finance will continue to perform the obligations once Republic of North Macedonia joined the consensus for Pillar 1 and Pillar 2 under the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) in 2021. In fact, under Pillar 1, right to taxation will be also exercised by countries, where multinational corporations generate profit, regardless of their physical presence therein, while Pillar 2 introduces a global minimum corporate tax rate set at 15%, which will apply for multinational corporations for generated income exceeding certain amount.

In 2022, tariff rates have been, for the first time, harmonised with the EU ones - by more than 300 tariff numbers (goods) being generally used as intermediate goods in manufacturing. The goal thereof was boosting the growth of production, export and employment, which as per the initial analysis, was estimated at more than 36% with companies using these products in their production process.

In the coming period, as per the strategic objectives of the Ministry of Finance, activities for building capacities will continue, being geared towards carrying out fiscal and economic analyses of so-called tax expenditures, stemming from the tax exemptions and other preferential tax regimes foreseen under the existing tax laws and other related laws. This is aimed at disclosing the impact the preferential tax regimes have on the tax revenue collection, by preparing a report, which will be submitted to the Parliament of the Republic of North Macedonia on

annual basis, as an accompanying document to the Annual Budget Report for the previous budget year, which was, as an obligation, introduced for the first time under the 2022 Organic Budget Law.

Tax revenues will account for 58.9% of the projected revenues, followed by revenues on the basis of social contributions accounting for 31.1%, non-tax revenues and capital revenues accounting for 7.8%, while the rest of the revenues are expected to be generated from IPA Funds and other donations. With respect to tax revenues, most revenues will be generated on the basis of VAT, personal income tax and excise duties.

Projections for social contributions, being genuine revenues of the Pension and Disability Insurance Fund, Health Insurance Fund and the Employment Agency, in the next medium-term period, have been based on the existing legal regulations on determining the amount of pension and health insurance rates, as well as the expected economic trends, which will appropriately reflect on the growth rates of employment and wages.

Non-tax revenues in the next medium-term period will account for approximately 6.8% of the total revenues, wherein revenues on the basis of administrative fees and other non-tax revenues, which the budget users generate on their own accounts, account for the highest share.

In the coming period, budget revenue projections with respect to foreign donations include the donations the budget users will realise for specific projects, as well as disbursements from the EU Pre-Accession Funds.

Expenditure side of the Budget of the Republic of North Macedonia in the next period is fully created in terms of achieving the strategic priorities, accelerating the economic growth, and the EU integration process and the obligations deriving from the NATO membership. In the period 2023-2027, average share of total expenditures of the Budget of the Republic of North Macedonia accounts for around 33.7% of GDP.

Commitment to redesigning fiscal policy has been translated into a plan adopted by the Government of the Republic of North Macedonia, aimed at providing public finance sustainability, coupled by boosting the economic growth.

Thus, under the Fiscal Sustainability and Economic Growth Plan, the activities will be undertaken, aimed at continuous improvement of the Budget planning system, better control of the costs and undertaking certain measures, pertaining to expenditures, revenues, as well as financing, via:

- increasing the efficiency of the public administration operations by optimising and rationalising the working posts, as well as harmonising the wages of employees within the budget users with the minimum wage;
- payment of pensions, in line with the new Pension Calculation Methodology, according to which, the pension indexation is carried out as per the trends of the Consumer Price Index, accounting for 50% and the increase in the average wage paid to all employees, accounting for 50%;
- more efficient use of operating resources by improving the planning and the execution of operating expenditures, reducing the non-productive expenditures, as well as introducing spending standards;
- better quality services at the decentralised competences of the municipalities by redefining the criteria for allocation of funds and more efficient and earmarked use of grant funds;
- ensuring a more positive impact on the economic activity by more efficient and targeted use of funds for subsidies and transfers;
- streamlining the expenditures for agricultural subsidies by redefining the agricultural policy for subsidising the agriculture with new criteria for granting subsidies (basic subsidy and additional support), for the purpose of increasing food production, which will be based upon the generated yield, boosted productivity, greater competitiveness, as well as cushioning the price pressures on the basic food products through the Emergency Fund.
- Under the new model, priority has been given to strategically important crops and products for the state and the creation of a sustainable and competitive agricultural production system, as well as boosting of the employment via both agricultural businesses and support for vegetable and animal production, and
- reducing poverty by properly targeting the use of social assistance and greater participation on the labour market.

As for policy aimed at improving the capital expenditure structure and execution, the main objective has been increased growth potential of the national economy, boosted competitiveness, attracting and encouraging investments by increasing the amount, the quality and the pace of execution of capital expenditures.

Budget expenditure projections in the forthcoming next medium-term period have been prepared on the basis of three key postulates:

- compliance of the revenue projections with the planned economic activities;
- total budget expenditure projections ensure continuous fiscal consolidation, and
- projected expenditures provide for regular and undisrupted fulfilment of all legal obligations.

Following assumptions have been taken into account when forecasting the amount and the structure of current expenditures for the coming period, intended for regular payment of wages to employees in the public sector, timely and regular payment of pensions, guaranteed minimum income and other social allowances, payment of agricultural subsidies, support to small and medium-size enterprises, as well as subsidising of innovation activities:

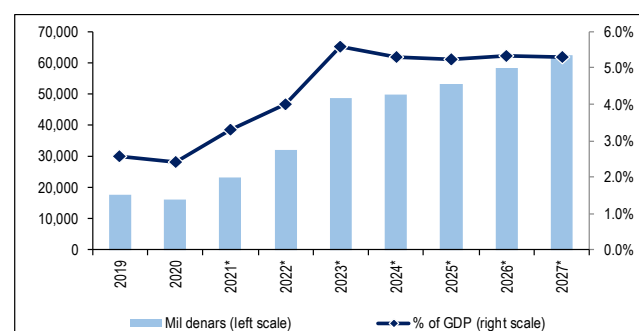
- as regards expenditures for payment of wages and allowances, commitment to optimising the public administration continues under the medium-term projections;
- timely payment of pensions and social allowances via the reformed social protection system (guaranteed minimum income), to the end of ensuring safe well-being of the beneficiaries of these rights;
- health protection realised through the Health Insurance Fund, mainly pertaining to the financing of health services and measures undertaken in this field, such as capitation increase, availability of pharmaceuticals and similar;
- implementing the active employment policies and measures, which will be aimed at creating employment programmes, measures and services to be carried out for the purpose of improving the functioning of the labour market, supporting job creation, as well as employing young persons - youth guarantee;
- ensuring funds for payment of agricultural subsidies, to the end of strengthening and supporting this sector, boosting the export of Macedonian agricultural products and conquering new markets;
- boosting the economic growth and development in the Republic of North Macedonia, by enhancing the competitiveness of the private sector via measures for new investments, measures to support the export and conquer new markets, support to job creation, support to SMEs, innovation activity, technological development and research, as well as encouraging foreign and domestic investments.

In the medium-term period, fiscal policy remains to focus on ensuring substantial public investments, being a precondition for improvement of economic perspectives, as well as better living conditions for the citizens. To this end, a significant amount of capital investments has been projected (Chart 13) by using budget funds, including funds under loans extended from international financial institutions and bilateral creditors. The projected amounts speak of speeding up the infrastructure projects, i.e. investments in road and railway infrastructure, energy and utilities infrastructure, as well as capital investments aimed at improving the conditions in the health, education and social systems, agriculture, culture, sports, environment protection and judiciary.

In the coming period, in addition to the major capital projects, significant projects will be implemented in the above-mentioned areas, all to the end of implementing the reform measures aimed at improving the social and the education conditions for the citizens, as well as the measures geared towards managing the consequences induced by COVID-19.

As regards road infrastructure, loan funds have been projected for construction of Skopje - Blace and Kichevo-Gostivar highway sections, improvement of the road infrastructure in the municipalities in the Republic of North Macedonia through the Local Roads Connectivity Project, financing of Road Corridor VIII - Rankovce - Kriva Palanka

Chart 4.3. Capital expenditures in the Budget of RNM



Source: Ministry of Finance and Ministry of Finance projections (*)

section, Kriva Palanka - Bulgarian border, financing of Kichevo - Ohrid section, the National Roads Programme, as well as Western Balkans Trade and Transport Facilitation Project.

As regards railway infrastructure, it is planned to finance the three phases of the construction and rehabilitation of the eastern part of Railway - Corridor VIII section to Bulgaria, therefore, EUR 280 million as EU grant funds have been provided for the second and third phase, as well as for the purpose of commencing the Railway Corridor VIII Project - Kichevo - Albanian Border, Kichevo - Struga section.

EIB and EBRD loans, as well as EIB grant, will be used for financing one of the major capital projects in the country in 2023, that being the Wastewater Treatment Plant Skopje.

Regarding gasification, construction of national gas pipeline, in particular Skopje-Tetovo section, Gostivar-Kichevo section and Sveti Nikole-Veles section is envisaged, as well as construction of gas interconnection pipelines between the Republic of North Macedonia and the Republic of Kosovo, between the Republic of North Macedonia and the Republic of Serbia, and between the Republic of North Macedonia and the Republic of Greece.

Among the major projects envisaged to be realised during this period in the field of utilities infrastructure are completing the Water Supply and Wastewater Collection Project in the municipalities in the Republic of North Macedonia, as well as commencing the Municipal Water Infrastructure North Macedonia Project.

Irrigation Programme North Macedonia and Agriculture Modernisation Project are the major capital projects in the field of agriculture.

With respect to environment, in addition to major capital Wastewater Treatment Plant Skopje Project, what is of vital significance is the Regional Solid Waste Project, covering putting management systems in place, i.e. solid waste stations in the Southwest, Vardar, Pelagonija, Southeast and Polog regions, whereby within this period, activities aimed at establishing solid waste station in Skopje region are also planned to be commenced.

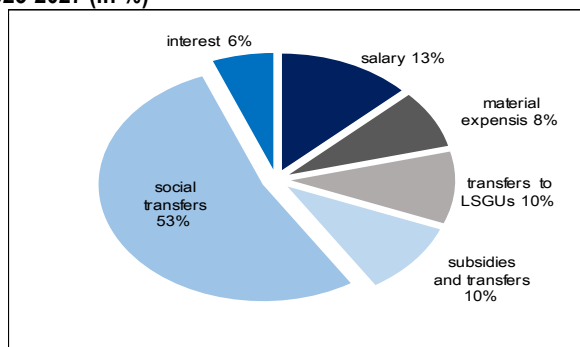
With respect to education sector, financing the reconstruction of student dormitories in the Republic of North Macedonia has been envisaged, and implementation of the Project for Construction of Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools in the Republic of North Macedonia, will continue, being financed under CEB loan, EU grant and national co-financing, all to the end of improving the physical education, as well as the overall conditions for studying for the students in primary and secondary schools. For the purpose of improving the learning conditions in primary education in the country, implementation of Primary Education Improvement Project will continue with a World Bank loan.

To the end of improving the access to social rights and services, as well as expanding the capacities for preschool care and upbringing through construction of new facilities and repurposing/upgrading the existing infrastructure of preschool institutions, implementation of the Social Services Improvement Project, funded with a World Bank loan, will continue in 2023. Implementation of the Social Insurance Administration Project, funded with a World Bank loan, will also continue.

As for the judiciary, Prisons Reconstruction Project, financed with a Council of Europe Development Bank loan, will continue to be implemented.

Two major capital projects are to be financed in the field of municipal infrastructure: Municipal Services Improvement Project and North Macedonia Public Sector Energy Efficiency Project. Under the Municipal Services Improvement Project, funded with a World Bank loan, municipalities and public utility enterprises will be provided with the opportunity to finance investment projects in line with their priorities in the field of water supply and wastewater drainage, management of solid waste and other investments in municipal services, which have potential for generating revenues, i.e. making savings, or are of high priority for the municipalities. North

Chart 4.4. Average structure of current expenditures for 2023-2027 (in %)



Source: Ministry of Finance and projections by the Ministry of Finance

Macedonia Public Sector Energy Efficiency Project will provide for financing energy efficient projects in the municipalities, as well as public health institutions at central government.

As regards energy infrastructure, projects envisaged to be financed are those implemented by AD ESM and AD MEPSO, such as: Wind Park Bogdanci – phase 2, District Heating System for Bitola, 400kV Interconnection Transmission Line Macedonia (Bitola) - Albania (Elbasan), Photovoltaic Power Plant Oslomej, Wind Park Miravci, Lindane Cleaning Project (OHIS), Power Plants of Macedonia's projects aimed at transition towards solar photovoltaic power generation (Oslomej 2 Photovoltaic Power Plant Project and Bitola Photovoltaic Power Plant Project), Rehabilitation Programme for 6 HPPs - 3rd phase.

With respect to public finance reforms, improvement of fiscal framework, strengthening the process of Budget planning and execution, improvement of revenue collection, strengthening the public procurement system, internal and external control and transparent reporting, a Project for Building Effective, Transparent and Accountable Public Financial Management Institutions, is envisaged to be implemented.

During the past period, to the end of supporting the private sector and providing fresh capital for the need thereof, 6 credit lines totaling EUR 550 million, were successfully implemented. In 2023, implementation of the 7th credit line will commence, being intended for financing Project for Financing Small and Medium-Sized Enterprises, Mid-Cap Companies and Green Transition, in line with the economic measures of the Government, aimed at protecting the consumers and companies against the energy crisis.

Moreover, reforms have been planned in the medium term, which are to be implemented gradually, aimed at enhancing the planning, allocation and implementation of public infrastructure projects. They will contribute for greater alignment of the budget allocations with the investment priorities of the Government, improving the comprehensiveness of the budget documentation so as to include all public capital investment spending and information on the financial needs of the ongoing and the new projects, introducing oversight of public investment portfolio at national level, including the monitoring and the management of the overall delivery risk.

In order to improve execution of capital expenditures, series of activities have been planned, as follows:

- budget users to plan the capital expenditures in a more realistic manner,
- continuing the application of the CAPEF mechanism as stipulated in the 2023 Budget Execution Law,
- prioritising the capital investments and strengthened role of the Government in selecting and oversight and monitoring the implementation,
- strengthening the role of the Ministry of Finance in the process of public investment management,
- developing public investment management module in the new IFMIS system,
- enhancing the budget structure by increasing the share of capital expenditures in the total budget expenditures,
- enhancing the structure of capital expenditures by reducing the less productive capital expenditures (introducing rules and standards when purchasing/investing in vehicles, furniture, equipment).

In order to improve capital expenditure execution, legally prescribed obligation was introduced in 2021 for the budget users to execute 15% of the capital expenditures by the first quarter inclusive, 40% as of the second quarter inclusive and 65% as of the third quarter inclusive. In case of failure to do so, Ministry of Finance reallocates the unused funds up to the prescribed limit to item 414 - Capital Expenditures Reserves at the respective budget user, without any right to spending. Should the budget users spend the funds up to the prescribed limit in the next quarter, Ministry of Finance, ex officio, returns the reduced funds to the appropriate sub-programme and item they were reallocated from. Should the budget users fail to spend the funds up to the prescribed limit in the next quarter as well, the Parliament, upon proposal by the Government, decides on the use of the funds reallocated to item 414 - Capital Expenditures Reserves. Thus, the budget users are encouraged to execute the capital expenditures as projected. Additionally, at the expense of the budget users having underperformed, their resources can be reallocated to budget users showing good performance as regards the capital expenditures in line with the allocated budget.

Measures aimed at improved capital expenditure execution, projected under the 2022-2025 Public Financial Management Reform Programme, incorporate the following:

- strengthening the role of the Ministry of Finance in the process of public investment management by establishing special organisational unit to appraise and monitor public infrastructure projects, its staffing and capacity building for the purpose of performing the functions pertaining to public investment management;
- developing a public investment management module within the new IFMIS, which will support the submission of new infrastructure projects, project appraisal and preparation, project approval and budgeting and project monitoring and reporting;
- adopting standard methodology for defining, preparing, reviewing, appraising and prioritising new infrastructure projects, pursuant to Article 20 of the new Organic Budget Law (it should be adopted by the Government, upon proposal by MoF);
- strengthening MoF oversight of alternative infrastructure financing sources (PPP), in particular public enterprises/joint stock companies, and improving the comprehensiveness of the budget documentation so as to include all public capital investment spending, regardless of sources of funding. The information on public enterprises/joint stock companies' financial performance in the Medium-Term Fiscal Strategy should be gradually supplemented with data on capital spending plans and their realisation, thus awarding a mandate to MoF to request and compile information on public enterprises/joint stock companies and PPPs;
- presenting information on separate projects in the budget documentation, distinguishing between new and ongoing projects, and identifying cumulative expenditures, remaining balance to project completion, as well as projections. Introducing an obligation for mandatory completion of the template on multiyear capital construction projects issued with the budget circular by main budget users;
- developing a single pipeline of appraised capital projects, covering all sectors and all funding sources, and establishing standard criteria for project selection;
- preparing an inventory of all existing appraised projects and creating project database;
- setting standard criteria for project selection;
- introducing risk-based centralised monitoring, involving high-level monitoring by MoF for most projects and closer scrutiny of projects with higher delivery risk. Preparing a monitoring plan to amalgamate existing information at a single point and developing procedures to fill information gaps;
- introducing a formal requirement for ex-post review of completed projects, beginning with an analytical basic completion review that includes an implementation performance assessment and lesson learned. Designing methods and procedures for basic completion reports for all major projects.

Projected Deficit and its Financing. During the 2023-2027 period, budget deficit is as follows: Denar 42.7 billion in 2023, Denar 33.4 billion in 2027. This means that gradual fiscal consolidation is projected in this medium-term period, i.e. share of budget deficit in GDP will decrease from 4.6% in 2023 to 2.8% in 2027.

Table 4.6. Financing Needs and Sources (Denar million)

	2020	2021	2022*	2023*	2024*	2025*	2026*	2027*
Budget balance	-53,867	-38,885	-42,736	-42,759	-33,670	-30,974	-33,519	-33,446
Deficit financing	53,867	38,885	42,736	42,759	33,670	30,974	33,519	33,446
Inflows	95,695	81,480	54,513	94,876	63,190	80,808	106,536	55,878
Domestic sources	37,307	23,692	27,130	33,626	38,452	30,174	42,746	35,049
Foreign sources	63,889	61,258	65,524	66,876	14,998	58,508	62,661	19,243
Deposits ("-" is a cumulative account)	-5,501	-3,470	-38,141	-5,626	9,740	-7,874	1,129	1,586
Outflows	41,828	42,595	11,777	52,117	29,520	49,834	73,017	22,432
Repayment by domestic borrowing	15,261	6,123	5,542	15,611	16,871	8,542	21,060	10,224
Repayment by foreign borrowing	26,567	36,472	6,235	36,506	12,649	41,292	51,957	12,208
Memorandum:								
Net domestic borrowing	22,046	17,569	21,588	18,015	21,581	21,632	21,686	24,825
Net foreign borrowing	37,322	24,786	59,289	30,370	2,349	17,216	10,704	7,035

Source: Ministry of Finance and projections by the Ministry of Finance (*)

Financing of the projected deficit, as well as debt repayments, will be provided from domestic and foreign borrowing (Table 4.6). As regards budget deficits, in the period 2023-2027, the country is expected to borrow abroad, which may be realised with funds from the international capital market, by issuing government securities, as well as via disbursements of funds under favourable loans and credit lines intended for financing certain

projects. Thereby, the choice of a specific external financing source will be based on the ongoing and the expected developments on the international capital market. Furthermore, borrowing on the domestic market will be realised on the basis of issuance of government securities or domestic loans, thus providing for additional financing under favourable terms and conditions. For the purpose of optimising the payments and reducing the refinancing risk, Ministry of Finance will continue issuing government securities with longer maturities, thus reducing the debt refinancing risk. To the end of efficiently managing the public debt, Ministry of Finance will, in the medium term, also take into account the possibility for early repayment of part of the debt, i.e. determining more favourable debt maturity, currency and interest structure. In order to continuously strengthen the government securities financial market and pursue the worldwide practice, Ministry of Finance undertakes activities aimed at diversifying the sources of financing and introducing new types of financing instruments, which will be differently applied, as follows: Development bonds, Green bonds, Project bonds and Development bonds for the citizens. These instruments have been thoroughly elaborated in the revised 2023-2025 Public Debt Management Strategy (with prospects until 2027).

Local Government Budget. Continuation of the decentralisation process is one of the priorities indicated in the 2020-2024 Government Programme of the Republic of North Macedonia. This speaks in favour of the propensity for providing better democracy in the society, more efficient and cost-effective service rendering and delivery, as well as intensified local development.

The objective of the competences is to transfer them to a management level most suitable for the citizens, for the purpose of effective execution, with appropriate financial resources and guaranteed involvement of the citizens in the decision-making process. In the coming period, municipal development policies, i.e. fiscal decentralisation and balanced regional development, will continue to be implemented, to the end of strengthening the municipalities' financial sources, at the same time increasing the accountability and the transparency of their operations.

In 2022, Ministry of Finance actively worked on a reform aimed at strengthening the fiscal decentralisation, which offers critical systemic solution for stable finances of the municipalities, implying accountable municipalities and delivery of quality and efficient services to the citizens. The reform rests on three pillars: enhanced fiscal capacity of municipalities and increased municipal revenues; strengthened financial discipline of municipalities, reduced arrears and cost-effective operations; as well as increased transparency and accountability.

In the course of 2023 and in the medium term, many activities and measures are envisaged for the purpose of strengthening the fiscal decentralisation, in particular improved fiscal capacity and increased municipal revenues, strengthened fiscal discipline and transparency and accountability as regards municipalities' operations.

Municipalities are expected to continue the trend of improved collection of own revenues, as well as strengthening the capacities for development of policies for financing the municipalities and enhancing the capacities for financial management. For the purpose of realising the strategic commitments, strong commitment to encouraging sustainable local development, good local governance and creating conditions for more active, more effective and more innovative role of the local authorities in implementing national objectives for growth and development will continue in the next period as well.

In August 2022, modifications and amendments to the Law on Financing Local Government Units were submitted to the Parliament of the Republic of North Macedonia. Respective amendments to the Law are aimed at ensuring additional democracy in the society, more efficient and cost-effective rendering and delivery of services, as well as intensified local development. Under the draft Law on Modifications and Amendments to the Law on Financing Local Government Units, amendments were made aimed at strengthening the fiscal capacity and increasing the municipal revenues by gradually increasing the percentage of VAT revenues, as well as PIT revenues distributed thereto.

PIT revenues will gradually increase from 3% to 6% by 2024.

Moreover, VAT revenues will be provided, accounting for 6% of the collected VAT generated in the previous fiscal year, starting 2024. Funds will be distributed as follows: 4.5% from the VAT revenues collected in the previous fiscal year in the General Fund, and 0.75% of the VAT revenues collected in the previous fiscal years in the Performance Fund and the Equalisation Fund each. The increase will be gradual, accounting for 5% in 2022 and 5.5% in 2023.

As regards the activities aimed at enhancing the financial discipline and efficiency, reducing and rescheduling the arrears of LGUs, Ministry of Finance will provide an opportunity to the municipalities to use one of the three credit instruments so as to overcome the arrears issue, as follows:

- using standby credit by the Ministry of Finance,
- issuing municipal bond for known purchaser – Ministry of Finance,
- issuing structural bond by the Ministry of Finance.

Thus, resolving the arrears issue will be linked with the fulfillment of the requirements for declaring financial instability. Moreover, it is envisaged for the whole procedure, from the very moment of declaring financial instability to the moment, it is overcome to be strengthened.

Moreover, to the end of strengthening the fiscal responsibility of the municipalities, the forthcoming legal amendments are expected to provide for increased transparency of their operations, by which the municipalities will be obliged to publish financial data in a transparent manner on their websites, implying strengthened spending accountability for all funds transferred by the Government.

By improving the administration efficiency and finding new local revenues, own revenues will be increased.

Additional revenues have also been transferred to the municipalities' budgets as grants from the Budget of the Republic of North Macedonia and the Funds' budgets for the purpose of financing their competences stipulated by law. Block grants for the transferred competences in the field of primary and secondary education, culture, kindergartens and elderly homes, earmarked grants for firefighting, as well as capital grants, have been transferred from the Budget of the Republic of North Macedonia.

Line Ministries and the Funds are preparing a methodology for determining the criteria for distribution of block grants, based on a formula by applying indicators relevant to the needs for each programme. Government of the Republic of North Macedonia adopts a Decree on Methodology for Determining the Criteria on Distribution of Block Grants upon proposal by the respective Line Ministry, upon prior consent by the Ministry of Finance and the Commission on Monitoring the Development of the Financing System of LGUs. During the past period, certain difficulties were detected at certain transferred competences, in particular insufficient funds as block grants to cover all operating costs. More equitable distribution of grants by municipality requires a comprehensive analysis of the criteria and determining a new model of distribution of funds tailored to the needs, thus offering better quality of service.

In cooperation with the Line Ministries transferring funds as block and earmarked grants for the competence transferred in the field of primary and secondary education, culture, childcare and care for elderly and firefighting, activities will be undertaken towards improving the criteria for distributing the projected funds and providing better quality of services. Government of the Republic of North Macedonia established an Inter-Sectoral Working Group for the purpose of overcoming the issues in the firefighting area and analysing the developments in this field. In the period to come, activities for amending the Law on Firefighting will commence, in particular as regards the additional regulation of wages and allowances for firefighters, as well as determining the required number of firefighters in line with the criteria set under the Law.

Funds are distributed to the municipalities through the Line Ministries and other state institutions in the form of capital grants, for the purpose of implementing the capital infrastructure projects in the respective municipalities. Distribution is carried out in line with a Programme which, upon proposal by the Line Ministry, is adopted by the Government, hence, there are no criteria as a whole for distribution of capital grants which would require prior adoption by the Government. This imposes the need to set criteria for distribution of capital grants by municipality.

What is also envisaged in the coming medium-term period is introducing fiscal decentralisation monitoring indicators, increasing local tax collection efficiency, improving the effectiveness and profitability of public enterprises and the municipalities, as well as increasing the transparency and the accountability of the municipalities.

Strengthening the financial discipline of municipalities, arrears repayment and cost-effective operations will be the priorities in the coming period, whereby measures will be undertaken for the purpose of planning the revenues and expenditures of the municipalities in a realistic manner, rationalising the operations and reducing the unnecessary expenditures, regular servicing of arrears, strengthened financial discipline, improving the

procedures on declaring financial instability and analysis of the existing arrears of both the municipalities and the local public enterprises.

For the purpose of increased transparency and accountability and strengthening the fiscal decentralisation, government oversight will be enhanced, in particular by the Public Sector Financial Inspection in terms of the Law on Reporting and Recording Liabilities and reporting non-compliance with the Law on Financial Discipline, measures will be adopted with respect to increased transparency at the municipalities by announcing the financial reports in a transparent and understandable manner, and activities will be undertaken for the purpose of strengthened accountability when using budget funds.

Public consultations and discussions with ALGUs and the other stakeholders on reform proposals have already commenced, in coordination with the Working Group entrusted with the continuation of the decentralisation process, established by the Government, with the Ministry of Political System, Ministry of Finance, Ministry of Local Government and ALGUs as its members. One of the government priorities is continuation of the decentralisation process to the end of greater democratisation, improved public services and intensified local development in the interest of the citizens.

Stable revenues have been provided by allocating funds from lease of state-owned agricultural land to the municipalities, the proportion of which is 50% for the Budget of the Republic of North Macedonia and 50% for the municipalities and the municipalities in the City of Skopje, being distributed as such since 2018, depending on the location of the agricultural land under lease, provided that collection of revenues on the basis of tax on real estate exceeds 80% in relation to the ones projected in the previous year. Municipalities' own revenue performance improves on the basis of the fee collected by issuing concession for usage of water resources for electricity generation (50% for the central government budget and 50% for the local authorities), depending on which area the concession activity is performed.

Moreover, increase will be recorded at own revenue performance at the municipalities, in particular revenues collected on the basis of taxes on real estate, as a result of greater coverage of the real estate of natural persons and legal entities and re-assessment of the value of real estate. Increasing the property tax rate for high-value property could be an additional source of revenues, but once the rate is increased, it is crucial to ensure assessment and audit capacities to avoid underreporting of the property values.

In the coming period, higher revenues are expected to be generated by determining the real market value of the real estate after completing the procedure on treatment of illegally built facilities on construction and agricultural land. In addition, municipalities will ensure additional sources of revenues on the basis of performing the transferred competences for management of construction land and treatment of illegally built facilities on construction and agricultural land.

In the upcoming medium-term period, the new Law on Balanced Regional Development, as well as the 2021-2031 Strategy for Regional Development, are expected to be implemented. Government of the Republic of North Macedonia will continue to carry out the activities aimed at balanced regional development and enhancement of all regions in the country in the next period as well. Implementation of the Strategy for Regional Development in the eight planning regions (Vardar, East, Southwest, Southeast, Pelagonija, Polog, Northeast and Skopje regions), by better vertical and horizontal coordination of both the national and the local policies and the integrated development projects adjusted to the local needs and conditions, will provide for more balanced and territorially oriented local development throughout the country. Council for Balanced Regional Development will continue to play a significant role as promoter of partnership between the regions/the municipalities and the Government, and it will coordinate the usage of funds under all sectoral programmes intended for the planning regions and the municipalities. Special efforts will be put in supporting the municipalities by encouraging the local development via supporting the local projects and harmonising them with the national ones. The goal of fiscal equalisation within the context of the Strategy for Regional Development is to ensure equal offer of public goods and services at all LGUs, thereby achieving a complementary effect of more balanced development of certain planning regions. Providing steady assistance to the financially weakest municipalities, i.e. municipalities with the least revenue collection capacity, yields positive effects for both their development and the development of the planning region which they belong to.

The 2021-2026 Programme on Sustainable Local Development and Decentralisation was adopted, whereby 2021-2023 Action Plan on the 2021-2026 Programme on Sustainable Local Development and Decentralisation is being prepared.

At the same time, Working Sectoral Group for Regional and Local Development is obliged to carry out tasks at expert level, related to formulating and implementing the national sectoral policies, including those related to the EU integration and the donors' aid generally, as well as the IPA Programme.

In addition to the support as regards the transfer of competences for collection of part of the public revenues, as well as the Central Budget transfers, support to building municipal capacities is also implemented through projects of the central government funded by international financial institutions.

Municipal Services Improvement Project (MSIP), being implemented by the Ministry of Finance with support from the World Bank and the European Commission, commenced a decade ago, with total fund of more than EUR 100 million, being aimed at improving the municipal services through loans and grants for implementing capital projects such as water supply, sewerage and waste water treatment, energy efficiency (street lighting, insulation of municipal facilities, etc.), local road infrastructure (street and road modernisation and reconstruction), utility services (procurement of vehicles for the public utility enterprises), as well as other municipal services and competences (construction of kindergartens, green markets, infrastructure in the industrial zone, etc.).

Under the Local Roads Connectivity Project, which is part of the ongoing Country Partnership Framework, implemented by the Ministry of Transport and Communications, EUR 70 million will be disbursed to all 80 municipalities for construction and rehabilitation of local roads and streets, as well as other road infrastructure in local government units. Such direct support ranging from EUR 500,000 up to EUR 2 million per municipality (depending on the project they apply for) provides for improved local infrastructure in the municipalities.

Public Sector Energy Efficiency Project will continue to be implemented via the Ministry of Finance with World Bank support under Loan Agreement in the total amount of EUR 10.5 million. Public Sector Energy Efficiency Project will be implemented by the MSIP Project Implementation Unit. Main objective of this Project is reducing energy consumption in the public sector, at the same time improving the level and the quality of the public buildings and the public lighting. All local government units are eligible to use the funds under this component. Amount of funds per municipality can vary from EUR 50,000 to EUR 750,000 and is dependent on the municipal borrowing capacity and the estimated investment value of the proposed municipal project. By signing a sub-loan agreement with the Ministry of Finance, 80% of the loan funds is allocated to the municipality as on-lending, with the remaining 20% being allocated as a grant. Moreover, within the funds under this Project, the Ministry of Finance also covers the expenses for preparation of Energy Audit and technical documentation for the projects.

Another major project implemented in the past ten years, aimed at improvement of the municipal infrastructure, is Water Supply and Wastewater Collection Project, funded by the European Investment Bank (EIB), the World Bank, KfW, IPA and budget funds, implemented by the Ministry of Transport and Communications. Funds in the amount of EUR 100 million were provided to all municipalities, supporting the construction of better water supply infrastructure and wastewater treatment plants. This Project will continue to be implemented in future as well through the Ministry of Environment and Physical Planning, with additional funds unlocked for supporting the local infrastructure improvement.

Table 4.7. Medium-Term Projection on Local Government Budget

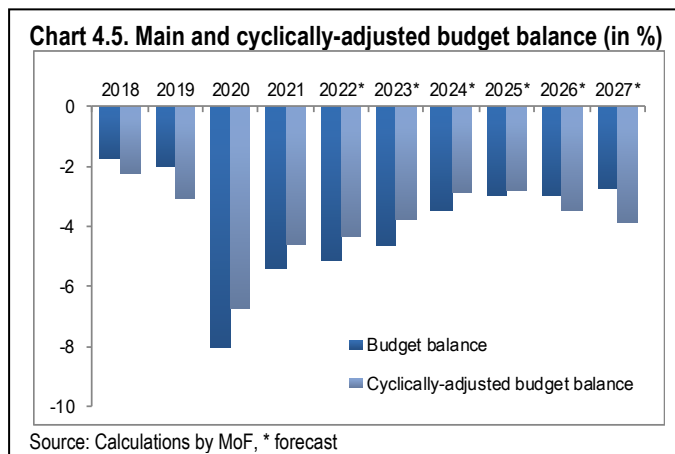
	2022*	2023*	2024*	2025*	2026*	2027*
Total revenues	46,683	49,902	52,161	53,303	54,831	58,018
Tax revenues	11,961	12,454	12,780	13,110	13,450	13,770
Non-tax revenues	2,503	2,644	2,665	2,665	2,695	2,695
Capital revenues	2,354	2,310	2,320	2,370	2,530	2,530
Transfers	28,047	30,817	32,348	33,109	34,108	36,975
Donations	1,818	1,676	2,048	2,048	2,048	2,048
Total expenditures	46,683	49,902	52,161	53,303	54,831	58,018
Salaries and contributions	20,574	22,078	22,140	21,970	22,270	23,040
Goods and services	13,333	12,081	12,323	12,456	12,442	13,185
Interest payments	58	63	63	63	63	63
Subsidies and transfers	3,390	2,878	2,980	3,080	3,180	3,280
Social transfers	82	71	75	75	75	75
Capital expenditures	9,246	12,731	14,580	15,659	16,801	18,375
Balance	0	0	0	0	0	0

Source: Projections by the Ministry of Finance (*)

4.5 Structural Deficit (cyclical component of the deficit, one-off and temporary measures, fiscal stance)

Economic activity, over time, tends to grow, but, moving along the trend line, the economy usually fluctuates above and below the long-term trend. Such cyclical developments in the economy are also reflected in the fiscal developments, through automatic stabilisers. In order to exclude the effects from fluctuations of economic activity on the fiscal indicators and to estimate the basic fiscal stance of the country, we calculate and analyse the cyclically adjusted budget balance, which is obtained by adjusting the budget revenues and the budget expenditures by the effect of deviation of the potential from the actual/projected GDP, whereby the adjustment is made on aggregate level for the central government budget as well.

In 2022, amidst deteriorated international environment and heightened uncertainty, as well as their adverse effects on the economic activity, GDP is expected to remain below the potential one, by which Budget cyclical component is negative, accounting for 0.4%. Thus, cyclically adjusted budget deficit accounted for 4.7% of the potential GDP (Chart 4.5).



In 2023, in conditions when the production gap remains in the negative zone, automatic stabilisers have negative effect on the budget balance, whereby the calculated cyclically adjusted budget deficit is lower than the projected budget deficit, thereby slightly narrowing to 4.2%. In 2024, gap between projected and potential GDP is to be decreasing, by which cyclically adjusted deficit is to be getting close to the projected one. In the period 2025-2027 and 2027, cyclical budget component is to shift to the positive zone, while cyclically adjusted budget deficit is to account for 3.7% in average annually. In the period 2023-2027, cyclically adjusted primary budget deficit accounts for 2.2% on average annually (Table 4.8).

Table 4.8. Aggregate fiscal indicators (%)

	2022	2023	2024	2025	2026	2027
Total budget balance	-5.1	-4.6	-3.4	-2.9	-3.0	-2.8
Primary budget balance	-3.9	-3.2	-1.8	-1.4	-1.1	-0.8
Cyclical budget component	-0.4	-0.5	-0.2	0.2	0.8	1.3
Cyclically adjusted total budget balance	-4.7	-4.2	-3.2	-3.2	-3.8	-4.1
Cyclically adjusted primary budget balance	-3.5	-2.8	-1.6	-1.6	-1.9	-2.1

Source: Calculations of the Ministry of Finance

Note: Data on cyclically adjusted total/primary budget balance are expressed in relation to the potential GDP.

4.6 Public Debt Management, Stock and Projections of Public Debt Trends

At the end of Q3 2022, general government debt of the Republic of North Macedonia²⁴ amounted to EUR 6,497.4 million, i.e. 48.1% of the projected GDP. Total public debt²⁵, which includes the general government debt and the debt of public enterprises established by the state or by the municipalities, the municipalities in the City of Skopje and the City of Skopje, amounted to EUR 7,643.6 million, accounting for 56.6% of the projected GDP at the end of Q3 2022. Pursuant to the Law on Modifications and Amendments to the Public Debt Law ("Official Gazette of the Republic of North Macedonia", no. 98/19, dated 17th May 2019), national definition of public debt is expanded, also covering the non-guaranteed debt of the public enterprises established by the state or the municipalities, the municipalities in the City of Skopje and the City of Skopje. Thus, starting Q2 2019, public debt stock also includes non-guaranteed debt of the public enterprises. In Q3 2022, it amounted to EUR 71.0 million,

²⁴General government debt comprises financial liabilities incurred on the basis of borrowing by the Republic of North Macedonia, the public institutions established by the Republic of North Macedonia and the municipalities, the municipalities within the City of Skopje and the City of Skopje.

²⁵Public debt comprises the general government debt and the debt of public enterprises and joint stock companies established by the state or by the municipalities, the municipalities in the City of Skopje and the City of Skopje.

i.e. it accounted for 0.5% of GDP. During the analysed period, domestic general government debt accounted for 40.05% in the total general government debt, while the external general government debt accounted for 59.95%.

Exposure of general government debt portfolio to market risks recorded further reduction, in line with the favourable changes in the interest and the currency structure. From interest structure point of view, fixed interest rate debt dropped by 3.6 p.p. compared to end-2021. Share of fixed interest rate debt in the total general government debt is significantly above the minimum share of 60% determined under the Public Debt Management Strategy, accounting for 75.3% in Q3, as opposed to the variable interest rate debt, accounting for 24.7%. From currency structure aspect, Denar-denominated debt accounted for 23.73% of total debt, with foreign currency debt accounting for 76.27%. Share of euro-denominated debt in the general government debt portfolio accounted for 92.3%, significantly above the minimum share of 80% determined under the revised Public Debt Management Strategy and, compared to end-2021, it increased by 0.44 p.p.

Pursuant to the amendments to the Public Debt Law, starting 2020, public debt management policy is set out in a separate Public Debt Management Strategy, adopted by the Government of the Republic of North Macedonia. Revised 2023-25 Public Debt Management Strategy (with prospects until 2027) was adopted on 14th December 2022.

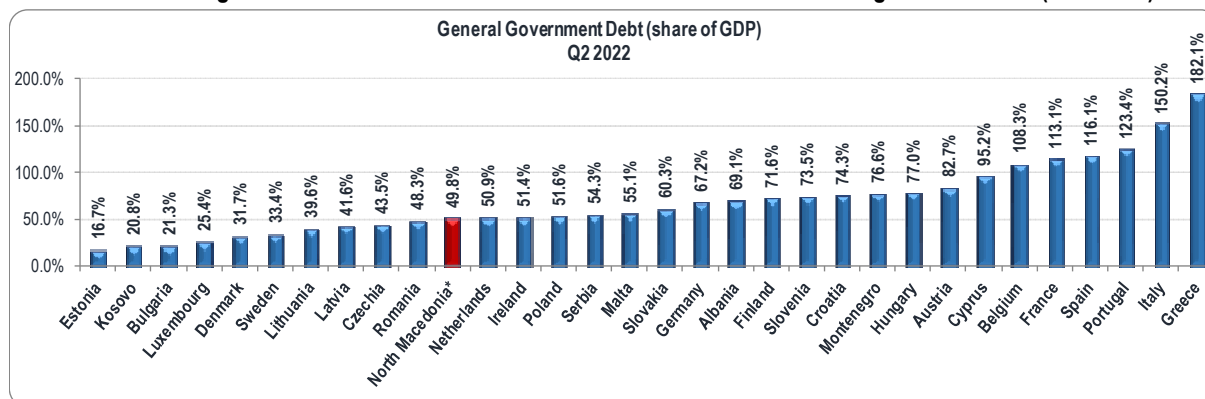
Implementation of already launched investments, as well as new investments in the field of road and rail infrastructure, water supply and sewerage, education, health, energy, environment, reforms in the agriculture and the social sectors, development of municipalities, as well as other projects that are in line with the Government's Work Programme of the Republic of North Macedonia, is expected to continue in the upcoming medium-term period. The projects will be implemented by the state administration bodies, the municipalities, the public enterprises and the companies being predominantly owned by the state. The projects will be co-financed with foreign loans, the Government thereby being strongly committed not to disrupt the long-term sustainability of the debt level of the country. In addition to investment projects, part of the borrowing is aimed at covering the budget deficit, i.e. providing for uninterrupted Budget execution. Furthermore, part of the borrowing will be also intended for repayment of debt liabilities falling due in the coming period. Thereby, in the period 2023-2025, around EUR 1,450.0 million should be repaid on the basis of prior foreign borrowing, also including the Eurobond amounting to EUR 450 million issued in 2016, which will be repaid in July 2023, the Eurobond amounting to EUR 500 million, issued in 2018, which is to be repaid in January 2025, as well as other debt repayments on the foreign market.

Table 4.9. Public debt stock (EUR million)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 Q-3
External public debt	1,941.2	2,078.7	2,725.1	2,847.5	3,286.0	3,187.5	3,537.8	3,709.3	4,323.7	4,668.9	4,989.2
General government Debt	1,615.9	1,597.5	2,092.2	2,096.7	2,446.6	2,376.8	2,695.0	2,763.5	3,382.5	3,648.9	3,895.1
Guaranteed debt	325.3	481.2	633.0	750.8	839.4	810.7	842.7	929.9	920.0	999.9	1,070.4
Non-guaranteed debt	n/a	n/a	n/a	n/a	n/a	n/a	n/a	15.9	21.2	20.2	23.7
Domestic public debt	967.6	1,202.7	1,196.2	1,379.7	1,425.4	1,599.4	1,664.4	1,831.6	2,159.6	2,466.4	2,654.4
General government debt	938.6	1,174.1	1,170.3	1,356.6	1,404.9	1,581.7	1,649.4	1,793.3	2,133.4	2,431.4	2,602.4
Guaranteed debt	29.0	28.6	25.9	23.2	20.5	17.7	15.0	12.3	9.5	7.5	4.8
Non-guaranteed debt	n/a	n/a	n/a	n/a	n/a	n/a	n/a	26.0	16.6	27.5	47.2
Total public debt pursuant to the Public Debt Law	2,908.8	3,281.4	3,921.3	4,227.2	4,711.4	4,786.9	5,202.2	5,540.9	6,483.3	7,135.3	7,643.6
Total public debt as % of GDP	38.3	40.3	45.8	46.6	48.8	47.7	48.4	49.2	59.7	61.0	56.6
Total general government debt	2,554.5	2,771.6	3,262.5	3,453.3	3,851.5	3,958.5	4,344.4	4,556.8	5,516.0	6,080.2	6,497.4
General government debt as % of GDP	33.7	34.0	38.1	38.1	39.9	39.4	40.4	40.5	50.8	52.0	48.1
Total guaranteed debt	354.3	509.8	658.9	774.0	859.9	828.4	857.7	942.2	929.5	1,007.4	1,075.2
Guaranteed debt as % of GDP	4.7	6.3	7.7	8.5	8.9	8.3	8.0	8.4	8.6	8.6	8.0
Total non-guaranteed debt								41.9	37.8	47.7	71.0
Non-guaranteed debt as % of GDP	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.4	0.3	0.4	0.5

Source: Ministry of Finance and National Bank of the Republic of North Macedonia

Chart: 4.6. General government Debt of EU Member States and Countries in the Region in Q2 2022 (% of GDP)

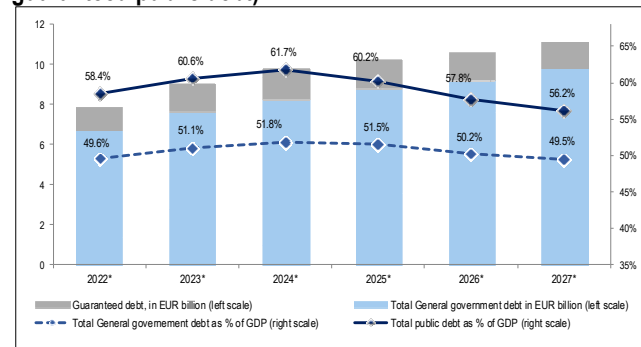


*Data on North Macedonia pertain to the third quarter in 2022.
Source: Ministry of Finance, Eurostat, October 2022

Public debt trends in the coming period will reflect both the medium-term budget framework and the implementation of capital projects. As a result of the economic crisis induced by COVID-19 pandemic, most of the European Union countries, as well as the countries in the region, were forced to widen their budget deficits all to the end of ensuring funds for managing the pandemic. At most of the economies, this has resulted in increased level of public debt by approximately 10 percentage points. During 2022, compared to 2021, Republic of North Macedonia experienced reduced public debt to GDP ratio by 4.4. p.p., being below the maximum limit set in the 2023-2025 Public Debt Management Strategy (with prospects until 2027). However, medium-term projections presented in this Strategy show that public debt will exceed the maximum threshold of 60% in the period 2023-2025, however, as a result of the fiscal consolidation measures, it is expected to stabilise in 2026, followed by returning to the stipulated limit below 60% of GDP in 2026 and 2027.

In order to reduce the exchange rate risk, the Strategy sets limits on the currency structure of the general government debt, whereby the minimum threshold of euro-denominated debt in the debt portfolio denominated in foreign currency should be 85%. The Strategy also sets a limit on the interest rate structure of general government debt, i.e. fixed interest rate debt should account for at least 60% of the total debt portfolio.

Chart 4.7. Forecast of total public debt (government and guaranteed public debt)



Source: Ministry of Finance and MoF projections (*)

In order to protect the central government debt portfolio against the re-financing risk, minimum threshold of “average time to maturity” indicator in 2023 should be 4 years.

In the coming period, Ministry of Finance will continue considering the possibility and the conditions for debt restructuring by actively managing the debt portfolio. For the purpose of further smoothening the redemption profile and reducing the re-financing risk, as well as generating additional interest savings, in the coming period, Ministry of Finance will continue considering the possibilities and the conditions for optimisation of debt-servicing costs by actively managing the debt portfolio.

In order to protect the central government debt portfolio against the interest rate risk, minimum threshold of “average time to re-fixing” indicator in 2023 should be 3 years.

Republic of North Macedonia will remain moderately indebted country as a result of the commitment to conduct a disciplined fiscal policy in the coming period.

Guaranteed Debt. On the basis of the analyses made on trends of projected guaranteed public debt in the period 2023-2027 it is expected to experience a moderate increase by 2024, as a result of the disbursement of loan proceeds under the projects, mainly in the field of Energy and implementation of other projects mainly in the field of road infrastructure. Further on, starting 2025, guaranteed debt is expected to gradually stabilise and reduce to 6.5% of GDP in 2027. Therefore, in the whole period the level of guaranteed public debt is under the determined maximum limit.

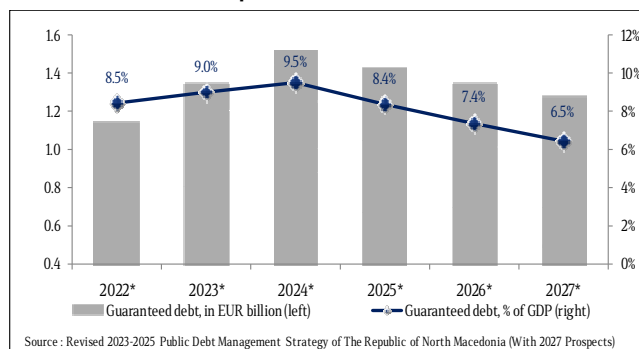
In the period 2023-2027, projects in the field of road infrastructure, financed with sovereign guarantee loans, are expected to be implemented, whereby the **limit on maximum net borrowing on the basis of guaranteed debt in 2023 is set up to EUR 250 million.**

Pursuant to the Public Debt Law, legal obligation is introduced for the Ministry of Finance to assess the creditworthiness of public debt issuers requesting issuance of sovereign guarantee, on the basis of analysis of the financial status and the outlook thereof during the guarantee period, including analysis of the following indicators: liquidity, solvency and profitability of public enterprises and companies, as well as indicators of budget and financial performance of municipalities and public institutions established by the Republic of North Macedonia. As of 30th September 2022 inclusive, issued sovereign guarantees amounted to EUR 1,075.2 million, accounting for 8.0% of GDP (included in the total public debt, which accounted for 56.6% of GDP).

Primary Government Securities Market. According to the Calendar for Issuance of Government Securities (GS) on the Domestic Market, in the period January - September 2022, Ministry of Finance issued 12-month treasury bills on a regular basis (including one auction of 3-month treasury bills), as well as 3 and 15-year treasury bonds.

During this period, total of 35 auctions of GS were held, i.e. 20 auctions of treasury bills and 15 auctions of treasury bonds. Total amount offered for sale at the auctions was Denar 30,478.46 million, demand amounted to

Chart 4.8. Guaranteed public debt forecast

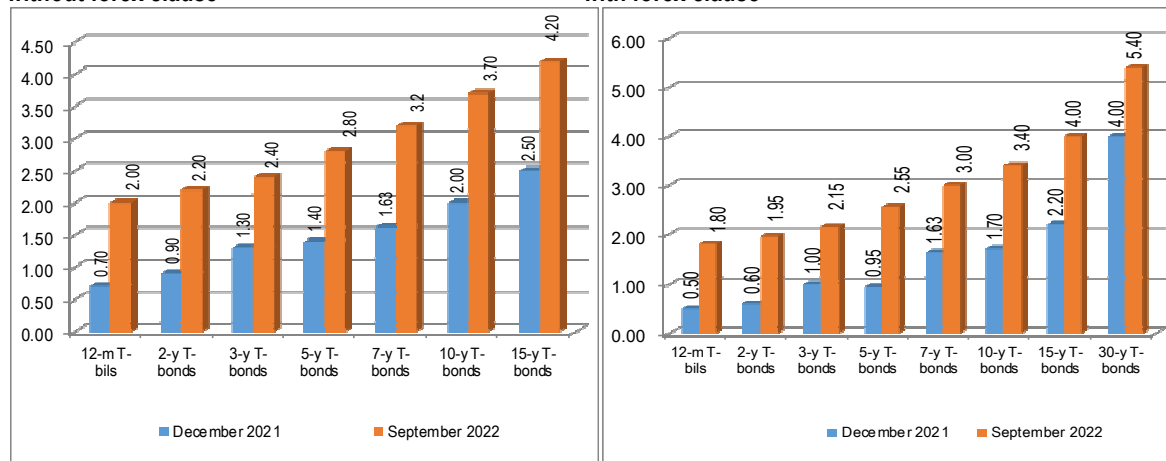


Source: Ministry of Finance and MoF projections (*)

Chart 4.9. Average interest rates on GS with and without forex clause

without forex clause

with forex clause



Source: Ministry of Finance

Denar 28,679.78 million and the amount realised amounted to Denar 28,679.78 million.

In the course of 2022, Ministry of Finance carried out measures adopted under the Denarisation Strategy, i.e. issuance was focused on Denar-denominated securities which, as of the third quarter inclusive, amounted to Denar 23,983.17 million as opposed to Denar 4,696.61 million issued through government securities with forex

clause. Chart 4.9 shows the interest rates on government securities, being valid in the period January - September 2022. Regarding the interest rates, it is noticeable that there is a trend of increasing, which was realised several times in 2022, as a result of the already present COVID-19 pandemic, the energy crisis and the rising inflation rates. As of September 2022 inclusive, stock of outstanding GS, amounted to Denar 153,617.98 million, Denar 34,000.05 out of which as treasury bills and Denar 119,617.93 million as treasury bonds.

Secondary Government Securities Market. Legal regulations on secondary trading in the Republic of North Macedonia provide for trading in all structural GS and continuous treasury bonds on the Macedonian Stock Exchange AD, as well as trading in continuous GS on over-the-counter markets.

Total volume of trading in treasury bonds on the Macedonian Stock Exchange in the period January - September 2022 amounted to Denar 398.44 million, decreased by Denar 531.7 million compared to the same period last year.

In the period January - September 2022, 4 transactions pertaining to treasury bills, and 28 transactions pertaining to treasury bonds, were realised on the OTC market. Total nominal trading amounted to Denar 1,568.61 million. Compared to the trading by September 2021, amounting to Denar 5,061.98 million, it can be concluded that more transactions with government securities were realised as of 30th September 2022 inclusive, while total nominal amount of trading was lower by Denar 3,493.37 million.

International Capital Market. By September 2022, 4 Eurobonds were traded on the international capital market issued by the Republic of North Macedonia, falling due to be repaid in 2023, 2025, 2026 and 2028, the yield of which accounted for 6.624%, 7.361%, 7.558% and 7.187%, respectively on 30th September 2022.

Registered Securities - NSV. On 27th September 2022, Government of the Republic of North Macedonia adopted Decision on the issuance of the registered notes - NSV, in the amount up to EUR 250 million. The borrowing terms and conditions thereof are as follows: 3.75% interest rate plus 6-month EUIROBOR, with 3-year repayment period and 18-month grace period. The registered bond - NSV ensured a significantly lower interest rate than what would have been achieved with the eventual issuance of new Eurobond.

Short term loan agreement of Republic of North Macedonia with Sparkasse Bank AD Skopje. On 24th August, Government of the Republic of North Macedonia adopted a Decision for Borrowing of the Republic of North Macedonia with a short term loan from Sparkasse Bank AD Skopje, in the total amount of up to EUR 50 million in Denar equivalent. Funds under the short-term loan will be used under the following terms and conditions: variable interest rate, 12-month EURIBOR + 1.15% margin and repayment period of up to one year.

Credit Rating of the Republic of North Macedonia. In November 2022, "Fitch" Credit Rating Agency affirmed the Republic of North Macedonia's "BB+" rating with a negative outlook. Also previously in May 2022, "Fitch" Credit Rating Agency affirmed the Republic of North Macedonia's "BB+" rating with a negative outlook.

In February and August 2022, "Standard & Poor's" Credit Rating Agency affirmed Republic of North Macedonia's previously awarded credit rating for local and foreign currency at BB-, at the same time affirming the country's stable outlook.

4.7 Sensitive Analysis and Comparison with the Previous Programme

Sensitivity of Budget Deficit. Medium-term economic projections are based on certain assumptions, primarily on macroeconomic environment, designing of economic policies and their implementation, as well as the absence of greater shocks.

Medium-term economic and fiscal projections are always accompanied by certain level of uncertainty and risks. The possible occurrence of these risks would result in deviations from the baseline medium-term scenario, i.e. different movements of the key fiscal variables.

Therefore, this section includes an overview of the results from the sensitivity analysis, examining the central government budget deficit sensitivity under three risk scenarios, which assume different conditions than the ones taken as basis for medium-term projections discussed above. Thereby, all risks are analysed separately and all scenarios assume absence of other deviations from the baseline scenario.

Taking into account that medium-term fiscal scenario is based on certain macroeconomic assumptions, they are considered to be primary factor with a potential effect on the fiscal trends. Hence, as a first risk scenario, we

assume the materialisation of downside risks in relation to the external environment, according to the first alternative scenario explained in point 3.3. Under this scenario, projected average annual real GDP growth in the period 2023 - 2027, accounts for 3.5%, i.e. being by 1.1 p.p. lower compared to the baseline scenario. Hence, possible lower economic growth will also imply lower performance of the cyclical component of budget revenues. Thus, this scenario would result in budget deficit of 4.1% of GDP on average annually in the coming five-year period, i.e. deficit widening by 0.8 p.p. on average compared to the baseline projections. Table 4.10 shows the budget deficit in this period according to the baseline and the risk scenarios.

The second risk scenario assumes lower execution of capital expenditures, according to the second alternative scenario explained in point 3.3, i.e. their execution, accounting for approximately 70% in relation to those projected in the baseline scenario. Lower execution of capital expenditures would cause a slowdown of growth of gross investments, and accordingly a lower real GDP growth rate in relation to the baseline scenario, by an average of 0.5 p.p. per annum in the period 2023-2027. This scenario would adversely affect tax revenues as well, which would exceed the effect of the reduced expenditures. Therefore, according to this scenario, budget deficit would worsen by 0.4 p.p. on average annually compared to the baseline scenario in the analysed period.

Table 4.10. Sensitivity Analysis of Budget Deficit

	2023	2024	2025	2026	2027
Budget deficit (% of GDP)					
Baseline scenario	-4.6	-3.4	-2.9	-3.0	-2.8
Scenario 1. Lower economic growth	-5.1	-4.0	-3.6	-3.9	-3.9
Scenario 2. Lower execution of capital expenditures	-4.8	-3.7	-3.2	-3.4	-3.3
Scenario 3. Lower collection of tax revenues	-5.5	-4.3	-3.8	-3.9	-3.7

Source: Calculations of the Ministry of Finance

The third scenario assumes a reduced collection of total tax revenues by 5% per year in the analysed period compared to the baseline scenario. In conditions of unchanged level of budget expenditures and unchanged economic growth, lower tax revenues would lead to higher budget deficit, which would account for 4.2% of GDP on average annually during the analysed period, thus getting closer to around 3.5% of GDP in 2027.

Materialisation of any of the above risk scenarios in the upcoming period would result in relatively limited effects on the budget deficit, i.e. sustainability of fiscal policy in the medium term is in no case disrupted.

Public Debt Risks. Uncertainty arising from the future trends of macroeconomic variables on the international capital market significantly affects the decision making for efficient management of debt portfolio of the country. In conditions of large oscillations of economic variables, need arises to actively manage risks which public debt portfolio in the Republic of North Macedonia is exposed to. Main risks identified when managing this portfolio are re-financing risk, market risk, including interest rate risk and exchange rate risk, risk associated with contingent liabilities and operational risk.

Public Debt Sensitivity. In order to examine the exposure of the debt portfolio to market risk, i.e. the risk of changes in interest rates and exchange rates, a short simulation of the impact of change of interest rates and exchange rate over the costs for servicing the external government debt was carried out. Sensitivity analysis on the movements of servicing-related costs in the Budget of the Republic of North Macedonia as regards the external debt is based on the following assumptions: by changing one variable, all other variables remain unchanged, i.e. ceteris paribus, in conditions of potential movements in the other currencies in relation to the euro, Denar exchange rate in relation to the euro retains the stable value, and non-correlation between interest rate movements and exchange rate movements.

The analysis covers the period 2023-2025, being based upon scenarios of increase of interest rate by 1 p.p. compared to the baseline scenario, as well as euro depreciation by 10% compared to the other currencies.

Table 4.11. Sensitivity analysis of servicing-related costs of the external government debt when changes occur in both the interest rates and the foreign exchange rates

Index figures	2023	2024	2025
Baseline scenario	100.0	100.0	100.0
Scenario 1: increase of respective interest rates by 1 p.p.	105.7	105.3	104.5
Scenario 2: appreciation of other currencies in the portfolio in relation to the euro by 10%	100.2	100.4	100.1

Source: Calculations of the Ministry of Finance

Main conclusions that may arise from this analysis are the following:

- servicing-related costs on the basis of interest on external general government debt are sensitive to the interest rate movements. Should interest rates in 2023 surge by 1 percentage point in relation to the baseline projection, it would cause interest-related costs to increase by 5.7%, i.e. by EUR 7.4 million. Such sensitivity could be explained as exposure of debt portfolio to interest rate risk;
- possible euro depreciation in relation to the other currencies in the portfolio (US dollar, Japanese yen and Special Drawing Rights) by 10% will cause an increase of servicing-related costs by 0.2% in 2023, i.e. by EUR 1.6 million. Given the obtained results, it may be concluded that possible unfavourable trends at exchange rates of other currencies in relation to the euro will not cause any significant increase of the servicing-related costs, as a result of the fact that most of the external general government debt is euro-denominated.

4.8 Quality of Public Finance

Maintenance of the overall fiscal discipline on the medium run is one of the priorities in the planning and budgeting process, which will result in: a) medium-term fiscal consolidation; b) distribution of resources based upon the programmes and the included programme indicators; and c) Medium-Term Budget Framework that serves as a reliable guidebook for the future distribution of the budget funds for each budget user. These objectives will remain and will be upgraded in the coming period to be covered with the Public Financial Management Reform Programme starting 2022, the preparation of which commenced in 2021.

In the course of October 2021, the Government of the Republic of North Macedonia adopted the Fiscal Sustainability and Economic Growth Support Plan, based on:

- fiscal consolidation – by determining measures to rationalise the expenditures by categories, activities and measures to improve both the efficiency and the effectiveness of public revenue collection system so as to ensure better revenue collection and strengthened budget revenue side, with new sources and models of budget financing being presented;
- consistency of the policies when planning the Budget - by fully correlating the budget planning with the Government Programme, the sector strategies, as well as its correlation with the Economic Reform Programme;
- development of multiannual indicators to measure the performance as regards implementation of the policies incorporated in the Budget - so as to measure the effects of the budget expenditures in relation to the results when delivering public goods and services rendered by the budget users.

Fiscal consolidation and efficient and sustainable reduction of the fiscal deficit require mixture of measures on both budget revenue and budget expenditure side. The limited resources and necessity to finance priority projects impose a need to strengthen the budget planning process, based on performance, rationalise certain expenditures and introduce adequate spending standards.

4.9 Fiscal Governance and Budgetary Frameworks

2022-2025 Public Financial Management Reform Programme is a strategic document for development of the public financial management system, pursuing the already commenced reforms in the previous four-year period.

Public finance reforms aimed at improved fiscal framework, strengthened process of public finance planning, execution and reporting, increased revenue collection, strengthened public procurement system and improved internal and external control by increasing transparency and accountability in operations, have been identified as one of the key goals of the Government, which is to ensure accelerated and sustainable economic growth, higher living standard and better quality of life for the citizens. All this encompasses maintaining stable budget in the long run, thereby continuing the rendering of quality and prompt services to the citizens and the businesses through a modern and efficient public administration based on digitalisation.

The new PFM Reform Programme highlights the significance of the previous one and the need for reforms in this area to continue. This Programme is based on a thorough analysis of the circumstances through internal analyses by the relevant national institutions, as well as PEFA mission findings and assessments, which took place in the period April-May 2021, recommendations given by experts from both the IMF - Fiscal Affairs

Department and the World Bank on prioritisation of future reforms, assessment of OECD - SIGMA on the basis of the Principles of Public Administration, which took place in March 2021, as well as other specific external diagnostic assessments.

Preparation and implementation of the new 2022-2025 PFM Reform Programme is based on a sectoral dialogue, introduced with the previous PFM Reform Programme, on the policies with all stakeholders. The objective of the dialogue is to ensure joint actions as regards the priorities and the policies in the area of public finance management, establishing a synergy and coordination among different initiatives, as well as that budget funds and all other available resources, including donor funds, are used in an appropriate and transparent manner.

Organic Budget Law, under which the public finance management system in the Republic of North Macedonia is defined, is aimed at accomplishing the objectives under the Programme.

This Law regulates the procedure for preparation, adoption, execution of the Budget of the Republic of North Macedonia and the budgets of the local government units and the City of Skopje, as well as the reporting on their execution. This Law regulates the fiscal rules and the fiscal principles, the establishment of the Fiscal Council, the medium-term budget planning, the management of state and municipal funds, as well as the monitoring of financial results of public enterprises and companies established by the state and the municipalities and the financial responsibility and the basis for establishment of IFMIS.

Improvement of the public financial management and strengthening the medium-term budget planning in the next 5 years is one of the top priorities of the Government of the Republic of North Macedonia as part of the EU accession process.

Thereby, as regards the process of preparing the Fiscal Strategy, it is envisaged for the existing timeframe to be shifted, as well as for its structure and contents to be improved.

The Budget will be presented more clearly through plenty of well-structured information, and it will be divided into general, special and development sections.

At the same time, the Law includes provisions for introducing numerical fiscal rules, designed in a way, in which they will comply with the EU fiscal rules, thus making the fiscal policy more predictable and more accountable. The Government may apply the escape clauses with respect to the set fiscal rules in case of occurrence of exceptional circumstances.

In the coming period, Ministry of Finance, in cooperation with the World Bank, as well as through the EU IPA Twinning Project "Strengthening Budget Planning, Execution and Internal Control Functions", will continue to work on preparing by-laws, guidelines, manuals, etc., aimed at enforcing the new Organic Budget Law, further improvements of the public financial management system, as well as developing a detailed plan for all working process in the Ministry of Finance.

Furthermore, in the coming period, the new Organic Budget Law envisages introduction of IFMIS – Integrated Financial Management Information System, which will provide for integration and connection with all budget users and systems of the Public Revenue Office, the Customs Administration and other institutions, for the purpose of providing more efficient public financial management. By implementing IFMIS, public financial systems will be full compatible and interoperable, while using them in accordance with the Public Financial Management Strategy will ensure availability of the systems and continuous exchange of data 24 hours per day throughout the year.

On the basis of Public Investment Management Assessment (PIMA) carried out by the International Monetary Fund, Ministry of Finance, as process coordinator, prepared Action Plan, adopted by the Government, on implementing PIMA recommendations. In line with the Action Plan, under the new 2022-2025 PFM Reform Programme adopted by the Government in 2022, special priority is given to measures geared towards enhancing the public investment management framework, all to the end of increasing the efficiency in delivering public infrastructure projects, which should be implemented by the competent national institutions in the upcoming period. In particular, reforms will be gradually introduced to the end of improving the planning, the allocation and the implementation of public infrastructure projects, as well as strengthening the role of the Ministry of Finance in the process of public investment management, which will contribute to greater alignment of the budget allocations with the investment priorities of the Government, improving the comprehensiveness of the budget documentation so as to include all public capital investment spending and information on the financial needs for

the ongoing and the new projects, as well as introducing central oversight of public investment portfolio at national level, including the monitoring and the management of the overall delivery risk. These measures are part of the budget system reforms, which should be introduced under the new Organic Budget Law, more specifically related to the medium-term budget planning of the priorities and the procedures for selecting new projects. More precisely, the Government introduced new methodology for defining, preparing, considering, assessing and prioritising new infrastructure projects, thus determining standardised procedures for preparing, assessing and selecting infrastructure projects. However, the implementation of the Action Plan and PFM Reform Programme is conditioned upon the establishment of a new department in charge of performing the functions related to the public investment management within the Ministry of Finance. New Public Investment Management Department in the Ministry of Finance should carry out activities related to the evaluation of the public infrastructure projects, primarily from the point of view of fiscal impact, risks and sustainability, providing opinions and recommendations on projects, preparing a summary list of proposed and evaluated new public infrastructure projects, consolidating the list of priority public infrastructure projects, project monitoring, as well as developing and updating methodologies for project evaluation and review of pre-investment studies. For the purpose of carrying out the activities aimed at strengthening the public investment management, development of capacities will be ensured by the IMF and the World Bank with financial support from the EU. Moreover, functional and technical requirements under the Integrated Financial Management Information System (IFMIS) have been additionally developed, which should include detailed specifications about the public investment management module, which should provide for underpinning the new MoF's public investment management functions.

4.10 Sustainability of Public Finances²⁶

Calculations for long-term sustainability of public finances are based upon the following assumptions:

- average labour productivity growth of 2.7%;
- increase of male participation rate (from 76.3% in 2020 to 85.3% in 2060);
- more intensive increase of female participation rate (from 54% in 2020 to 75.6% in 2060), by which share of female population in the total active population is expected to reach 47% in 2060;
- reduction of unemployment rate with higher intensity by 2030, projected at 7.5% the same year, and with lower intensity in the upcoming years, whereby unemployment rate is projected at 3.5% in 2060,
- gradual increase of the share of population above 65 years of age, reaching around 37% in 2060.

On the basis of the employment and wage growth projections in the country, an average annual growth of 6.2% of revenues on the basis of pension insurance contributions is envisaged in the analysed period, with their share in GDP accounting for 6.8%. As for pension-related expenditures, it is worth mentioning that only those of the Pension and Disability Insurance Fund have been taken into account. Taking this into account, and according to the projected demographic trends, 4.8% average annual increase of pension-related expenditures is envisaged in the analysed period, while their share in GDP is envisaged to gradually reduce, which is expected to be 6% in 2060. Public expenditures for health protection as percentage of GDP are projected to gradually increase, reaching 8% in 2060, mainly as a result of the effects of population aging. Education-related expenditures are envisaged to increase by almost 7% on average annually in the next forty years, so their share in GDP is expected to reach 5% in 2060. Interest-related costs are envisaged to account for 0.7% of GDP on average in the analysed period, and are expected to decrease to below 1% after 2030, in line with the projected trend of budget balance, i.e. general government debt and projected effective interest rate.

5. Structural reforms in 2023-2025

Links between the structural reform measures from ERP 2023-2025 and Key structural challenges (Commission assessment of ERP 2022-2024), ERP Policy Guidance 2022, Enlargement Package 2022, Sustainable Development Goals 2020-2030, European Green Deal/Green Agenda for Western Balkans, European Digital Agenda/Digital Agenda of Western Balkans and IPA III projects supporting these reforms, are shown in Annex 2.

²⁶ The sustainability analysis remain the same as last year because the data for labour market for Q1, Q2 and Q3 2022 are processed using population forecasts for 2022 in accordance with the 2021 Census (<https://www.stat.gov.mk/PrikaziSooptenie.aspx?rbtxt=98>), while the data for the past years for this sector are not aligned with the 2021 Census.

Links between the structural reform measures from ERP 2023-2025 and Economic Reform Programme areas, investments in the areas of Economic and Investment Plan for Western Balkans, IPA and SPP are shown in Annex 2a.

5.1 Update on the three main obstacles to competitiveness and inclusive growth and related structural reform measures

North Macedonia's key challenges on the road to achieving decent level of competitiveness and inclusive growth are: 1) strengthening the human capital for inclusive development, 2) fostering the green transition and 3) improving the competitiveness of domestic companies, their integration in the global value chains and formalisation of the economy. Being identified in previous ERP 2022-2024, they remain relevant and are in line with noted challenges within EC Assessment on ERP 2022-2024, referring to a) Improving the quality and relevance of the education system to increase employment and mitigate skills mismatches, b) Improving the competitiveness of domestic companies, including integration in GVC and reducing informal economy and c) Energy sector modernisation and transition to clean energy.

1) Strengthening of human capital for inclusive development

The quality of human capital as a principal component in every growth model has a vital role in providing sustainable and inclusive development. One of the corner-stones in the development of human capital is **the quality of educational system** and its ability to adapt to the needs on the labour market. North Macedonia's educational system does not equip young people with the key competences – skills and knowledge – that are required for the offered jobs. The disparities between the education outcomes and the needs of the labour market prolongs the transition from school-to-work, nourishes the informal economy and supports out-migration. Macedonian authorities made significant improvement to the education system policies, with some policies and practices in line with those of the EU member states. For instance, the new school and vocational education and training (VET) curricula focus more on developing competencies that will have to prepare students to join the labour market.

Macedonian government made some steps to expand pre-primary coverage and increase participation in primary education, which brought the country to levels which are par with the EU member states. As of 2018, the country had an almost universal enrolment rate of 98.8% for primary education, 88.5% for lower secondary and 71% for upper secondary education. However, the gross enrolment rate to upper secondary education is still way lower compared to the WB6 and the EU countries (UIS, 2020). Some efforts were made to develop a new national assessment for student learning in the attempt to reduce the share of early-school leavers. This led to a certain improvement in the PISA scores, but the country's scores for reading and mathematics are still slightly below the WB6 average and far below the EU average. North Macedonia has a large share of students who fail to demonstrate baseline levels of proficiency in reading (55%) and mathematics (61%), which is significantly higher than the OECD averages of 23% in reading and 22% in mathematics (OECD, 2020b). These figures have implications on country's long-term economic development because it is difficult for students without basic skills to attain better-paying and more-rewarding jobs. Yet, it should be noted that the share of low performers in both subjects decreased by at least 9 p.p. between 2015 and 2018 (OECD, 2020b). Nonetheless, the disparities in educational opportunities and outcomes persist among children from socio-economically disadvantaged backgrounds, as well as those living rural areas and belonging to the ethnic minorities (OECD, 2019).

The tertiary education saw some reforms being implemented in the last two years, with the introduction of some agencies and policies aimed at improving its quality, equity and relevance for the labour market. Over the past decade, the number of years spent in the Macedonian education system increased to 13.5 years, which is slightly lower than the WB6 average of 14.8 years and well below the EU average of 16.6 years (UIS, 2020). Additionally, the gross enrolment in tertiary education rose to 43% in 2018, yet it is lower than the WB6 average of 52% and the EU average of 70% (UIS, 2020). The country adopted the Education Strategy and Action Plan 2018-2025, which sets out the key goals for the higher education, mainly aiming to improve the content of programmes, align the system with the positive practices across Europe and increase the employability of graduates. Nevertheless, state financial support for education is insufficient, and the country needs better coordination between the economic and educational sectors. Since 2018, the government has also adopted a new law on higher education, which introduced greater institutional autonomy for universities; more democratic,

transparent and equitable process and governance arrangements; and stronger quality assurance measures (Eurydice, 2021).

On the side of the **labour market**, a skills mismatch analysis framework is in place, which assesses supply and demand mismatches based on the Labour Force Survey data, and analysis of the vacancy database and the employer skills needs survey of the Employment Service Agency. In the period 2015–2019, the unemployment rate fell for workers of all education levels, especially among the medium-educated persons (Eurostat, 2021). In 2019, the unemployment rate was higher for low-educated (23.4%) than for medium-educated (16.6%) and highly-educated workers (14.3%). The employment growth in 2018 and 2019 was mostly driven by employment growth for medium and high-education levels (WIIW/World Bank, 2020). People with low education levels are more likely to be unemployed, as well as at higher risk of being employed in the informal sector. A skills mismatch analysis discovered that 22.2% of tertiary-educated workers in the age group 15-64 years were overqualified for their jobs in 2017 because they had jobs requiring semi-skilled education. In addition, the share of workers with an upper secondary education in elementary occupations was 14.3% in the same year (ETF, 2019). Another study of VET conducted in 2014-15 revealed that there is a poor matching of skill levels and jobs early in the careers of young graduates. Furthermore, it points out that about 45% of employed VET graduates had a discrepancy between their skills and field of study and the requirements for their job. Several improvements have been made to the education system in recent years to improve skills matching, including the introduction of a web-based Occupational Outlook to inform young people about the career prospects of selected occupations and sectors in the medium term (ILO, 2018).

Non-standard forms of employment (NSE) are a common feature of the labour markets worldwide, and North Macedonia is no exception. While the world of work has changed, labour legislation and collective bargaining did not. This has left many new types of workers jobs non-regulated and out of the social protection system, but also led to lost tax revenues for the state.

One of country's main challenges with regards to the development of the labour market has been the school-to-work transition. North Macedonia's youth employment rate, similar to many EU countries, is generally higher than the total unemployment rate, but the levels in North Macedonia have been alerting. Another problem that young people face is that they often enter the labour market through temporary contracts (World Bank, 2020b) and the employment conditions are fairly unstable and uncertain. There are plans to shorten the period before a temporary contract is automatically converted into a permanent one from five years to six months, but the effect of this significant change may not be positive as the probation period in other countries is not much shorter, and it is also highly dependent on the rigidity of the permanent-work contracts and the level of employment protection. In order to increase the employability of young people, a dual VET project was launched in 2017 based on the new reformed modular curricula and the European Credit system for VET. The implementation began in the 2019-20 school year in all VET schools for 52 qualifications, and it is believed that this project has potential for improving skills and employability of future graduates.

Social protection and inclusion²⁷. According to the latest data published by the State Statistical Office from the Survey on Income and Living Conditions in 2020, the poverty rate in North Macedonia was high at 21.8% (i.e. 451,900 people). The Gini coefficient (a measure of income inequality) increased compared to 2019 and was 31.4%. This met the expectations that the pandemic will worsen relative poverty and income inequality, but to a very small extent, among other things, due to government measures targeting lower-income segments.

Analysed by household types, the poverty rate of households consisting of two adults with two dependent children in 2020 was 20.7%. The poverty rates according to the most frequent economic activity status show a decrease compared to the previous year. Therefore, the rate of poor employees, poor pensioners, poor unemployed and the rate of inactive persons was 7.9%, 7.0%, 45.1%, and 32.5%, respectively. In a longer time perspective, the increase in pensions and social assistance, but also in employment and the minimum wage led to improvements in the incomes of the poorest segment of the population. Such measures had a more significant impact primarily on the poverty among elderly, while children and youth have seen an increase in poverty. According to the data from the Survey on Income and Living Conditions, children and youth are the most affected population group when it comes to the impact of the pandemic on household income and poverty.

²⁷ See Annex 7 Laeken indicators on poverty and social exclusion, 2013-2020

In 2022, additional measures targeted at the more vulnerable population groups were taken in order to mitigate the consequences of the economic-energy crisis and the high growth and high volatility of the prices of primary energy and non-energy products caused by the escalation of the Russian-Ukrainian conflict.

Nevertheless, the poverty rate among unemployed people, which amounts to 45.1%, has increased compared to previous years. That is why the activation of the social protection system beneficiaries and their inclusion in the labour market are of utmost importance. In this regard, it is necessary to encourage the development of programmes that enable the activation and professional rehabilitation of vulnerable groups of citizens, and of youth in particular, which would contribute to increasing their participation in the labour market, and thus exiting the vicious circle of poverty and social exclusion.

In September 2022, 112,464 unemployed persons were registered in the Employment Service Agency of the Republic of North Macedonia, 65,516 of them being without or with primary education, and 10,332 with incomplete secondary education. Persons without completed primary education cannot participate in active employment measures or programs for professional education and training due to legal restrictions. In this context, mechanisms for validation of skills acquired after leaving the formal educational are missing. Among the consequences of such situations is the large informal "grey" economy, which "employs" people who do not have enough formal qualifications and who work outside the regulated labour market.

The lack of services and service providers that will support beneficiaries in the process of professional integration during the transition to the open market remains a challenge. The Employment Service Agency of the Republic of North Macedonia recently started providing employment support services (psycho-social and mentorship support) to GMA beneficiaries which should facilitate the inclusion of vulnerable groups in the labour market.

Health sector. Recent baseline reports (WHO and World Bank) contain health indicator comparisons with sub-regional and Balkan countries - EU comparisons are included to provide an indication of the distance to be covered by the country as an aspiring EU member.

Table 5.1: Indicators and Comparators

Indicator	North Macedonia	European Union
Life Expectancy at birth	75.9 (2018)	83.6 (2018)
Mean age	39.1	43.1
Population 65+	14.5	20.0
Maternal Mortality Rate (MMR)	7.0 (2017)	6.0 (2017)
Infant mortality rate	5.3 (2019)	3.5 (2018)

Sources: WHO, World Bank PHPCI, UNICEF

Non-communicable disease (NCD) accounts for an estimated 95% of all deaths: cardiovascular diseases (61%) and cancers (21%) are the main contributors with diabetes and chronic respiratory disease making up most of the balance. Increases in noncommunicable decrease social and economic resilience. This in turn will increase the risk of poverty and social exclusion and present long-term societal challenges to fiscal sustainability through many mechanisms. As per WB Systematic Country Diagnostic Report²⁸, North Macedonia may be losing an estimated 19,900 productive years annually to premature deaths from NCDs. NCDs also weighs on public spending as, for instance, every year more than 1% of GDP is spent on disability benefits and paid sick leave.

Having in mind that the population is aging, which impacts the health organisation and expenditures thereof, and because the medical care is oriented to hospitalisation due to underdeveloped primary care, in order to overcome these challenges of the health system it is necessary that adequate reforms are introduced in order to optimise the use of the resources and increase the effectiveness of the public health expenditures.

Outbreak of Covid-19 in 2020 has exposed the weaknesses of healthcare systems and the fact that when creating politics, health expenditures are considered as cost, not an investment. This global crisis didn't bypass the Republic of North Macedonia, and it additionally emphasised the challenges which the healthcare system is facing with, such as lack of trained healthcare providers, healthcare workers, lack of personal protective equipment, test kits and laboratories with the needed capacities, as well as the limited numbers of capacities with equipped isolation units intended for quarantine and treatment of patients.

²⁸<https://www.worldbank.org/en/country/northmacedonia/publication/fyr-macedonia-systematic-country-diagnostic-seizing-brighter-future-for-all>

In addition, the low level of expenditures for public healthcare - 6.58% of GDP in 2018 - compared to the European average of 9.9% of GDP, as well as expenditures of 399.10 USD (EUR 328.98) per capita in comparison to the European average of 3,524.71 USD (EUR 2,905.26) inevitably result in a relatively low number of healthcare workers, i.e. 421 nurses per 100,000 persons in North Macedonia which is far below the average of WB6, EU and STEE7, and even though the ratio of 2.9 out of 1,000 people is bigger than the WB6 of 2.3, it is below the average of STEE7 and EU.

In making comparison of hospital beds number, with 438 beds per 100,000 persons in 2018 North Macedonia is ranked lower than EU и STEE7, but the evidence of recent analysis²⁹ show an incredibly low use of hospital beds, facilities, departments and technology, as well as large variations in the performance compared to ALOS (average length of stay, per days) and ABO (Average Bed Occupancy, in %) of similar classified specialist consultative institutions and general hospitals. The decreased number of medical staff raise a question about the capability of health institutions to fulfil the accepted standards for quality and safety of medical services, especially the level of services provided by nurses.

In the World Bank Report³⁰, where healthcare expenses are associated with healthcare needs, it's stated that in the past 15 years, the constant decrease of public health expenditures as a share of GDP resulted in an increased financial burden falling on health care recipients, which additionally increases the difference in availability of health services to different categories of citizens.

Having in mind that the population in the country is ageing, which impacts the health organisation and expenditures thereof, and because the medical care is oriented to hospitalisation due to underdeveloped primary care, in order to overcome these challenges of the health system it is necessary that adequate reforms are introduced in order to optimise the use of the resources and increase the effectiveness of the public health expenditures.

The ambulatory care sensitive conditions are health conditions that can be effectively prevented, diagnosed and treated in primary health care. They include acute, chronic and vaccine-preventable conditions that do not require inpatient treatment if timely and appropriate primary care is received. Ambulatory care sensitive conditions are a proxy for the quality of care. Unnecessary hospital admissions suggest a lack of uniformity in health providers' patterns of referral and admission procedures.³¹

The role of a medic from the Primary Health Care (PHC) as a gatekeeper to specialists is not effective. High referrals rate from Primary to Secondary health care generates unnecessary workload to the specialists. Reasons for that are many, and according the interviews conducted with specialists, around 50% are inadequate referrals for health conditions that can be successfully treated at Primary level. Medical nurses don't have clear definition of the competencies and the scope of services they provide. Roughly 80% of the activities they conduct at primary level can be finished by an administrative clerk, which makes them more "secretary" of the office than health workers that take care for patients. The role of an administrative personal doesn't exist in the Primary care providers. There is no autonomy in the work of the medical nurses and they only support the work of the doctor. In light of the previous, the midwives are not controlling nor following the pre and post-birth care.

Clinical guidelines are published, but only small part of them are adapted to the local context and they should be up dated and adjusted to the Primary Health Care. There are no established clinical paths and criteria for referrals between the different health care levels (primary, secondary and tertiary).

The health information system has a huge amount of information related to the health care that patients receive in North Macedonia. Although all these data are in the system, the activities are not monitored and quality indicators are not defined. The e-health system still does not offer the ability to monitor quality. There is no mechanism available that can give feedback to selected medics about their work in relation to the results of their care. No quality improvement mechanisms have been identified, other than reporting activities to the Health Insurance Fund (HIF) and the Institute of Public Health. The payment system of health care providers and the information system do not encourage/support high quality care and effective coordination of service provision, both within the PHC and with other levels of care.

²⁹ Analysis of Secondary and Tertiary Health Care System Effectiveness E C r e f n° : 2 018 / 3 99 66 2 (S317-L4) project funded by The European Union

³⁰ *Sowing the Seeds of a Sustainable Future: Republic of Macedonia Public Finance Review*; World Bank Group March 2019.

³¹ https://www.euro.who.int/__data/assets/pdf_file/0009/403020/MKD-PHC-report-160519.pdf

Improved and equal access to education, health and labour market programmes, is essential for building human capital that matches to challenges arising of fast development of an economy in time of digitalisation and climate changes. Hence, the government developed a draft strategy for improving the human capital that provides for vision, priorities and measures till 2030. The Strategy aims to provide citizens with better living conditions, to encourage faster, more inclusive and sustainable economic growth, and to reduce the level of poverty through investments in three key sectors: education, health and social protection.

Some ways to pave the way towards increasing the quality of human capital include:

- finalise the development of the national assessment and set national targets for improving student learning outcomes;
- establish clear budgets to modernise the education system and support the implementation of policy reforms;
- monitor the employability of graduates from the VET project and the participation of employed and self-employed persons in continuous learning;
- continue improvements to working conditions and devise measures and activities to combat the informal economy;
- transforming health services in the direction of prevention and control of chronic diseases; and
- approve the final text of the Human capital strategy.

Measure 1: Further development of the qualification system

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11.

A novelty in educational reforms is the development of a new national assessment, which, among other things, will help to build strategies for students, early leavers from education, and to address their needs accordingly. With the introduction of the National assessment in the third grade, the conditions for the development and completion of the system for monitoring and evaluating the achievements of students at the national level in primary education will be met. National assessment is integrated into the Law on Primary Education and sets the legal framework for conducting national assessment.

Part of the reforms undertaken in secondary education is the establishment of Regional Centres for Vocational Education and Training, which are aimed at fostering an innovation culture at the regional and national level. For this purpose, in April 2022, the Concept for the development of Regional Vocational Education and Training Centres (RCVET) was officially adopted, in accordance with the Education Strategy 2018-2025. The concept started by conducting research on the educational supply and the demand for work skills in the labour market. In addition, consultations were held with international and national stakeholders. The importance of information exchange is also implemented within the framework of the social dialogue that the Ministry of Education and Science conducts with the business community, professional schools and local governments. That is, for the past two years, through the campaign "Study smart, work professionally", local needs for certain professional profiles have been identified, which are then part of the enrolment policy for secondary vocational schools. It was in cooperation with the business community that the value of the concept of dual education was confirmed. Last school year in all secondary vocational schools, we had 97 dual classes with 1,400 students in them. This year we have over 200 dual classes and 2,700 students. Last year there were 250 participating companies, and this year there are over 400 companies participating in WBL. Extensive research work has been done on the needs and demands in the five regions - (Skopje, Pelagonija, East, South-East and Vardar), which will represent a solid basis for strengthening the reform processes in the area of vocational education and training. A new Law on Vocational Education and Training was prepared in cooperation with the business community, chambers, companies, educational institutions, it was published for public consultation, and 4 (four) focus groups with representatives from vocational schools, municipalities and social partners were organised. According to the new Law which will be adopted in the next period, the dual education and the establishment of the Regional Centres for Vocational Education and Training are regulated in separate chapters. Additionally, a novelty is the establishment of procedures in cooperation with the companies for starting new educational profiles/qualifications, new curricula for vocational education and training or redefining the existing modules. As support for the new reforms the Ministry of Education and Science started implementation of the IPA project: Increasing

attractiveness, inclusiveness and relevance of VET and Adult Education. It is planned establishment and support of the two new Regional Vocational Education and Training Centres, additionally it is foreseen the development, upgrading and implementation of the procedures for validation of non-formal and informal learning as an important path to the quality of adult education, development and implementation of post-secondary education programmes and harmonisation of national VET and adult education systems with EQAVET+.

Amendments on the NQF Law are in final stage, relevant stakeholders have given their opinion on the draft version. This Law is closely connected to the Law on vocational education and training in the part of the functionality of the Sectorial councils and the VET Council regarding procedure for development and adoption on new occupational standards. Additionally, IT equipment for NQF purposes is being provided, delivered and tested in the premises of the MoES.³²

The Ministry of Education and Science is in charge of this measure.

a. Planned activities in 2023

Planned activities	Responsible institution
Adoption of a new Law on vocational education and training with separate chapters for Regional VET Centres and dual education	Ministry of Education and Science, VET Centre
Adaptation and reconstruction of 3 Regional VET Centres	Ministry of Education and Science, VET Centre
Development of Standards for higher education qualifications, primarily for professions in the field of education, such as pedagogue, psychologist, caregiver, educator	National Qualifications Framework Board; Ministry of Education and Science; Higher education institutions
Establishment of 5 sectoral commissions: for geology, mining and metallurgy, art, graphic design, forestry and wood processing and for sports and recreation	National Qualifications Framework Board
Adoption of amendments of the NQF Law	Ministry of Education and Science
Preparatory activities for evaluation and adoption of a bylaw on methodology for evaluation of qualification standards registered in the Register (validity period 4 years)	National Qualifications Framework Board; Ministry of Education and Science
Rulebook that determines the professional and scientific titles, in accordance with the Law on Higher Education	National Council for Higher Education and Scientific Research

b. Planned activities for 2024

Planned activities	Responsible institution
Transversal skills training at the request of employers	Employers; Providers of educational services
Establishment of a system for validation of non-formal education for acquiring specific qualifications - recognition of previous learning	Ministry of Education and Science, VET Centre, AEC
Development and implementation of programmes for post-secondary education and harmonisation of the national VET and adult education systems with EQAVET+.	Ministry of Education and Science, VET Centre, AEC
Further implementation of the NQF as a basis for achieving a coordinated and more efficient quality assurance system of the process for developing qualifications, validation and accreditation	National Qualifications Framework Board; Ministry of Education and Science
Alignment and harmonisation of the NQF digital register with other national and international registers	National Qualifications Framework Board; Ministry of Education and Science
Proposal - national program for higher education	National Council for Higher Education and Scientific Research
Proposal - national program for scientific-research	National Council for Higher Education and Scientific Research
Proposal - decree on calculations and criteria for financing higher education	National Council for Higher Education and Scientific Research
Proposal - decree on calculations and criteria for financing scientific-research activity	National Council for Higher Education and Scientific Research

c. Planned activities for 2025

Planned activities	Responsible institution
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³² <https://cfd.finance.gov.mk/tenders/publicTender/detailedTender/284?tab=latestPublications>

Establishment of a system for validation of non-formal education for acquiring specific qualifications/recognition of previous learning	AEC; Special accredited institutions for validation of non-formal education
Development of 5 qualifications at level V - specialist and post-secondary education for the needs of the labour market and the possibility of self-employment for trades	National Qualifications Framework Board; Sectoral commissions; Ministry of Education and Science; VET Centre; Crafts Chamber, AEC, Providers of educational services
Strengthening the quality assurance aspect of education and training in the context of lifelong learning	National Qualifications Framework Board; Sectoral commissions; Ministry of Education and Science; VET Centre; Crafts Chamber, AEC, Providers of educational services
RCSOO in some of the other 5 regions in the country	Ministry of Education and Science, VET Centre, AEC
Proposal - national program for higher education	National Council for Higher Education and Scientific Research
Proposal - national program for scientific-research	National Council for Higher Education and Scientific Research
Proposal - decree on calculations and criteria for financing higher education	National Council for Higher Education and Scientific Research
Proposal - decree on calculations and criteria for financing scientific-research activity	National Council for Higher Education and Scientific Research

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Intermediate target (2022)	Intermediate target (2023)	Target (2024)	Target (2025)
Ratio of students enrolling to VET schools compared to general education	58%-42%	60.3%-39.7%	62%-38%	64%-36%	64%-36%	64%-36%
System for VNIL	-	Piloting 1	Piloting 2	Piloting 3	Efficient system for validation	Established system for validation
Number of established Regional VET Centres	Adoption of changes in the Law	Refurbishment and Transforming 3 VET schools	Functional 3 Regional VET centres	Purchase of equipment and development of programmes for 3 regional VET Centres	New 2 Regional VET centres established	Functional 5 Regional Vet Centres
Ratio of participation in Life Long Learning (from 25 - 64 participating in education or training) (%)	2.8	3.0	3.0	3.1	3.2	3.2
Ration of early leavers from education and training at age 18 – 24 (%)	7.1	7.0	7.0	6.9	6.8	6.7

3. Expected impact on competitiveness

Employees with higher qualifications will provide for higher efficiency and productivity in the companies and reduce the cost of training of employees for further qualification. The measure will contribute to reducing the inadequacy of education and labour market needs, acquiring skills and competences that will meet labour market needs, recognising acquired qualifications in the state by foreign investors and recognising qualifications acquired overseas by domestic employers, which will help for easier employability of job seekers.

4. Estimated cost of the activities and the source of financing

In EUR	2023	2024	2025
1. Budgetary expenditures*	4,048,502	4,208,502	4,208,502
2. Non-budgetary financing	1,523,502	1,523,502	1,523,502
2.1 of which IPA funding, including WBIF funding	1,523,502	1,523,502	1,523,502
Total	5,572,004	5,732,004	5,732,004

* national public finance sources

This measure is financially supported by IPA 2019 – sectoral budget support.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Increasing the quality of curricula will lead to the acquisition of knowledge, skills and competences that will enable smooth transition from school to work. Additionally, strong transversal skills acquired as a result of new reformed curricula will contribute to better mobility of the workforce and career development. Most of the companies in North Macedonia are SMEs that do not have the capacity to recognise and develop the potential of their employees, so the NQF as a "focal point" for all stakeholders will contribute to better recognition of the necessary skills and competences. On the other hand, through the increased operability of the NQF, the employability, mobility and social integration of workers and students will increase.

6. Expected impact on the environment

The measure is expected to have neutral impact on environment.

7. Potential risks

Risks	Probability (low or high)	Planned mitigating action
Strengthening the framework for NQF	Low	Establishment of supporting bodies for support of NQF (sectoral commissions) where the Organisation of Employers, trade unions, students, higher education institutions, government institutions, associations, etc. are involved
Insufficient interest of the relevant parties, particularly employers, whose opinions and suggestions are crucial	Low	Awareness raising for the role of NQF; Finding adequate instruments to motivate employers

Measure 2: Increasing the flexibility and security of the labour market

1. Description of the measure

This measure continues from the previous year, and the implementation details are presented in Table 11. As additional consultations were needed to harmonise the proposal of the new Law on Labour Relations, previously determined deadlines for the activities planned to be realised by the end of 2022 have been prolonged and they will be completed in 2023.

The measure aims to contribute to improving the labour market and employment situation in the Republic of North Macedonia, through specific interventions that will lead to:

- Improving and further promoting of the labour market flexibility, through interventions in the area of labour legislation, which will enable further regulation of the legal framework regarding under-represented and non-standard forms of work and employment contracts.
- More efficient and more effective functioning of the labour market through modernising the legal framework that regulates the employment measures and labour market services and the entities that implement them.
- Additional expansion of the coverage and access of youth, women and various vulnerable groups of citizens to the active employment programmes and measures and labour market services; in this part, this measure is complementary with the measure "Enhancing the system for social inclusion of vulnerable groups", that is, the part of the activities that refer to the "Labour Market Activation of Vulnerable Groups".

This measure entails reforming and enforcing the core labour market legislation under the competence of the Ministry of Labour and Social Policy that is the Law on Labour Relations (LLR) and the Law on Labour Market Regulation. While the Employment Service Agency is the main implementing institution, the State Labour Inspectorate is in charge of enforcement of the LLR.

There is an increasing need, for both employers and workers, for new and non-standard forms of employment such as telework and work from home to be introduced and implemented due to the substantial changes we are witnessing regarding the way we work which includes up-to-date technologies and digital forms of communication. In addition to the relatively low representation of these forms of work in the Macedonian labour market, the health and economic crisis, caused by the COVID-19 pandemic, has increased the need for introduction and appropriate regulation and implementation of telework and work from home, which, among other things, represent an effective mechanism for protecting workers at the workplace, including their safety and health at work. The lack of regulation of these issues in the existing Macedonian labour legislation creates a legal vacuum in the application of telework and work from home and causes legal uncertainty for both employers and workers.

With a view to overcome these situations, which is expected to contribute to the general improvement of the labour market situation, these issues have been addressed in the draft text of the new *Law on Labour Relations*. The preparation of the new LLR is in the advanced stage, whereby after its adoption activities will be carried out to ensure practical application, promotion of novelties, monitoring of the application and effects, and so on.

The *Law that regulates the labour market*, and the work of the Employment Service Agency of the Republic of North Macedonia, in particular, is also being reformed. The new Law regulates the active employment policies and measures (AEPM) in detail and defines the entities that implement the AEPM and the labour market services. The Law provides for contracting of external service providers, and establishes the procedure for their selection. Lifelong career counselling is introduced among the services offered by the Employment Service Agency, which can be provided by other entities that meet the requirements of the law. The employment brokerage performed by the Agency is being regulated in more detail. Employers' associations, chambers of commerce and trade unions will be able to establish foundations in order to carry out activities to improve employment opportunities at the national, local or branch level.

Furthermore, observations from the Council of Europe and the International Labour Organization (ILO) have been received on several occasions regarding the length of the periods of use of unemployment cash benefit, which, compared to the European ones, are too short and insufficient to serve their purpose. The new Law provides for the relaxation of the conditions for exercising the right to unemployment cash benefit and an increase of the current 1 month minimum duration of using the cash benefit to 3 months, and of the current 12 months maximum duration to 24 months.

The Ministry of Labour and Social Policy is in charge of this measure, in cooperation with the Employment Service Agency and the State Labour Inspectorate.

a. Activities planned for 2023

- Adopting a new Law on Labour Relations and preparing bylaws in compliance with the new Law;
- Activities for promoting the legal changes to the labour law aimed at increasing the labour market flexibility (non-standard forms of employment contracts, repetitive seasonal work, telework, work from home and so on);
- Organising education, trainings/seminars on the application of the new legal provisions for labour inspectors, employers' organisations, trade unions, Employment Service Agency, Public Revenue Office and other institutions, etc.;
- Adopting a Law on Labour Market Regulation and preparing bylaws in compliance with the new Law.

b. Activities planned for 2024

- Monitoring and evaluation of the application and efficiency of the new legal provisions regarding the increase of the labour market flexibility;
- Adoption of by-laws for the application of the Law on Labour Market Regulation.

c. Activities planned for 2025

- Monitoring and evaluation of the application and efficiency of the new legal provisions regulating the labor market.

2. Results indicators

Presented indicators measure the expected labour market outcomes from the labour legislation reforms, especially among women and youth.

Indicator	Baseline (2021)*	Intermediate target (2025)**	Target (2026)**
Employment rate (20-64) - TOTAL	59.5%	60.0%	61.0%
Employment rate (20-64) - WOMEN	49.2%	49.6%	50.0%
Employment rate (15+)	47.2%	48.4%	49.5%
Unemployment rate of young people (15-29)	27.6%	27.0%	24.0%
Long-term unemployment rate	12.5%	12.0%	10.0%

*Source: State Statistical Office, Labour Force Survey (LFS)

** MLSP estimates. Target years shall be 2025 and 2026 as it takes time for the labour legislation reforms become effective in improving labour market outcomes as reflected in the official statistics

3. Expected impact on competitiveness

The successful implementation of this measure is expected to have direct impact on the competitiveness of the labour market for those who are unemployed and who belong to specific groups of vulnerable citizens through the measures aimed at increasing their employability, their activation and easier inclusion in the labour market. The measure will contribute to increasing the employment rate and decreasing the unemployment in the country, thereby also increasing the competitiveness of the Macedonian economy.

At the same time, the aspect of this measure on increasing the labour market flexibility and regulating the legal framework for the non-standard and thus far underused forms of work and employment contracts, should in turn contribute to improving the competitiveness of certain companies and businesses that would increase the use and application of these forms.

Looking from employers' perspective, for some employers, non-standard employments are a useful tool for greater flexibility, reduction of fixed costs especially in times of high uncertainty, whereas for others it is the only way to find the needed workforce. This is particular relevant, having in mind that the last two decades are characterised by transition from an excess supply of workers to a tight labour market with a lack of workers as reported by employers. ILO research has shown, however, that the extensive use of non-standard employment may also result in challenges for employers due for instance to increased absenteeism, possible conflicts between permanent and temporary staff, etc. Therefore, the new Law on Labour Relations intends to encourage the new forms of work organisation in such a way that flexibility and security go together and the quality of jobs and hence performance is enhanced.

The new Law on Labour Market Regulation will strengthen career counselling and employment brokerage of the Employment Service Agency, which should eventually result in more relevant workforce supply for the employers. This is complemented by the opportunity of employers' associations, chambers of commerce and trade unions to get engaged in activities aiming at improving the employment opportunities at the national, local or branch level.

4. Estimated cost of the activities and the source of financing

In EUR	2023	2024	2025
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	45,000**	0	0
2.1. of which IPA funding, including WBIF funding	0	0	0
Total	45,000	0	0

*national public finance sources

**International Labour Organisation (ILO) funding

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The measure has a direct impact on employment as reflected in the selected results indicators and on improving the opportunities for decent employment in the labour market in the Republic of North Macedonia. And of course, through that, on improving the social status and the socioeconomic situation and position of the persons who will be directly covered and affected by the implementation of the planned activities, both in regard to the flexible and non-standard forms of employment, and the persons that will be covered by specific active programmes and measures for employment and measures for activation in the labour market.

For some workers, the non-standard employment is a choice as it brings greater flexibility in working hours, own organisation of the work, higher earnings, etc. This is true for young men and women who are mostly engaged as online platform workers. However, for plenty of workers the non-standard employment is the only option for earning an income which is also associated with low (or non-existent) labour and social protection. Regulation of the non-standard employment forms that are not formally an employment relationship will enable workers to benefit from the labour protection and rights such as minimum wage, social security coverage, paid sick leave (and maternity leave), safety and health at work, etc. Persons with disabilities may well benefit from the non-standard work, which includes usage of information technology.

The incidence of home-based work is higher among women. In principle, home-based work and telework is expected to help more women to combine their duties around home and taking care of children and elderly with developing a professional career.

One of the basic principles that are always respected and observed in the design, but even more so in the implementation of specific active employment measures is the equal gender representation. One of the special priority target groups to which the active employment programmes and measures and the integrated activation measures are directed, are the persons who are in an unfavourable social position, primarily the young people not in employment, education and training as well as the beneficiaries of guaranteed minimum assistance, who also tend to be long-term unemployed. The new Law on Labour Market Regulation will allow for more targeted services and support for these clients of the Employment Service Agency. Employment, improving employability, their integration into the labour market and improving the economic status of these citizens, have a direct impact on the poverty and social exclusion situation. Likewise, easier access to the unemployment insurance cash benefit and the extension of its minimum and maximum duration of use will improve the income security of the people who lost their jobs.

6. Expected impact on the environment

The implementation of this measure is not expected to have immediate environmental impacts, except in the area of the specific measures and programmes for encouraging employment and job creation in the so-called "green" economy and/or the acquisition of skills leading to "green jobs". In addition, teleworking and work from home may lead to energy saving and less CO2 emission – they allow for saving time and costs on travel to and from work/parking/maintenance.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating actions
Lack of interest and/or existence of mistrust among businesses about using more flexible and non-standard forms of work and employment	low	It is necessary to realise specific activities aimed at raising awareness and promoting these forms of work and motivating employers and workers to use them
Lack of human and other capacities and resources in the Employment Service Agency to efficiently implement active measures in the labour market	high (medium)	Realising new employments, trainings employees, improving physical capacities and work processes in the Employment Service Agency of the Republic of North Macedonia
Failure to adopt the envisaged laws	medium	Adjusting the strategy (meaning the planned activities) for unforeseen situations and priorities according to the newly developed situation

Measure 3: Enhancing the system for social inclusion of vulnerable groups

1. Description of the measure

This measure continues from last year, the details of the implementation are presented in Table 11.

The measure arises from and builds on the reform of the social protection system whose aim is to reduce poverty, especially for the vulnerable categories and their successful reintegration into society. The measure is complex and includes several parallel activities that complement each other and are important for supporting the activation and social inclusion of people in a vulnerable position, and of youth in particular. Moreover, there is a need to further deepen the cooperation between the employment and social work services, in order to better profile and support the transition of people in a vulnerable position (e.g. youth, persons with disabilities) from welfare and inactivity to work. At the same time, the conditions and the capacities of the private and non-government social service providers, including social enterprises also need to improve, as these providers could also be involved in outreach activities with vulnerable groups and facilitating their transition to the labour market. In addition, it is important to enact the law on social enterprises, which will enable the development of enterprises for work integration, which will help to develop skills of people who are far from the labour market. The professional rehabilitation as a precondition for successful inclusion of persons with disability and other vulnerable individuals into the open labour market needs to be promoted, and the provision of this service by external service providers, including social enterprises shall be regulated.

Validation of informal and experiential learning is an important way to reduce the shortage of appropriate skills in the labour market. It also facilitates the integration of vulnerable groups and unemployed and low-skilled people into the formal economy. Once the validation system is established, the adult education will be linked with the Employment Service Agency and through various programs persons without education who are registered with the Employment Service Agency will be able to complete the education and thus their employability will be improved.

Social services are central to ensuring equality in opportunities leading to better human capital outcomes for all, poor and vulnerable population in particular. Hence, the measure furthers the expansion of the coverage and range of social services across municipalities. It also sustains the reform of the management and quality assurance of social services.

The Ministry of Labour and Social Policy is in charge of this measure.

The activities covered by the measure are grouped into two components:

I. Inclusion of vulnerable groups through activation

a. Activities planned for 2023

- Adopting the Law on Employment and Insurance Against Unemployment whose provisions enable the provision of supported employment services by various service providers;
- Adopting the Law on Social Enterprises, which creates ground for social enterprises that focus on improving employment prospects for the vulnerable population;
- Adopting the Law on Employment and Professional Rehabilitation of Persons with Disabilities and by-laws regulating employment, including the professional rehabilitation of persons with disabilities;
- Developing a single system (methodology and procedures) for disability assessment;
- Implementing the active employment measure "Care economy" through establishing new services for home assistance and employment support for unemployed persons;
- Activation of youth who are members of families beneficiaries of GMA through offering trainings, re-qualifications and employment envisaged under the Youth Guarantee;
- Adopting a new Law on Adult Education which will provide the basis for establishing a system for validating of informal and nonformal learning and will improve the visibility and transparency of the skills and competencies of the workforce.

b. Activities planned for 2024

- Establishing centres for professional rehabilitation of persons with disabilities;
- Developing social enterprises for social integration and professional training of persons who are farthest from the labour market;

- Activation of youth who are members of families beneficiaries of GMA through offering trainings, re-qualifications and employment envisaged under the Youth Guarantee;
- Developing centres for validation of the attained knowledge and introduction of measures for re-qualification and retraining in order to provide a qualified workforce according to the needs of the labour market.

c. Activities planned for 2025

- Developing and supporting the centres for professional rehabilitation of persons with disabilities;
- Further developing and supporting social enterprises for social integration and professional training of persons farthest from the labour market;
- Activation of youth who are members of families beneficiaries of GMA through offering trainings, re-qualifications and employment envisaged under the Youth Guarantee;
- Continuing the activities for validation of the prior knowledge and implementing measures for re-qualification and retraining in order to provide a qualified workforce according to the needs of the labour market.

II. Improving the availability of quality social services

a. Activities planned for 2023

- Developing new software that integrates cash benefits and social protection services;
- Preparing a Rulebook on co-payment to the price of social services;
- Developing local community social services in 10 additional municipalities;
- Transforming residential institutions for persons with disabilities, opening of new services in the local community intended to support the independent living of persons with disabilities and their active inclusion in society and employment support;
- Adapting and transforming the Public institution - Institute for rehabilitation of children and youth with disabilities – Skopje into a modern centre which will offer social services for children/persons with disabilities in the local community.

b. Activities planned for 2024

- Testing and putting into use the new software that integrates cash benefits and social protection services;
- Further developing the system for monitoring, supervision and quality assurance of social services in line with national social services quality standards, through developing quality standards, appropriate monitoring procedures and mechanisms, for all types of social services provided in the Law on Social Protection. Implementing the employment measures in the area of care economy/development of social services providers according to the needs of the citizens.

c. Activities planned for 2025

- Continuing the activities for further development of the system for monitoring, supervision and quality assurance of social services provided in the Law on Social Protection.
- Implementing the employment measures in the area of care economy/development of social services providers according to the needs of the citizens.

2. Result indicators

Indicator	Baseline	Intermediate target (2025)	Target (2026)
Poverty rate ³³	21.8% (2020)	21%	20.5%
% of people living in households with very low work intensity	15% ³⁴ (2020)	14.8%	14.5%

³³ <https://makstat.stat.gov.mk/>

³⁴ https://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat/MakStat_ZivotenStandard_LaekenIndikatorSiromastija/375_ZivStd_Mk_LaekenINTENZITET_m.l.px/table/tableViewLayout2/?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef

(0-59)			
% of severely materially deprived people ³⁵	28.6% (2020)	-	28%
Number of licenced services	69	80	100

3. Estimated cost of the activities and the source of financing

The funds for implementation of the activities are estimated to EUR 44,906,000 for 3 years covering the costs forestablishment and running of the supported employment and social services.

In EUR	2023	2024	2025
1. Budgetary expenditures*	14,937,000	14,169,000	13,400,000
2. Non-budgetary financing	1,100,000	1,000,000	300,000
2.1 of which IPA funding, including WBIF funding	1,100,000	1,000,000	300,000
Total	16,037,000	15,169,000	13,700,000

*National public finance sources

4. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Linking cash transfers with the measures for labour market activation and social services contributes to exiting the poverty circle, economic strengthening and social inclusion, i.e. achieving the target poverty rate of 20.5% in 2026 as well as decreasing the percentage of severely materially deprived people to 28%. The measure will contribute to optimal utilisation of financial resources for the provision of social services.

Furthermore, the social services sector is labour intensive, hence its growth has a potential to create a great number of jobs that attract dominantly women. Hence, the development of the care economy through pluralisation of service delivery, enables employment of care givers and support for vulnerable groups of citizens, especially in regions without industry and with high concentration of older population. Moreover, social enterprises may play a significant contribution in local economy through job creation, improving quality of life and provision of quality social services. An important aspect of the quality of services is the hiring of care givers with a regulated employment relationship which is important to promote decent working in this sector and to ensure access to quality social and health care.

Improving the availability and access to social care services is essential on its own if women are to have equal opportunities in the labour market. Most of the newly created services are provided to the elderly. Traditionally, the care for the frail members of the household falls to women, so the availability of services for provision of care to the elderly and frail and persons with disabilities is important for balancing work with family responsibilities. Within this measure, appropriate activities are planned to strengthen the capacities and employability of women from vulnerable categories. Gender equality will be respected in the implementation of this measure. It is expected to contribute to an increase in the employment rate of women to 50% (the target value for 2026 as set in measure 2 of this program).

It is in the common interest of the Ministries of Labour and Social Policy and Education and Science to establish a system for validation of formal, informal and informal learning. The system for validation of formal, non-formal and informal learning will enable the acquisition of qualifications of non-skilled or low-skilled persons, thereby their greater participation in the labour market is expected, with the ultimate aim of reducing the unemployment rate in the country. Thus, the visibility and transparency of the skills and competencies of the labour force will be improved in the labour market that lacks qualified workers.

5. Expected impact on the environment

Reducing poverty and social exclusion has an impact on the lifestyle of the population (e.g. by using energy that is less harmful to the environment) and creates conditions for improving the environment.

6. Potential risks

Risk	Probability (low or high)	Planned mitigating actions
Stakeholder resistance	High	Consultations and dialogue with employers and their associations, as well as with the association of

³⁵ Ministry of Labour and Social Policy, Register of social providers of social services

		sheltered companies; Gradual reduction of the benefits for sheltered companies and their inclusion as providers of professional rehabilitation
Low interest by the municipalities for service development and lack of human potential	Low	Direct contacts with all municipalities, organising roundtables, focus groups, development of measures for retraining the unemployed persons for services delivery
Untimely implementation of a new software solution for social protection rights and services	Medium	Detailed process monitoring
Resistance in maintaining the cooperation between the Centres for Employment and the Centres for Social Work regarding activation of vulnerable groups	Medium	Monitoring, coordination and dialogue between the institutions and introduction of clear rules of interinstitutional cooperation
Failure to adopt the envisaged laws	Medium	Adjusting the strategy for unforeseen situations and priorities according to the newly developed situation

Measure 4: Strengthening the quality of the Primary Health Care

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11.

The focus of the measure is the reform of the primary health care³⁶, which should encourage treatment of certain health conditions on primary level and reduction of number of referrals to a higher level of health care that will lead to decrease the cost.

Health indicators show that the mortality rate from chronic diseases (cardiovascular disease, diabetes, cancer, kidney disease) in our country is 70% higher than the average in the European Union. The fact that the Coronavirus has the strongest consequences in people with existing chronic conditions and diseases, once again confirms that all stakeholders in the health system must constantly strive to improve the health of the population in the long run. Therefore, GPs are the backbone of these efforts, which will be a process, not a moment in time.

The main goal of starting the reform process in PHC is to improve the quality of primary health care through the reform of the payment model of primary health care, which should encourage and ensure the improvement of prevention, definition and application of standards for the provision of services in accordance with evidence-based medicine, developing guidelines and protocols, encouraging the handling of certain conditions at the primary level and reducing the degree of referral to a higher level of health care, a greater number of doctors from general practice who will have specialisation in family medicine, encouraging the realisation of certain health services by nurses and facilitation of administrative work.

The electronic system of "My Appointment (MojTermin)" was established in 2015 and its main objective is to create a system for scheduling and electronic health records. In order to improve the referral system, through the measure, the platforms planned to be upgraded with a new module for smart referrals through E-clinical guidelines to help making service decisions and improve coordination with secondary health care; Upgrading a new module for patronage nurses in the system "MojTermin" for easier monitoring and connection of the patronage service with the selected doctor and selected gynaecologist and also at a later stage and introduction of a tool for generating reports on public health that are necessary for the operation of the Institute of Public Health (IPH) and the Centres for Public Health (CPH), as well as the introduction of a tool for generating reports on the quality of services necessary for the preparation of performance analyses of health institutions.

Stakeholders of the process of implementation of the reforms in the primary health care are:

- The Ministry of Health and the Directorate of Electronic Health
- The Health Insurance Fund and
- Professional associations.

³⁶<https://documents1.worldbank.org/curated/en/595391593096242357/Assessment-of-Primary-Health-Care-Capacity.docx>

The Health Insurance Fund, together with the Ministry of Health and experts, is implementing a process called "Reforms in Primary Health Care" with expert support. The aim of these activities is to improve the health of the population by improving the quality of primary health care and providing comprehensive primary care. The strategic provision of the FZO is for this process to grow into a regular activity of monitoring, evaluating and improving primary health care, with strategically determined activities, which are correlated with the overall health policy of the state, putting the health of the population in focus. This process is directly related to the priorities of the Health Strategy of the Republic of North Macedonia for the period 2021-2030.

In order to successfully implement the reform and mitigate the risks, it is necessary to continuously implement campaigns to raise the awareness of the population and familiarise them with the changes in the work of PHC.

a. Planned activities for 2023

1. Development of protocols for the selected primary care general medicine physicians for the five most common non-communicable diseases: diabetes, asthma, COPD, hypertension and hypothyroidism;
2. Development of protocols for the selected primary care gynaecologists for prenatal care³⁷, cervical cancer and family planning³⁸;
3. Development of protocols for the selected primary care paediatricians for obesity in children and spinal deformities;
4. Development and codification of a List of interventions that can be provided by the selected PHC doctors;
5. Providing specialisation in family medicine for at least 20 doctors who already work as selected primary care doctors;
6. Amendments to relevant laws and bylaws;
7. Upgrading of software modules in the system of "My appointment" for code of interventions, protocols and forms that should be filled in by the selected doctors when providing health services;
8. Conducting a public campaign related to the developed PHC protocols;
9. Equipping the departments of at least 300 of the selected family medicine specialists with a set of vital signs (otoscope, rhino scope, ophthalmoscope, blood pressure monitor, stethoscope), ECG and inhaler.

b. Planned activities for 2024

1. Establishment of a national body for implementation of PHC reforms;
2. Development of protocols for the selected general medicine doctors from the primary health care for three additional diseases;
3. Development of additional protocol for the selected primary care gynaecologists;
4. Development of additional two protocols for the selected primary care paediatricians;
5. Providing scholarship for specialisation in family medicine for at least 100 doctors who already work as selected doctors;
6. Development/adaptation, application and revision of ten clinical guidelines based on evidence-based medicine, through the National Steering Committee for Clinical Guidance;
7. Equipping the selected family medicine doctors with spirometer and ultrasound devices - in average one spirometer and one on ultrasound device per group of three doctors per region;
8. Equipping the selected primary care gynaecologists with 4D ultrasound devices (60 devices regionally distributed) and establishing a process for their horizontal collaboration, financial incentive (stimulation) for second nurse/administrator and incentives of the selected physicians who are specialists or specialising in family medicine;
9. Equipping the offices of the other 1,200 selected primary care doctors with vital signs equipment (otoscope, rhino scope, ophthalmoscope, blood pressure monitor, stethoscope), ECG and inhaler;
10. Continuation of the public campaign related to the developed PHC protocols;
11. Upgrade modules to "My appointment":
 - Introduction of a new module for smart referrals, through E-clinical guidelines will help in making decisions about the services and will improve the coordination with the secondary healthcare;

³⁷The Guideline for pre-natal care is adopted in 2014; it's adaptation for use within this reform is to be completed.

³⁸The protocol for family planning for PHC was developed in 2020/2021, as part of the overall "National guideline for family planning". It is still waiting its adoption

- Introduction of a new module for patronage nurses in the system "My appointment".
- Creating a new profile - nurse in PHC.
- Development of an electronic scheduling system for PHC.

12. Conducting training for the use of the new modules on "My appointment".

c. Planned activities for 2025

1. Development of additional protocols for the selected general medicine doctors from the primary health care for five additional diseases;
2. Development of additional protocols for the selected primary care gynaecologists;
3. Development of additional protocols for the selected primary care paediatricians;
4. Providing scholarships for for specialisation in family medicine for at least 100 doctors who already work as selected doctors;
5. Development /adaptation, application and revision of six clinical guidelines based on evidence-based medicine, through the National Steering Committee for Clinical Guidance. Providing financial resources for the work of the Committee and preparation of the clinical guidelines;
6. Continuation of education of the population for prevention of non-communicable diseases through electronic and written media;
7. Continuation of the public campaign related to the developed PHC protocols;
8. Financial incentive (stimulation) for second nurse/administrator and incentives for selected doctors who are specialists or for a specialisation in family medicine;
9. Upgrade to 'My appointment' through:
 - Introduction of a population health reporting tool;
 - Introduction of a tool for reporting on the quality of services.

2. Results indicators

Indicator	Baseline (2021)	Intermediate target (2024)	Target (2025)
Reduction in referral to a higher level of health care for services that can be performed by the family doctors	-	Reduction by 25% compared to 2020	Reduction by 50% compared to 2020
Percentage of patients with chronic non-communicable diseases (diabetes, hypertension and hypothyroidism) who are monitored at the primary level	0	30%	50%
Percentage of patients who underwent preventive examination for timely detection of the diseases	0	30%	60%

3. Estimated costs for the activities and source of funding

Funds for the implementation of the measure are estimated at EUR 16,701,800.

In EUR	2023	2024	2025
1. Budget funding*	886,000	8,962,500	6,853,300
2. Non-budget funding	0	0	0
2.1 of which IPA funds including WBIF funds	0	0	0
Total	886,000	8,962,500	6,853,300

* National sources of public finance

4. Expected impact on social outcomes such as employment, poverty reduction, gender equality and access to health services

The measure is expected to have a positive impact on increasing the number of employments of nurses and administrative and technical staff in PHC, to encourage equalisation of coverage with health services in all regions of the country and to strengthen the patronage service which will lead to more accessible health care especially for the vulnerable categories of citizens.

5. Expected impact on the environment

The measure will increase the awareness of the population for a healthy lifestyle through preventive activities, screenings and regular monitoring of chronic conditions in PHC and will indirectly affect the change of lifestyle,

which means the use of alternative means of transport to prevent cardiovascular disease and diabetes and thus will improve the environment.

6. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient coordination, involvement and commitment among all relevant stakeholders to ensure that all institutions and their staff are aware of their responsibilities	Low	The Government will oblige all relevant state bodies to cooperate and provide all necessary information, as well as human and financial resources for successful implementation and ensuring the sustainability of the project.
Citizens' distrust in using specialist services with family doctors	High	Conducting media campaigns to increase trust in family doctors
Long-lasting process of transition from the concept of selected doctor to family doctor and lack of motivation for specialisation of doctors	High	Conducting additional education of family doctors in alternative ways through trainings and specialisations and their stimulation by the state

2) Fostering the green transition

According to Commission Assessment of ERP 2022-2024, North Macedonia as a country with high energy intensity, inefficiency and aging energy system, inefficient energy consumption. Renewable energy still only accounts for a relatively small share of power generation and hydropower is the most exploited renewable source of energy. While energy transition and the sustainability of the energy system are priorities in the government programme, implementation will be challenge and needs to be accompanied by institutional capacity.

As a Non-Annex-I signatory to the United Nations Framework Convention on Climate Change (UNFCCC) and its Paris Agreement, and a party to the Kyoto Protocol, North Macedonia undertakes regular activities to reduce greenhouse gas emissions and limit global warming. The country adopted a new Law on Energy and a Law on Energy Efficiency, which contain climate change mitigation measures mainly relating to the energy sector. Country's **transition to renewable sources** was going slow, leading to a downward revision of the renewable energy target from 28% to 23.9% of gross energy consumption in 2020 (UNECE, 2019). Some progress has also been made in aligning country's legislation with the EU acquis, in particular by establishing greenhouse gas monitoring and reporting mechanisms. Macedonian authorities plan to adopt a long-term strategy on climate action with a time horizon to 2050, which will consider the introduction of a carbon tax as a measure to reduce greenhouse gas emissions.

The country made only limited progress towards achieving a **circular economy**, with the recycling rates being extremely low at less than 1% of solid waste being recycled and almost 99% going to landfill (Eurostat, 2020). However, an increase from 27.08% in 2014 to 47.21% in 2018 has been observed in the recycling of packaging waste, despite the limited economic incentives to promote recycling (MAKStat, 2020). North Macedonia currently generates 456 kg of municipal waste per capita, which is less than the EU average of 492 kg per capita, but it has been increasing since 2014 (Eurostat, 2020).

A number of bodies are responsible for **waste management**, but there are issues with communication, and there is a lack of efficient coordination mechanisms. Lack of staff and financial resources among these bodies impede the implementation of measures. These are recognised issues which the government intends to tackle in the new National Waste Management Strategy 2024-2036 (the previous one was for period 2008-2020). There is a need to enforce measures to establish regional waste management system, in particular in the East and Northeast region (EC, 2020).

North Macedonia's **air quality** has been a moot point for a long period of time. Air quality above North Macedonia is monitored regularly with real-time data available on the national air quality web page. Although air quality has improved over the past decade, the economy still has one of the highest air pollution levels in Europe. In particular, there are high concentrations of fine particulate matter (PM 2.5), which during the winter period greatly exceed the national limits, as well as those set by the WHO and EU. For instance, the annual mean exposure to PM 2.5 is 33 µg/m³, which is more than three times the recommended highest levels by WHO, significantly above the EU average of 13.1 µg/m³ and somewhat higher than the WB6 average of 25.77 µg/m³ (World Bank, 2020a). The country has adopted a Plan for Clean Air (2019-2020), whose main objectives are to raise public

awareness about the need for air quality improvement and reduction of PM emissions, primarily through the introduction of energy efficiency measures in households and public buildings.

Another problem that the country suffers from is the underdeveloped **water supply and sanitation system**. Water pollution as a result of an insufficiently treated industrial and municipal wastewater is a major concern, which has aggravated during the COVID-19 pandemic as the deterioration of environmental health through poor water management and sanitation may increase the vulnerability of communities to the virus (OECD, 2020a). There were 24 wastewater treatment plants under operation in 2019, which accounts for 24.5% of the required capacity (UNECE, 2019). Skopje as the country's capital still lacks a wastewater treatment plant, whose construction is expected to start in 2023.

Measures whose implementation is inevitable to foster green transition include:

- efforts in diversifying energy supply;
- increase the share of renewable energy sources and to swiftly proceed with measures to improve energy efficiency;
- establish a platform in order to get all stakeholders involved in the development of a circular economy;
- improve the co-ordination between local and central authorities and strengthen the inter-sectoral co-operation on implementing further measures to increase air quality and waste management;
- improve the wastewater treatment system by increasing the number of wastewater treatment plants and applying the water-user and polluter-pays principles for all water users and dischargers; and
- Improvement of the waste collection and treatment through the establishment of the regional waste management system.

Measure 5: Promotion of renewable energy sources

1. Description of the measure

This measure continues from last year and the details of its implementation are shown in Table 11.

The greater use of renewable energy sources (RES) and energy efficiency improvement (EEI) are one of the main strategic goals in the energy sector. In the area of renewable energy, the country will continue its current support mechanisms for RES electricity generation via feed-in tariffs and feed-in premia with auctions (granted in a tendering procedure). The country will promote further utilisation of RES in the electricity sector (without incentives) but also in the other sectors through the introduction of the “prosumer” concept, as well as by increasing the biofuels consumption in the transport sector. These activities and measures will increase the country's efforts for achieving the ambitious target of 38% share of RES in gross final energy consumption by 2030 in accordance with our strategic documents.

This measure is related to the second strategic priority outlined in the North Macedonia and United Nations Sustainable Development Cooperation Framework 2021-2025 - “Climate action, natural resources and disaster risks management” and outcome 3 – Healthy environment.

Table 5.1. Total installed capacity of producers from RES:³⁹

Producers from RES (types of power plants)	2020 (in MW)	2021 (in MW)	2022 (MW)
hydro power plants (large + small)	705.85	706.1	744
wind power plant	36.8	36.8	36.8
biogas plants	6.9	6.9	8.9
photovoltaic power plants	29.72	45.3	121.1
Biomass plants	0.60	0.60	0.60
Total	779.87	795.7	911.4

Source: Energy and Water Services Regulatory Commission of the Republic of North Macedonia

Pursuant to the Sustainability Charter signed at the WB6, the Republic of North Macedonia has committed itself to introduce market-oriented support mechanisms for promoting RES (auctions and premiums).

³⁹https://www.erc.org.mk/odluki/2019.07.23_GI%20za%20rabotata%20na%20RKE%20za%202018%20godina-ENG.pdf
 Годишен извештај на Регулаторната комисија за енергетика и водени услуги на Република Северна Македонија за 2020
https://www.erc.org.mk/odluki/2021.04.28_RKE%20GI%202020-final.pdf

The Ministry of Economy in August 2021 published the third public call for granting the right to use premium for construction of photovoltaic power plants on private land for a total installed capacity of 80 MW, and it was opened by 05.10.2021. The most eligible bidders have signed the Agreements for right to use the premium in April 2022 and have 3 years to complete the construction of the PV plants. So far, 16 PV plants have been put into operation, with a total installed capacity of 31 MW. The Rulebook on Renewable energy sources ("Official Gazette" no. 112/19)⁴⁰ introduces prosumers as new market participants. A prosumer is a household, small consumer, budget user or individual user that can install power plants for electricity production of renewable sources whereby the excess of the produced electricity can be delivered to a distribution network. The Ministry of Economy in June 2022 has adopted Amendments to the Rulebook on Renewable energy sources ("Official Gazette" no. 138/22). The amendments enable every household, small consumer and budget user/unit user to enter into a contract for the supply and delivery of excess produced electricity with any electricity supplier, including the universal supplier.

Also, with the changes, it is possible for the prosumers to set up a PV plant with a higher installed capacity in order to fully satisfy their consumption, which makes the whole concept more attractive for certain categories of subjects.

Therefore, instead of the previous 4 kW, it is adopted that the installed capacity of the PV plant is not higher than 6 kW, for households and instead of the previous 20 kW, it is adopted that the installed capacity of the PV plant is not higher than 30 kW, for a small consumer, budget user and unit user.

Self-consumption can offer new opportunities to final customers to benefit from the technological development and reduce their energy bills, while contributing to the environmental and energy policy objectives. Due to an indicative analysis, a household which installs a 4kW PV plant on a rooftop, could save up to EUR 500 annually and the return of the investment is expected to be between 6-8 years depending on the price of the equipment.

The Ministry of Economy in the Law on Amending and Supplementing the Energy Law (Official Gazette 236/22), among other things, proposed the competent body for the GO System (issuance and administration) to be transferred from the Energy Agency to the Electricity Market Operator (MEMO), in order to successfully implement this type of support. The Energy Community Secretariat started with the implementation of the project for establishing an efficient regional system for certification of renewable energy sources, which will enable the issuance of guarantees of origin, and then trade between the contracting parties, thus enabling integration within the European market. The electricity market operator(MEMO)actively participated in the project. The project is was finalised in June 2022, after which, by June 2023 at the latest, each competent body of the contracting parties will have the option (but not the obligation) to sign an individual sublicense agreement with the service provider for the use of the national register and the regional system developed during the project.

The Law on Amending and Supplementing the Energy Law (Official Gazette 236/22) also includes new provisions that based on the approved plan for the development of the electricity transmission system and plan for development of the electricity distribution system as well as the data received from the relevant authorities, the Government, at the proposal of the Ministry, each year adopts an Indicative Plan for the construction of electricity production facilities from renewable energy sources. This plan especially contains data on: the technologies for electricity production for which the procedure for construction can begin in the period to which the Indicative Plan refers, the total installed power, by region, which can be connected to the transmission system, or to the distribution system and report on the implementation of the Indicative Plan for the previous year.

North Macedonia as a Contracting party of the Energy Community, is required to develop an integrated National Energy and Climate Plan (NECP). The NECP covers the period from 2021 to 2030, laying down the pathway to achieve the agreed 2030 targets, built upon what each contracting party should deliver in relation to their policies for 2020 (as a baseline), and includes a perspective until 2050 in order to ensure consistency with long-term relevant policy objectives at EU, UNFCCC and Energy Community level. The NECP takes a holistic approach and addresses the five main dimensions of the Energy Union in an integrated way.

The NECP was adopted by the Government in June 2022 as an indicative document.

Republic of North Macedonia, as a contracting party to the Energy Community, has an obligation to transpose the Amended Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources. Therefore, the Ministry of Economy with technical assistance has prepared GAP analysis on the provisions of the Directive that need to be transposed.

The Ministry of Economy has also prepared a programme for realisation of the Strategy for Energy Development which covers the period from 2021-2025. The Strategic environmental impact assessment was prepared and a public debate was held. After receiving comments from relevant stakeholders, it will be submitted to the Government for adoption.

The Energy Law implements the provisions and obligations from the Third Energy Package of EU and the Directive for Renewable Energy Sources. This Directive is partially transposed, lacking the part that refers to the biofuels, which sets the need for preparation of separate law on biofuels. The Ministry of Economy with technical assistance has prepared a final draft text of the Law on biofuels in transport. The Law was not submitted to the Government, due to the GAP analysis on the transposition of the RES Directive 2018/2001, which shows that certain provisions of the draft Law on biofuels need to be revised and amended.

The Ministry of Economy is in charge of this measure.

a. Activities planned in 2023

- Adoption of Decree on Guarantees of origin by the Government on a proposal of the Ministry of economy;
- Adoption of bylaws by MEMO to establish the system of Guarantees of origin;
- MEMO will conduct a procedure for public procurement for selection of Provider that will establish a national electronic register/domain for administering guarantees of origin;
- Adoption of Rulebook on form and content of the Indicative Plan for the construction of electricity production facilities from renewable energy sources;
- Adoption of Indicative Plan for the construction of electricity production facilities from renewable energy sources;
- Adoption on Rulebook on installers licensing;
- Preparation and adoption of Amendments to the Energy Law/ preparation of new Law on Renewable Energy Sources to transpose the provisions of the RES Directive 2018/2001;
- Preparation of Amendments to the draft Law on biofuels;
- Adoption of Law on biofuels;
- Adoption of a revised National Energy and Climate Action Plan;
- Ministry of Economy will publish a public call for subsidising households which will install photovoltaic power plants for self-consumption.

b. Activities planned in 2024

- Establishment of fully operational system of guarantees of origin by MEMO;
- Preparation of bylaws regarding RES that will arise from the Amendments to the Energy Law / new Law on Renewable Energy Sources;
- Preparation of Report for realisation of the Indicative Plan for the previous year.

c. Activities planned in 2025

- Preparation of Action plan on biofuels;
- Preparation of bylaws on biofuels;
- Implementation of measures from the National Energy and Climate Plan.

2. Result Indicators

Regarding the Strategy for Energy Development, the green scenario indicates that the share of RES in final consumption by 2030 shall be 38%.

Indicator	Baseline (2018)	Intermediate target (2022)	Intermediate target (2023)	Target (2025)
Share of RES in the final consumption	18.2%	24%	26%	29%

Share of RES in electricity	24.8%	34%	37%	46%
Share of RES in transport	0.1%	3%	3%	5%
Share of RES in heating and cooling	32.2%	37%	40%	42%
Total installed capacity of RES	766,37 MW	1,087 MW	1,162 MW	1,493 MW

Despite the energy crisis, Republic of North Macedonia, remains committed to the green transition, firstly by fostering investment plans in construction of RES power plants by the state owned company ESM as shown in their Investment plan.

Total number of PV plants	Estimated investment value (Euro)	Installed capacity [MW]	Annual electricity production [GWh]	Start-End of project	Financing
9	243,700,000	327	501.9	2018-2025	EBRD, KfW, ESM, JSC
Total number of Wind power plants	Estimated investment value	Installed capacity [MW]	Annual electricity production [GWh]	Start-End of project	Financing
2	91,000,000	63	164	2021-2027	KfW

3. Expected impact on competitiveness

An increasing number of companies are turning to renewable energy to reduce their emissions and to strengthen their future competitiveness. Guarantees of Origin benefit companies by providing proven and verifiable emission reductions. They are efficient, acknowledged, and legislation-backed means to document and formalise the commitment to sustainable electricity. Regarding self-consumption, the share of distributed energy sources is rapidly increasing which impacts the energy markets in various aspects that are of regulatory relevance. From a system point of view, self-consumptions an additional tool to meet renewable energy targets, can help to reduce network losses and peak loads, increase energy efficiency, improve demand response and consumer engagements consumers can choose to produce part of the electricity for their own needs. The Indicative plan is expected to improve the planning for construction of RES plants, as well as the planning for development of the transmission and distribution network and give investors better overview on the RES investment potential. The implementation of the Law on biofuels will enable better conditions for performing energy activities, a stable legal and regulatory framework and a higher potential for investment in the energy sector. Licencing of installers will enable quality service on the market, given that only licensed persons will be able to perform this activity. Construction of new RES power plants will increase the installed capacity and also increase the domestic electricity generation.

4. Estimated cost of the activities and the source of financing

In EUR	2023	2024	2025
1. Budgetary expenditures*	500,000	500,000	500,000
2. Non-budgetary financing	0	30,000	23,000
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	500,000	530,000	523,000

*National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Licencing of installers will enable new employment and expansion of the market. Also, subsidies for instalment of PV plants for households can be considered to be awarded to energy vulnerable consumers. Creating a system of guarantees of origin that will increase the value of projects in RES.

6. Environmental impact

Guarantees of Origin make it possible to make credible renewable energy usage claims. Guarantees of Origin are cost-effective, flexible, and highly credible. They are ideal for companies that seek a simple solution to reduce their carbon footprint and meet renewable energy targets. Construction of new RES power plants will contribute to emissions reductions, as well as increasing the share of biofuels in the gross final energy consumption in transport, the share of fossil fuels that have negative impacts on the environment, especially on

air quality, will be reduced. The increased share of biofuels in energy consumption will contribute to reducing greenhouse gas emissions in 2030 by about 210 kt CO₂-eq. The percentage reduction in greenhouse gas emissions will depend on the type of biofuel and the technological generation to which it belongs.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Delay in planned construction of RES power plants due to lengthy permitting procedures	High	New energy legislation (laws and bylaws), as well as other legislation relevant for RE investments (urban planning, construction and environment) should transpose declarative provisions from the RES Directive and make them more specific, including where possible further simplification and acceleration of procedures. (Streamlined and expedited administrative procedures, objective, transparent and proportionate rules concerning authorisation, certification and licensing, transparent and cost-related administrative charges simplified and less burdensome authorisation procedures). The new energy legislation should fully transpose and further specify these obligations for establishing contact points and/or one-stop shop system for RE administrative permit applications and granting process. Therefore, there is an intervention needed in every single law that has provisions on permit granting procedures with the objective of further simplifying and accelerating procedures for RE producers. (To shorten the process to 2 years, i.e. 1 year for smaller power plants).
Delay in construction of rooftop PV plants for own consumption in households and small consumers	Medium	Establishment of simple-notification procedure for grid connections of renewables self-consumers. Changes to the Electricity Distribution Grid Code should be made in order to make the procedure for connection to the grid of renewables self-consumers even simpler (e.g. less documents and shorter deadlines).
Delay of Enabling guarantees of origin for all energy carriers	Low	Following the enactment of these Energy Law amendments, the RES Rulebook will be changed to delete the provisions related to GoO, and at the same time the Decree on GoO and Rules of the Electricity Market Operator will be adopted, where additional harmonisation with the RES Directive, AIB standards and/or EnC regional electronic platform for GoO will be done, if and where needed.

Measure 6: Improvement of Energy Efficiency

1. Description of the measure

This measure continues from last year and the details of its implementation are shown in Table 11.

The Law for energy efficiency was adopted in 2020. In order to enable full and uninterrupted implementation of the legal framework for energy efficiency, it is necessary to adopt all bylaws arising from the Law on Energy Efficiency.

As one of the major challenges in the focus is development of functional Energy efficiency Fund (EEF). The base for development of EEF is in article 30 of the Energy efficiency law.

The mission of the EE Fund would be to finance eligible EE subprojects implemented by municipalities and other public sector entities that would use the energy cost savings resulting from the EE subproject to repay the financing costs. The proposed EE fund would introduce 'a pay from savings mechanism' to help establish a critical precedent to help the government transition away from grant financing to more sustainable financing. The repayments would be used by the EE Fund to finance additional subprojects, thereby making the funds revolve over time. The Fund is expected to cover its operating costs through administration fees and eventually become a sustainable financing and implementation entity. Firstly, EEF will be focused on municipalities and other public entities with possibility to broaden the scope for residential sector. The Government of North Macedonia decided that the EEF will be established within the Development Bank of North Macedonia (DBNM, formerly the Macedonian Bank for Development Promotion or MBDP) and has looked to the World Bank and EU to help capitalise its start-up. It is needed to adopt the relevant regulatory changes to allow DBNM to perform the

functions required to manage the EEF, provide financial services to public entities and address operational issues. In addition, the Government will need to establish the EEF governance, management and operations and define its organisational and administrative set-up.

Regarding the development of EEF in 2022 consultants were selected and they are actively working on analysing the current legal framework in the country for development of the EEF and also defining strategic goals and mission of the EEF. The consultants also analysed all possibilities for developing EEF as separate body or in DBNM, (four options) and these options were presented to the working group in September 2022. As the most practical and favourable solution is to be developed under DBNM. Next step is preparation of the concept about developing of the EEF and at this time consultants are working on it and after that all remaining procedures until full establishment of the EEF.

Under the Instrument for Pre-Accession Assistance (IPA II), preparation of inventory of public buildings will be developed. The aim is to make a systematisation and classification of all public buildings in the country, where the owner is the state, with their basic information. For some of the buildings which are classified as buildings with the worst energy characteristics, energy audits will be performed. At this moment ToR is under preparation for selection of the consultants who will work on the project.

A Study with a typological approach for energy assessment of residential buildings in the country is underway in accordance with the TABULA methodology (Typology Approach for Building Stock Energy Assessment), which will contribute to the systematisation of the housing stock in our country and will be the starting point for a Strategy for reconstruction of buildings until 2030. The typology will make a clear conditions for classification of all types of buildings in the country, for which will be needed to provide measures for energy reduction in Strategy for reconstruction of the buildings. The preparation of this Study stopped because census was ongoing and now again is in procedure of preparation with the final results of the census.

Having gained an understanding of the nature of the building stock and its energy performance, the next step is to assess different renovation options through development of Strategy for reconstruction of buildings. The aim in all cases should be to achieve deep renovation of the property, ideally in one stage, through a combination of energy efficiency measures and renewable technologies. The suggestions in development of the strategy are to take into account different categories of buildings like representative reference buildings: single-family buildings; apartment blocks/multifamily buildings; office buildings; and one additional category of non-residential building. Measures provided in the Strategy beside energy savings should cover different aspects: economic, social, ecological, and other synergy system benefits.

The Rulebook on energy characteristics of the buildings, Rulebook on energy audits of buildings, Rulebook on energy audits at large enterprises are finished, public consultation is held for Rulebook on energy characteristics of the buildings, Rulebook on energy audits of buildings and procedure for adoption started, so after that the focus will be on issuing new certificates and licenses and selecting trainers for new trainings for energy audits, and also developing a Tariff rulebook for energy audits. Rulebook for energy labelling and Rulebook for MVP (Monitoring and verification platform) are finalising therefore the implementation will be in the next period. Also, the remaining by-laws resulting from the Law on Energy Efficiency will be drafted. The Ministry of Economy is in charge of this measure.

a. Activities planned in 2023

- Adoption of amendments of Energy Efficiency Law or in Law for establishing DBNM for developing of the EEF (depending on the results from the analysis);
- Preparation of Inventory for energy performance for public buildings on the territory of Republic of North Macedonia;
- Preparation of typology of buildings needed for adoption of the Strategy for reconstruction of buildings by 2030;
- Preparation and adoption of Strategy for reconstruction of buildings by 2030;
- Issuing licenses and authorisations on energy audits in large traders and buildings;
- Preparation the rest of bylaws arising from the Energy Efficiency Law.

b. Activities planned in 2024

- Establishment of Energy efficiency Fund;

- Implementation of the rest measures from NECP regarding EE.

c. Activities planned in 2025

- Functioning of the Energy Efficiency Fund and possible broadening the scope for residential sector;
- Preparation of a Report on the implementation of the National Energy and Climate Plan in the section of Energy Efficiency.

2. Result Indicators

Indicator	2023-2025
Number of issued authorisations for energy audit in buildings	150
Number of issued licenses for energy audit in buildings	60
Number of issued authorisations for energy audit in large enterprises	70
Number of issued licenses for energy audit in large enterprises	50
MVP software	Functional
Energy efficiency investments in municipal public buildings - Number of successfully finalised energy renovation contracts	>50

3. Expected impact on competitiveness

The implementation of the measure will ensure increased resilience to energy price hikes, security and continuity in the energy supply of households and companies, as well as improvement of living comfort conditions.

4. Estimated cost of the activities and the source of financing

In EUR	2023	2024	2025
1. Budgetary expenditures*	150,000	90,000	180,000
2. Non-budgetary financing	5,000,000	0	0
2.1 of which IPA funding, including WBIF funding	850,000	510,000	1,020,000
Total	6,000,000	600,000	1,200,000

*national public finance sources

**Note: the total sum of the loan for EE Fund is represented in 2023 because we don't have information about distribution of the money through years.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Creation of temporary and permanent jobs in the services such as design, installation, operation and maintenance. In the construction sector, construction workers and highly qualified personnel will be engaged. In the industrial sector, highly qualified staff with appropriate professional qualifications (auditors and ESCO companies) will also be recruited, who will be continuously engaged in the monitoring of consumption and proposing of new measures for achieving savings. Gender equality will be encouraged in the process of implementing the measure.

6. Environmental impact

The maximisation of energy savings is much needed as it directly impacts emission reductions and protects the public health, the environment and moderates the climate change resulting from the harmful effects of the energy activities, so this measure will result in positive impact on environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Delay of the establishment of Energy Efficiency Fund	Medium	The appropriate recommendations from the Analysis on the manner of establishment of the Energy Efficiency Fund should be incorporated into the new Law on Establishment of the EE Fund.
Lack of capacity and technical staff within the public institution (Ministry of Economy and Energy Agency) for timely implementation of the measure	Medium	New systematisation of the energy department the Ministry of economy is adopted. There is separate sector for energy efficiency, but currently only one employee is in this sector. So, it is necessary to increase this number with new technical staff which could contribute for continuous implementation of the measure.

Measure 7: Establishing wastewater collection and treatment infrastructure in accordance with EU requirements

1. Description of the measure

This measure continues from last year and the details of its implementation are shown in Table 11.

The measure for establishing wastewater collection and treatment infrastructure in accordance with EU requirements (Water Framework Directive 2000/60/EC, Urban Wastewater Treatment Directive 91/271/EEC, Sewage Sludge Directive 86/278/EEC) is aimed at ensuring sustainable water management, through the construction of systems for collection and treatment of urban wastewater, as well as protection and conservation of water resources.

It will also contribute to implementation of the National Water Strategy 2012-2042, namely, measures and actions envisaged under chapter 5.3 - Water Protection. The water strategy establishes that the construction of sewage systems and waste water treatment plant to systematically increase and that in the first phase discharges from agglomerations of more than 15,000 PE should be covered. Secondary treatment should be provided for discharges from agglomerations of more than 2,000 PE, and more advanced treatment for agglomerations more than 10,000 population equivalents in designated sensitive areas and their catchments. The measure supports the implementation of other key national strategic and planning documents also, notably, the River Basing Management Plans (RBMPs), Flood Risk Management Plans (FRMPs), Spatial plan of Republic of North Macedonia and National strategy for sustainable development.

In order to achieve an improvement in the process of collection and treatment of wastewater, activities are planned such as harmonising the national legislation with the EU, preparation of planning documents for the implementation of the legal framework within a given period, improvement of the economic situation of PUC, establishment of a regular water quality monitoring. The measure is followed with the significant infrastructure investments.

a. Planned activities in 2023

- Amending the Water Law and preparation of related secondary legislation transposing the EU Floods Directive and assessment of other legislation related to flood management;
- Preparation of Flood Risk Management Plans for all river basins (Vardar, Strumica and Crn Drim);
- Development and implementation of River Basin Management Plans for all River Basins (River Vardar, Crn Drim, Strumica) under the Water Framework Directive;
- Preparation and adoption of a secondary legislation related to "polluter pay" principle;
- Improving the Water Monitoring Information System;
- Improving the operational and financial capacities of the public utility companies.

b. Planned activities in 2024 - 2025

- Continuation of the activities for amending the Water Law and preparation of related secondary legislation transposing the EU Floods Directive and assessment of other legislation related to flood management;
- Continuation of the activities for preparation of Flood Risk Management Plans for all river basins (Vardar, Strumica and Crn Drim);
- Continuation of the development and implementation of River Basin Management Plans for all River Basins (River Vardar, Crn Drim, Strumica) under the Water Framework Directive;
- Continuation of the activities for improving the Water Monitoring Information System;
- Continuation of the activities for improving the operational and financial capacities of the public utility companies.

The measure supports the following infrastructure investments projects:

- Improvement of the wastewater collection infrastructure in the City of Skopje.
- Rehabilitation and extension of the sewage network in the Municipality of Kichevo (104 km of network, 4,630 new households connected).

- Construction of Waste Water Treatment Plant and extension of the sewage network in the Municipality of Bitola (capacity 112,474 PE and 375 m extension to the existing collector sewer) and (9 km new + 13 km reconstructed).
- Construction of WWTP (capacity 95,152 PE) and construction of sewage network in the Municipality of Tetovo (19 km main collector sewer + 32.4 km secondary foul sewer).
- Construction of WWTP for the City of Skopje (Design and construction of the Central WWTP for 625,000 PE up to 2035).
- Technical audit of existing wastewater collection and treatment plants systems in North Macedonia and preparation of necessary documentation for Supply of Water Equipment for Municipalities of Radovich, Kichevo, Strumica, Prilep, Berovo, Kumanovo, Bitola and Tetovo.

It is worth mentioning that under IPA 3, programming year 2022, two major projects are proposed: construction of WWTP for Veles (53,100 PE) and WWTP for Stip (53,700 PE), and construction of collector system for Vinica (19,000 PE) and its connection to the existing WWTP in Kochani. At the same time, a loan agreement from EIB in amount of EUR 50 million is planned to be concluded in 2022 for water supply and sewerage network for the municipalities in North Macedonia, thus not only the bigger but smaller and rural municipalities will have the opportunity to apply for financial sources according to their needs.

The main beneficiary in the implementation of the projects is the MoEPP, while the direct beneficiaries of the project results are the municipalities and the citizens of the Republic of North Macedonia.

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2024)	Target (2028)
Number of WWTPs in the country	25	27	30
WWTP capacity (PE)	595,000	801,000	1,607,800
Percentage of population covered with the WWTPs	27.5	37.33	74.7
% of households connected to the wastewater treatment plants for agglomerations above 10,000 p.e.	16.8	21	
% of households connected to sewerage systems	68	75	
% of household served with waste collection service	75	80	

3. Expected impact on competitiveness

The measure for establishing infrastructure for wastewater collection and treatment in accordance with the EU requirements is expected to have long-term effects in terms of establishing preconditions for the development of the so-called circular economy, which means (re)utilisation of resources in a circular economic flow. The circular economy is considered an important part of the sustainable economic development. Furthermore, the improved infrastructure regarding wastewater management should contribute to an improved economic climate, which would have a positive effect on investments and could initiate new entrepreneurial ventures.

4. Estimated costs of the activities related to the legal framework and capacities and the source of financing

In EUR	2023	2024	2025
1. Budget funding*	0	0	0
2. Non-budget funding	400,000	400,000	400,000
2.1 of which IPA funding, including WBIF funding	400,000	400,000	400,000
Total	400,000	400,000	400,000

* National sources of public finance

Estimated costs for infrastructure investments

In EUR	2023	2024	2025
1. Budget funding*	38,295,990	38,295,990	38,295,990
2. Non-budget funding	18,495,662	18,495,662	18,495,662
2.1 of which IPA funding, including WBIF funding	18,495,662	18,495,662	18,495,662
Total	56,791,652	56,791,652	56,791,652

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The implementation of this measure will contribute to improving competitive conditions and the economic development. It will significantly contribute to protection of fresh water resources and to the reduction of health hazards caused by the environment pollution resulting from discharging non treated waste water to waters or to the soil. The quality of the river waters will be improved and will eliminate the hazard to human health. The implementation of measure will indirectly result in creation of local employment both on short-term, during construction period and long-term employment during operation and maintenance of the new infrastructure. This will have positive benefits for the wider local economy as a whole by attracting investments in agriculture sector, tourism development etc.

The Government committed to take over the principles and approach stipulated in the European Union Gender Strategy 2020-2025 and apply them in all sector reforms and support measures.

6. Expected impact on the environment

This measure will have a great impact on the environment primarily by reducing the discharge of wastewater outside organised and managed infrastructure systems, improving the condition of sewerage systems that are currently mostly old and worn out, increasing the number of households connected to the sewerage network which will surely reduce the pressure on the environment in the places where they live / stay, which will directly affect the increase of their quality of life.

Regarding the treatment plants, the impact on the environment will be extremely large because it will lead to better water use, reduction of harmful components in wastewaters, as well as to creating preconditions for circular economy in the sectors where water is used as a significant resource.

The measure will contribute to implement in practice the European Green Agenda for the Western Balkans in the Country and in target municipalities. All planned activities will ensure better protection of the environment, as the measure aims at improving water quality through the collection of wastewaters and their treatment. Implementation of activities shall result in reduction of water pollution and consequently risks to human health and the environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Lack of willingness of the main stakeholders (e.g. municipalities) to implement the national water sector reform, sector policies/action plan and regulatory obligations.	Medium	To engage in continuous policy dialogue with central government institutions, mainly through the SWGs, with a strong ownership and leadership by the relevant Ministry.
Delay in the tendering procedure and contracting	Medium	Quality audit of technical and tender documentation.
Poor cost recovery for environmental services by the public utility companies	Medium	The use of photovoltaic will reduce the incidence of the running costs in the formation of the tariffs.
Weak administrative capacity, lack of adequate number and quality staffing in water and sewerage areas.	Medium	Take advantage of the implementation of the Public Administration Reform Programme establishing measures to reduce the cost of the Public Administration and to increase its efficiency through digitalisation.
Insufficient coordination among the institutions, including municipalities	Medium	Inclusion of all relevant stakeholders at national and local level in the Steering Committee of the project.

Measure 8: Establishing an integrated and financially self-sustainable waste management system

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11.

With the adoption of the new Law on Waste Management ("Official Gazette of RNM" No. 216/2021) it will be possible to establish a functional system for regional waste management and the construction of regional

landfills, and at the same time to close all noncompliant landfills and dumpsites. At the same time, it will enable regional collection, transport, selection, recycling of waste, as well as treatment and utilisation, which will increase the level of protection of human health and the protection of the environment, and all this will be a step towards enabling a circular economy for this sector.

The waste legislation of the Republic of North Macedonia is harmonised with the EU waste legislation. The new laws also regulate the special waste streams management, such as waste batteries and accumulators, waste electrical and electronic equipment, waste packaging, etc., within the framework of extended responsibility of producers.

The new National Waste Management Plan (2021-2031) adopted in September 2021, covers a period of 10 years, also identified the regions for waste management in the country: East and North-East, Pelagonija and South-West, Vardar and South-East, as well as the Skopje and Polog regions. The necessary technical documentation for the establishment of financially self-sustaining systems for waste management has been prepared for all regions except for Vardar/Southeast, for which funds have been provided for the preparation of the documentation.

The MoEPP has identified waste management as a priority problem to be addressed, as well as a key opportunity to contribute to the achievement of the ambitious climate actions stipulated in Macedonia's enhanced nationally determined contributions to climate change (NDC). Macedonia's NDC explicitly includes the waste sector and opportunities to reduce emissions through circular economy projects.

a. Planned activities in 2023

- Continuation of activities for closure of noncompliant landfills and dumpsites in the East and North-East regions;
- Preparation and adoption of by-laws for the implementation of the Law on Waste Management;
- Strengthening of the institutional capacities of the local self-government for the implementation of the system (strengthening of the capacities of the waste departments in the municipalities, the municipal public utilities, the inter-municipal public enterprise for waste management and the municipal environmental inspectors);
- Preparation of national planning documents and revision of regional planning documents for waste management;
- Starting activities for the construction of the transfer stations and the regional landfill for the East and North-East regions.

b. Planned activities in 2024

- Finalising the activities for closure of noncompliant landfills and dumpsites in the East and North-East regions;
- Continuation of strengthening the institutional capacities of the local self-government to implement the system (strengthening of the capacities of waste departments in municipalities, municipal public utilities, inter-municipal public enterprises for waste management and municipal environmental inspectors);
- Continuation of the implementation of activities for preparation of national planning documents and revision of regional planning documents for waste management;
- Continuation of activities for the construction of transfer stations and the regional landfill for the East and North-East regions;
- Starting activities for the construction of regional landfills and transfer stations in the Polog and Southwest/Pelagonija regions.

c. Planned activities in 2025

- Continuation of the of activities for the construction of transfer stations and the regional landfill for the East and North-East regions;
- Continuation of the activities for the construction of regional landfills and transfer stations in the Polog and Southwest/Pelagonija regions;
- Finalisation of the activities for preparation of national planning documents and revision of regional planning documents for waste management.

2. Results indicators

Indicator	Baseline	Intermediate target	Target
Number of population receiving the service	0	370,901	1,800,000
Percentage of recycled waste from municipal waste	5%	25% (2025)	28%(2028)
Net reduction of greenhouse gases in the waste sector on a level of 2% by 2050 compared to 1990			21% (2028)

3. Expected impact on competitiveness

The measure for establishing an integrated and self-sustainable waste management system is expected to have long-term effects in terms of establishing preconditions for the development of the so-called circular economy, which means (re)utilisation of resources in a circular economic flow. Establishment of regional landfills with waste recycling capacity would contribute to operationalising waste as a resource that could be used for the production of biofuels and other products obtained through recycling systems. It can influence the development of this activity in the country, by initiating various entrepreneurial activities, and it can also contribute to the inclusion of the country in the developments of the so-called green agenda, whose indicators are expected to become a measure of the economic climate at the global level.

4. Estimated costs of the activities and the source of financing

In EUR	2023	2024	2025
1. Budget financing*	3,377,235	2,195,567	2,195,567
2. Non-budget financing	13,699,915	7,003,797	7,003,797
2.1 of which IPA funding, including WBIF funding	13,699,915	7,003,797	7,003,797
Total	17,077,150	9,199,364	9,199,364

*national sources of public financing

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The implementation of this measure will ensure more social effects, and above all, access of the majority of the population to a waste collection service and a cleaner environment through its recycling. The closure of illegal landfills will have a particularly significant effect, which will contribute to the reduction of their harmful gas emissions, as well as to the reduction of risks to public health.

Furthermore, the implementation of the projects implies the engagement of workers, which in the short term will directly affect the labour market, while in the long term, the maintenance and management of the regional landfills foresees employment that will contribute to the creation of new jobs. An assessment of the potential for GHG mitigation by introducing circular economy projects in Republic of North Macedonia reveals that the incorporation of circular practices in the treatment of bio-waste and construction waste (rubble) can result in a reduction of total emissions of ~ 690.85 Gg/ CO₂ per year and the creation of over 600 new green jobs in several sustainable industries.

6. Expected impact on the environment

This measure will have a great impact on the environment, primarily through the closure of illegal landfills that pose a risk to public health, increasing the number of households that are part of the system of regular waste collection which will certainly reduce the pressure on the environment in the places where live/stay, and will directly affect the increase of their quality of life.

Regarding the regional landfills, the impact on the environment will be extremely large because it will lead to better waste utilisation, reduction of harmful gases arising from uncontrolled waste treatment, as well as creating preconditions for circular economy in the branches where waste is used as significant resource.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Lack of readiness of the main stakeholders (e.g. municipalities) to implement the national water sector reform, sector policies/action plan and regulatory obligations.	Medium	To engage in continuous political dialogue with the central government and state institutions, mainly through strong support and guidance from the relevant Ministry.

Poor quality of the tender procedure and conclusion of contracts	Medium	Quality audit of the technical and tender documentation
Delay in obtaining building permits and resolving land ownership	High	Accurate verification of documentation and development of a road map with delegation of responsibilities and time to resolve any outstanding issue.

3) Improving the competitiveness of domestic companies, their integration in the global value chains and formalisation of the economy

The permacrisis period, meaning period marked with permanent, continuous crisis, impact not only the competitiveness of domestic companies, but the global economy as whole. Still present uncertainties from new variants of Covid-19 that affect global supply and demand, the high food and energy prices and geopolitical tensions pose serious challenges on economies.

Challenges governments are facing now are even bigger, as they need to deal with tightening financial conditions, high inflation, sustainable supply of energy, but at the same time pushing reforms for improving business environment, as this is essential not only to overcome the crisis consequences, but also to enable strengthening competitiveness and sustainability of their economies.

Hence, issues that needs to be tackle in Macedonian economy for enabling conducive business environment, are summarised below, but not to be taken as extensive scope of all challenges, but rather as factors that are changing very fast.

Domestic companies' exhibit **low and slow-growing productivity**, which is largely due to the deficient managerial skills, the unsophisticated technology, limited capacities of production and innovation, inconsistent quality of goods and services, and competition from a large informal sector. All this hinders their competitiveness and restricts the opportunities to integrate in the global value chains. Another challenge that prevents the **adoption of modern technologies and business processes** as well as the expansion of manufacturing and internalisation capacity results from the **skills mismatch in the labour market** on all levels, which is caused by the weaknesses in the education system and the complex application of business regulation.

Another major problem that halts the improvement of the business environment is the **size of the informal economy**, which remains deeply entrenched and accounts for a large share of total output and a large share of total employment. The official estimates by the State Statistical Office reveal that the informal economy accounts for 17% of GDP and 18% of total employment, but there are other estimates that put the figure up to 37.6% of GDP (IMF, 2019a). The informal sector creates unfair competition from unregistered companies, and the undeclared revenues and employment harm public revenue collection. Undeclared revenues and informal employment also reduce the levels of formal employment and its associated benefits such as job security and safety at work.

Macedonia's informal sector takes various forms such as unregistered labour, partially undeclared wages, irregularities in the enforcement of the Labour Relations Act, non-issuance of tax receipts or invoices, and underreported turnover. The increasing prevalence of freelance work and personal services provided via Internet is another source of concern because these operations often go unregistered. Economic sectors with particularly high informal employment are agriculture, construction, household services, and wholesale and retail trade. The COVID-19 pandemic also impacts the informal employment. On the one hand, there is a drop of informal employment in the sectors that are severely affected by the pandemic; on the other hand, workers switch from formal to informal employment by declaring fewer working hours. Partially unregistered employment and undeclared wages are another problem, with income being partially or completely undeclared by almost 44% of employees. There are estimates that 27.6% of the social security contributions are paid at a level lower than the actual salary received, and almost 74% of individuals engaging in additional work do it without a formal contract (CRPM, 2019). The perception for the informal economy among the population is very low, and a recent population survey reveals that only 1.6% of the country's population highlighted the informal economy as one of the three basic problems in North Macedonia (CRPM, 2019). In addition, many people do not fear working in the informal sector, with 21.1% of the population willing to participate in undeclared work in order to get a higher wage (CRPM, 2016).

Research, development and innovation - The Global Innovation Index 2022 ranks the Republic of North Macedonia on the 36th place of 39 European economies in 2022, and on the 66th place among a total of 132 economies from the world, which are part of the Global Innovation Index. The country has the best results in the area of Market sophistication, while it achieved the weakest results in the field of Creative outputs. The scores for the indicators "University-industry R&D collaboration" and "Policies for doing business" are particularly low, and are identified as the weakest points in the country, placing the country on the 106th and 112th place out of a total of 132 countries.

The latest European Innovation Table (2022) ranks the country as an "Emerging Innovator" with a performance of 45.6%, which is still below the average of 50.0% for Emerging Innovators countries. The report notes as the country's weaknesses indicators relating to design protection applications, R&D expenditure in the business sector, government support for business R&D and lifelong learning. Compared to 2021, progress has been made in the development of environment-related technologies, foreign doctorate students and knowledge-intensive services exports.

In this direction, the adoption of the Smart Specialisation Strategy and setting the institutional infrastructure for support of the academia-business collaboration, is particularly important. In the process of creating a competitive economy, based on knowledge and innovation, there should be a strong link to enhancing the innovation and stimulating cooperation between academia and business for transferring the knowledge, skills development, increasing capacities for research and development etc. In creation favorable environment for innovation based growth it is necessary to provide strategic framework as a policy guidance with clear vision for inclusive and smart growth and strengthen the institutional support infrastructure for R&D&I in order to get closer to the science and technology and become more competitive in regional economy.

Agriculture sector reforms

The problems that currently exist in the production and trade of agricultural products in the Republic of North Macedonia seriously disrupt the market for agricultural products and affect their competitiveness. Some of the identified main problems are:

- very high percentage of waste due to improper storage, post-harvest treatment, sorting and packaging of agricultural products;
- improper waste management;
- inadequate purchase price that creates revolt among primary producers;
- occurrence of pesticide residues and other chemicals in the final products;
- unorganised export and sale of agricultural products;
- lack of useful data regarding the quantity, quality and price of agricultural products;
- lack of capacities for storage of agriproducts when there are price disturbances on the market.

Hence, there is a need for increasing the competitiveness of the agricultural by modernisation of the postharvest management of agricultural products.

Digital services

Over the past several decades, sharp penetration of information and communication technology contributed for the increment of the scope of digital transformation, that was ground for further modernisation of the production processes, accelerate efficient workflows, reinforce security and increase productivity and profitability of the companies.

Electronic services as a part of digitalisation process can reduce administrative and financial burden, reduce time and fees for obtaining the services, producing reduction in cost for businesses, that will further contribute to increase the competitiveness of domestic companies. This will help companies to optimise their production processes by locating the various stages of production across different places. The production phases as design, production, marketing, distribution and other logistics activities, play strong role towards international dispersion into global value chains. Integration in the global value chains as networks of production and trade across countries, will upgrade the production process by adopting better technology to improve efficiency and productivity, which is firm ground for product upgrading and better quality management system. This will lead to functional upgrading in which the companies will begin to design its own product with competitive prices. The

competitive prices will influence to fight unfair competition from unregistered companies and raise the interest of such companies to join into regulatory system of the country as well as provide greater security for the workers.

Public services

Most of the government institutions on central and local level have developed systems that offer e-services for the users. However, all the systems have general functionalities such as identification of users and payment that are common, but are implemented and maintained in different manner. This is far from cost-efficient, as its costs are budgeted by every institution separately, but the total price on national level is paid by the taxpayers. Additionally, different and non-uniformed interfaces, forms and submission processes for businesses demand dedicated authorised person(s) with specific trainings in order to electronically communicate with respective institutions.

According to the findings outlined in the SIGMA reports for 2015⁴¹, 2016 and 2017, the country lacks a modern public services portal, offering platform and space for e-services from any institution.

Government's commitment to reduce the administrative burden to the users (citizens and businesses) is impeded by lack of structured data regarding requested documents and proofs in order to deliver a service, as well as para-fiscal charges, for all services. The institutions in charge of delivering the services maintain this data in silos with different structures, thus making comparison and analysis is difficult. Moreover, in the process of digital transition from traditional to electronic services, the para-fiscal charges remain unchanged. In 2019, the Ministry of Economy engaged external consultancy for initial mapping of services based on available data. The Exploratory analysis of the para-fiscal charges for the small and medium sized enterprises in the Republic of North Macedonia prepared by Finance Think⁴², states that despite the relative importance of the question of the parafiscal charges, it has not been raised yet in a consistent and systematic way. The analysis mapped and listed 377 services having characteristics of parafiscal charges, verified by the institutions or officially published, using data from the Catalogue of services developed by the Ministry of Information Society and Administration (MISA) in the framework of an EU funded project: Public administration reform assistance and strengthening the capacities of MISA. The list of public services which have characteristics of parafiscal charges is wide and includes various charges regarding permits, licenses, certificates, approvals, authorisations; issuing various documents such as certificate, resolution, confirmation, acknowledgement; special permits and authorisations regarding only production and sales; charges related to the registration of a legal entity and change in the register, business name display fee, patents, names and trademarks and other charges for permits and for acquiring certain rights. Frequently, charges with similar characteristics are named differently, depending on the competent body. Such broadness and variety of the PFC additionally increases the burden for the legal entities to keep track of them.

Measures in the attempt to increase competitiveness of domestic companies and tackle the informal employment should include:

- boost productivity growth by more investment in research and innovation, further cooperation between SMEs, and improve their interconnectedness and regional integration;
- adopt the Smart Specialisation Strategy;
- fully implement the Law on Inspection Supervision and other transparent and consistent procedures for inspections which would increase the ease of doing business;
- set up a fully-operational online one-stop-shop system for all business-related permits and licences;
- develop a coordinated approach across the entire government with involvement of all stakeholders to undertake measures relevant for reducing the informal economy; and
- implement reforms to improve the quality of healthcare and education systems in order to increase trust and stimulate workers to pay the social security contributions.

Measure 9: Implementation of an Intelligent Transport System (ITS) along Corridor X

1. Description of the measure

This measure continues from the previous year, and the details of the implementation are shown in Table 11.

⁴¹<http://www.sigmaweb.org/publications/public-governance-monitoring-reports.htm>

⁴²<https://www.financethink.mk/wp-content/uploads/2020/04/Parafiskalni-studija-EN.pdf>

The measure envisages implementation of ITS with several devices such as WIM (weight in motion) on A1 Motorway, part of Corridor X, section Tabanovce - Gevgelija in the length of 175 km, Road Weather Information Systems (RWIS), which are a road weather stations built to collect data on weather conditions and air pollution, including systems for monitoring GHG (SLCP) emissions.⁴³ The most part of M1 North-South section Tabanovce - Gevgelija is built as a highway A1 and is equipped with basic traffic signalisation and equipment. The ITS will provide for variety of traffic data and the number and type of vehicles that move along Corridor X, as well as meteorological data along the route throughout the year which can be used for statistical and analytical purposes. The introduction of an ITS is closely linked to approximation with the directives from the EU transport acquis. The expected ITS Strategy analysis will propose the next steps in the legislative alignment. It will enable road connectivity to EU standards and contribute to facilitate trade and transport. By development of ITS along road Corridor X, one of the strategic objectives stated in the National Transport Strategy of the Republic of North Macedonia will be fulfilled i.e. maintaining a high level of safety and traffic flow in all conditions. In addition, the National ITS Strategy that is to be prepared in the first quarter of 2023, shall propose relevant legal changes related to the introduction of ITS.

In relation to the regional approach, the expected project economic impact is reduction in travel time to the border crossing points. It is in line with the Multiannual Action Plan (MAP) which provides a structured agenda for furthering regional economic integration, focusing on regional circulation of goods, services and capital, mobility of skilled workforce, a dynamic investment space, and digital integration. This measure is part of regional project "Reduce trade costs and increase transport efficiency in the Western Balkan 6", Component 2: Enhancing transport efficiency and predictability. It includes Albania, North Macedonia and Serbia.

a. Planned activities in 2023

- Completing the National ITS Strategy
- Preparing the Tendering documentation for implementation and supervision of ITS deployment on Corridor X

b. Planned activities in 2024-2025

- Selecting contractor and supervision of the ITS deployment. Estimated duration of the contracts is 12 months for ITS deployment and 18 months for supervision.
- Start of installation and supervision activities.
- Construction activities in the course of 2024-2025 and final activities, including procedure for hand over certificate and continuation of Defect notice period.

2. Results Indicators

Indicator	Baseline (2018)		Target (2025)	
	No. of accidents	Percentage decreased	No. of accidents	Percentage decreased
Reduced number of traffic accidents expressed in % along Corridor 10	67	0%	56	16.6%
Indicator	No. of minutes	Percentage decreased	No. of minutes	Percentage decreased
Reduce travel time in % along Corridor 10	103	0%	85.5	17%

*An EU report summarising evaluation results for ITS projects implemented in Europe between 1994 and 1998 finds that a dynamic signal control can reduce travel times by 17%, increasing to 20% when the dynamic signal control strategies are integrated with information and guidance⁴⁴. An US study indicates that one DMS (Dynamic Message Signs) is likely to reduce $100 \times (1 - \exp(-0.181)) = 16.6\%$ of crashes per year, when other factors in the model are controlled.⁴⁵

⁴³<http://documents.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

⁴⁴CODE, 2000, "Network and Traffic Management: Final Area Report" for the "Telematics Applications for transport within the Fourth Framework programme". Available on: http://collections.internetmemory.org/haeu/20161215121151/http://cordis.europa.eu/pub/telematics/docs/tap_transport/netrama.pdf, accessed Feb 15, 2018.

⁴⁵ Oh J. et al. (2015), Michigan Department of Transportation, "Costs and Benefits of MDOT Intelligent Transportation System Deployments".

The benefits of the ITS improvements will begin after 1 year once the systems are installed and the life cycle of the ITS equipment is 10 years (installation in 2023 benefits from 2023 to 2033). The annual growth of the average number of lorries on the corridor equals the projected GDP growth.⁴⁶

In North Macedonia, it is considered that ITS will reduce the travel times by 17% based on the above mentioned EU report, while the number of crashes by 16.6% based on the above mentioned US study.

3. Expected impact on competitiveness

The use of ICT in the field of transport, related to infrastructure, vehicles or users is fast becoming one of the most important areas in the EU to deliver improvements in network capacity, traveller mobility and therefore enhance economic productivity. In the Western Balkans, ITS could support improvements in congestion management, incident detection and recovery, advice on diversion and rerouting, real time travel information and better journey time estimate. Harmonisation or interoperability of systems is also essential for seamless and safe cross border transport movements.

The Intelligent Transportation and Traffic Management System will provide significant improvement in the performance of the current traffic flow through reduced delays due to timely reporting and traffic redirection. The greatest impact is expected to be an increase in safety and in saving travel time. Total travel time will be reduced as a result of coordination of the timely information system for road users along Corridor X. Because of the early warning for possible delays by the system, the time savings by excluding the delays will allow the users to decrease their travel costs and therefore Corridor X will be more competitive for usage, especially for international transport. Companies carrying out transport activities will have lower costs and shorter transportation time. All of this is in line with the EU digital agenda.

4. Estimated costs for activities and the source of financing

After the revision of the project the financial construction is finished. The funds are planned to be provided through WBTF project loan. The estimated cost of the activities planned for 2023 are EUR 6.5 million, EUR 9.3 million for 2024 and EUR 0.3 million for 2025.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The implementation of this system will have a direct short-term impact on companies that work with this type of equipment by increasing their number of employees. Within the regional project this measure is part of, a gender survey is planned to be undertaken that will shed light on some of the gaps that exist around barriers that women traders face in undertaking trade across the WB at the firm level. The results will be used for potential interventions to help women headed businesses⁴⁷. However, this is not the kind of a measure where profound social impact would be expected.

6. Expected impact on environment

ITS will have low to moderate, mainly site-specific environmental impacts. In the deployment phase, impacts will mainly relate to traffic safety issues during the modifications, including for the deployment of ITS systems. None of the impacts is expected to be large-scale or irreversible. In addition to introducing early warning systems to monitor and address climate related risks on the road network, the weather stations that will be installed within Intelligent Transport System (ITS) will collect data and monitor GHG emissions from road transport (specifically Short-Lived Climate Pollutants (SLCP) emissions connected with air pollution). The information that will be collected through GHG (SLCP) emissions monitoring systems will help linking specific climate change and development priorities (e.g. mitigation, adaptation and improving air quality) and be a valuable support to governments of the WB6 in developing regulatory and policy reforms and institutional strengthening for pursuing low-emissions development. Deployment of ITS solutions is part of the first pillar of Green agenda for the WB aimed at making transport operations more efficient, and reducing CO₂ emissions.

7. Potential risks

⁴⁶ Based on data from SEETO, EU and National Customs, counts from 2015, updated via linear regression for 2018.

⁴⁷ <http://documents.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

Risk	Probability (low of high)	Planned mitigating action
Prolongation of the activities for completion of the project	Medium	Regular monitoring of the implementation of the activities. This project is monitored within Government programmes and it is also strictly monitored by the Transport community via the adopted Action plans. The Public Enterprise for State Roads as end beneficiary will use the existing infrastructure in Petrovec and therefore the activities should be speed up.
Delay in adoption of appropriate legislation and bylaws for this type of systems	Medium	Using EU technical assistance (TAIEX) in better and efficient legislation approximation

Measure 10: Broadening the scope of digital services provided on National E-service Portal

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11.

The goal of the measure is to increase the usage of the National e-services Portal (the Portal) uslugi.gov.mk as a central point for e-service delivery. The e-services that are available on and through the Portal are: enrolling the primary education, extract from employment and pension data, claims for non-conviction, extract from population register, different certificates related to social security, labour and employment data, recognition of diplomas, etc. The Portal is offering e-services for both, individuals and businesses (even though at the beginning the Portal was offering only e-services for individuals, it is upgraded with functionality to offer e-services for businesses).

The specific objectives are:

1. To expand the functionality for obtaining e-services for businesses by introducing the Register of authorisation for obtaining e-services within the scope of the Portal, by more persons authorised by the responsible person of the business;
2. To increase the number of available e-services on the Portal, including digitalisation of necessary registers;
3. To supply equipment that will support the development of new e-services;
4. To prepare recommendations for necessary legislative changes to streamline digitalisation;
5. Building human and technical capacities for e-service delivery within the administration.

The focus in the forthcoming period is to develop at least 135 new e-services for businesses and citizens and deploy them on the National e-services portal, such as: various licenses and permits in the areas of energy, trade, food, veterinary, pharmacy, agriculture, decisions for different types of retirement and pension users. Also, activities will include the digitalisation of base registers related to the selected 135 new e-services and development of Register of registers and Register of authorisation. Reengineering of the business processes for delivering the above mentioned e-services, in order to achieve more efficient and effective e-service delivery, by optimising the processes of their provision and cutting the administrative burden for their issuance, are also part of activities.

The expected results from this measure are enhancing public service delivery and reduce time and cost of businesses and citizens in their daily interactions with public institutions. Also, this measure will have positive effect on the competitiveness of domestic companies and facilitate the path to join into the global value chains.

a. Activities planned in 2023

- supply of equipment for supporting the deployment of new e-services;
- introduce the Register of registers;
- introduce the Register of authorisation and services related to the register;
- capacity building on delivered solutions;
- introducing new e-services on the Portal.

b. Activities planned in 2024

- introducing new e-services on the Portal;
- introducing new digital registers, including data entry from the beneficiaries.

c. Activities planned in 2025

- introducing new e-services on the Portal;
- introducing new digital registers, including data entry from the beneficiaries.

The activities will be implemented by MISA in cooperation with other private companies and government institutions.

2. Results Indicators

Indicator	Baseline (2022)	Intermediate target (2023)	Intermediate target (2024)	Target (2025)
Number of registered users of the National Portal	82,000	87,000	92,000	97,000
Number of e-services offered	200	380	450	550
Number of applications submitted through the National Portal	25,000	33,000	41,000	49,000

*The figures indicated in the table are cumulative figures

3. Expected impact on competitiveness

The National e-services Portal is expected to reduce administrative and financial burden not only for individuals but for businesses as well, thus increasing the efficiency of businesses. Reducing the time and fees for obtaining the services entails a reduction in costs for businesses, leading to their increased competitiveness. This especially concerns SMEs, which will allow SMEs to complete administrative procedures with fewer personnel in shorter timeframe, compared to traditional channels for service delivery. This will affect competitiveness not only on national level, but also regionally as well internationally. Among the services that will be developed are e-services addressed in the Service directive, i.e. issuing licences for businesses needed on a National and cross-border level, which is expected to have an impact on regional competitiveness.

Digital technologies have different effects on the work of informal economy. Digitalisation will enable the informal sector to access new markets by using digital tools that will help to sell their goods and services and connect them with existing and new clients. Through registration on the digital platforms they will increase the transparency for their existence and will discover the prices and other relevant details necessary for online trading, that will additionally facilitate trading. The digitalisation is great opportunity for small business, open market and street vendors to integrate into the market using digital tools, offering them greater and easier way for merchandising.

Digitalisation can offer an opportunity to overcome the financial burdens as well. It can enable the informal sector to gain access to available financial resources and information as most of the commercial banks ask for formal procedure to be followed regarding lending money to informal sector (registration, open bank account, payment through banking system ect.), and thus contribute to the reduction of the informal economy.

Digitalisation can enhance productivity and working conditions of those working in the informal economy. At the same time, digital economy could be discriminative, considering that digitalisation requires technical, digital skills and basic literacy. This is additional motive for the government to continue with commitment and dedication to help developing digital skills.

4. Estimated cost of the activities and the source of financing

For three years, the cost is estimated at EUR 9,968,000, financed both from IPA funds and national budget.

In EUR	2023	2024	2025
1. Budgetary expenditures*	368,000	3,250,000	3,250,000
2. Non-budgetary financing	1,300,000	1,300,000	500,000
2.1 of which IPA funding, including WBIF funding	1,300,000	1,300,000	500,000**
Total	1,668,000	4,550,000	3,750,000

* National public finance sources

** IPA 2022 Action Document currently under maturity assessment

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

By reducing the administrative burden on companies and increasing their competitiveness, companies could expand their activities and increase employment. Electronic services are equally accessible to all users, both businesses and individuals, regardless of location (urban or rural), gender and social background, degree and type of disability, etc. Digitalisation will help to reduce inequality, enhance health services, get better use of resources and improve business models and ecosystems. Introduction of the e-services will increase trust of people in the society and institutions as well as will save people time and money.

6. Expected impact on the environment

Huge quantity of paper is used in every day processes, business relations and need for different citizen services. Considerable number of this paper finishes as not selected trash. Decreased usage of paper will reduce deforestation and pollution. Paperless offices will have impact in all social spheres. Digital services can be consumed 24/7, from any internet connected point, which reduces the need for transportation and travel from place to place, that will significantly reduce CO2 emissions. Digitalisation and structural transformation enhance the environmental quality and increase environmental sustainability.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Commitment on the highest level within the beneficiaries (all involved public institutions and organisations with public authorisation) is not reflected in the commitment on operational level.	Medium	Informing the Government regularly for status of the activities and plans for the next steps.
Different IT preparedness of the government institution, in the process of digitalisation	High	Using video conferencing tools and providing technical support to the working group. Hiring local workers to fill staffing needs.
Low level of using the e-services due to the lack of knowledge and required equipment.	Medium	While some institutions are at a high level of digitisation and can easily digitise their registry and services, others still have a very low level of IT readiness. Another problem is the lack of IT professionals. To overcome this, MISA develops central solutions such as software for digitising processes in institutions and for digitising registers. These solutions will help institutions until they develop their own IT solutions.

Measure 11: Streamline the use of parafiscal charges

1. Description of the measure

This measure continues from last year and the details of its implementation are shown in Table 11. It proceeds from the measure Development of a National E-Services Portal from previous ERPs, whose aim was development of dynamic e-services web portal as a single point of services with state bodies. One of the cornerstones in the portal's toolbox is the Catalogue of services, an electronic database of public services (at central and local level) for citizens and businesses. The Catalogue provides an opportunity for quantitative and qualitative analysis of services, for prioritisation of services digitalisation and for analysis of the para-fiscal charges. The Ministry of Economy has published on its web site a list of 377 charges for businesses⁴⁸ that were mapped based on Catalogue of services containing nearly 1,000 services for citizens and businesses. The list was developed as part of the Exploratory analysis of the para-fiscal charges for the small and medium sized enterprises in the Republic of North Macedonia (see: Sectoral diagnostic on Business environment and reduction of informal economy, part on Public Services).

The current measure envisages activities for optimising, consolidating and streamline parafiscal charges in North Macedonia. Its aim is to simplify the system of non-tax duties and parafiscal fees, improve their transparency and predictability, and thus contribute to a more favourable business environment.

⁴⁸<http://www.economy.gov.mk/doc/2838>

The objective of the measure will be achieved through a systematic approach by comprehensive assessment of the current legal, operational and technical framework for non-tax fees in Republic of North Macedonia, recommendations for improving the system for para-fiscal charges based on the best EU practices and policies as well as by developing methodology for streamlining these fees which will be piloted on selected institutions and charges.

From April 2022 the Ministry of Economy is beneficiary of a one-year project for technical assistance which is contracted and financed by the Delegation of the European Union (DEU). The objective of the Project is to effectively support the development of methodology to optimise, consolidate and streamline the para-fiscal charges in the RNM by assessing the feasibility for reduction or elimination of such charges, establish a system for introducing new charges which have character of non-tax charges and provide capacity building for the public institutions, as well as raise awareness of the private sector.

The measure is part of the Action Plan for implementation of the Strategy for formalisation of informal economy 2018-2022⁴⁹, and is in line with the recommendation for improving the functioning of the market economy as prerequisite for achieving the economic criteria and linked with improving the business environment⁵⁰.

a. Activities planned in 2023

- Draft proposal for establishing legal, technical and organisational framework for para-fiscal charges that shall include: (i) regulating mode and procedure for setting and pricing of charges on central and local level, (ii) mechanisms and instruments for monitoring and transparency of para-fiscal charges, (iii) draft methodology for reducing, eliminating and optimising para-fiscal charges from the List of mapped 377 para-fiscal charges, by using the principle Think Small First;
- Starting the process of amending the para-fiscal charges from the List of 377 para-fiscal charges according to the proposed methodology.

b. Activities planned in 2024

- Continuation of the process of amending of the para-fiscal charges from the List of 377 para-fiscal charges according to the proposed methodology;
- Raising awareness for para-fiscal charges among business community and citizens;
- Establishing tool (registry, web-portal) for transparency of para-fiscal charges.

The activities will be implemented by the Ministry of Economy in cooperation with all relevant Ministries and Agencies including Business Associations.

2. Results Indicators

Indicator	Baseline (2020)	Intermediate target (2023)	Target (2025)
Number of para-fiscal charges amended	0	At least 50	Up to 100
Number of para-fiscal taxes lowered for SME's	0	At least 50	Up to 100

3. Expected impact on competitiveness

By reducing the financial burden companies are expected to be more competitive. They could be able to use the saved resources and time in further development and innovation. On the other hand, raised knowledge of the para-fiscal charges, as well as introducing digital services will contribute to more efficient and effective companies, which will lead to more productive companies. Overall, the predictability of the para-fiscal charges will contribute to more favourable business environment leading to increased investments and entrepreneurship, and also formalisation of businesses.

4. Estimated cost of the activities and the source of financing

The cost for implementation of the measure is estimated at EUR 300,000.

⁴⁹<http://www.mtsp.gov.mk/dokumenti.nsp>

⁵⁰<https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-north-macedonia-report.pdf>

In EUR	2023	2024	2025
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	150,000	0	0
2.1 of which IPA funding, including WBIF funding	150,000	0	0
Total	150,000	0	0

*National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

By reducing the administrative and financial burden on companies and increasing their competitiveness, they could expand their activities and increase employment. One of the objectives of this measure is to create more favourable environment for establishment of new businesses, which will further increase the entrepreneurship incentives among all citizens including youth and woman. Transparency and lowering parafiscal charges will finally contribute to formalisation of businesses.

6. Expected impact on the environment

One of the objectives of the measure is to lead towards digitalisation of the services, thus reducing both costs and time for business operations, which will have overall positive effect on environment in terms of saving energy, reducing the pollution and saving the resources.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Insufficient coordination and communication between the institutions that need to be involved with providing information	High	Establishing working group with stakeholders, and continue maintaining the regular cooperation, through meetings, workshops and training
Insufficient understanding of para-fiscal charges	Medium	Info and awareness raising campaign for better understanding among business representatives and society overall
Sustainability of the measure - providing further consolidation of para-fiscal charges	Medium	Legal framework to ensure procedures for setting and pricing of the charges as well as regulating body to ensure proper implementation by all relevant institutions
Insufficient capacities and skills for para-fiscal changes analysis in the line ministries and other institutions	Medium	Consultancy services have been granted by the DEU to assist the Ministry of economy, as well as other line ministries in the process

Measure 12: Hybrid fund for green and digital start-ups and innovative SME's

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11.

With World Bank technical support to the Fund for innovation and technology development (FITD) and based on analysis of the effectiveness of the innovation and competitiveness support and programmes for post-Covid-19 recovery of firms, FITD has been working on a model for creation of an investment fund for support of start-ups and innovative companies.

The current market situation based on the analyses within the pre-feasibility study for the investment fund performed by the World bank, shows that majority of the start-up companies analysed seek external funding from the following sources: 44% personal, family and friends, 21% Fund for innovation and technology development, 13% other public funding and grants, 12% angel investors and venture capital, 6% accelerators and 3% banks and loans. In that structure of financing sources, it is noticeable that there is low presence of equity financing (less than 18% is received from accelerators, business angels and VC's). On the other side, the banking system is usually reluctant in support of start-ups having in mind their limitations regarding the risk policy (banks are reluctant to support high performing SME's without hard collateral and credit history).

Hence, this measure focuses on establishment of a hybrid investment fund for green and digital start-ups and innovative SME's in order to enable and increase the equity financing of the start-ups especially having in mind the low access to finance from private funding to the specific target group.

The model envisages set up of a hybrid investment fund (30% public / 70% private) with total capital of EUR 27 million. The government through FITD provides EUR 10 million as public funding where the remaining part should come from private investors and international finance institutions. The fund will be managed by an international Fund Manager company selected by the FITD (or FITD sponsoring company) through a competitive procedure on international level. The main obligation of the Fund manager will be to establish and manage the Fund, attract investors (international and domestic), secure Fund closings, sourcing and structuring transactions, submit transactions to the Investment committee which will be solely responsible for all individual investments and exit decisions by the Fund, without influence from the government.

This is a new measure and it will contribute to the implementation of the financial access pillar of the SME Strategy for Sustainable and Digital Europe in the country, as well as the national innovation strategy, Law on Innovative Activity and is part of the recently announced Government plan for accelerated economic growth.

a. Planned activities in 2023

- Selection of a private company for managing the Fund (Fund Manager), in a process in two phases
- Establishment and operationalisation of the Fund
- Generating pipeline and improving investment readiness on the market and start with investments

2. Results Indicators

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Volume of attracted private investments in the Fund	0	0	EUR 17 million
Number of supported start-up companies and	0	0	30

*According to the planned funds, it is planned to invest in approximately 31 companies.

3. Expected impact on competitiveness

- Diversification of the economy and exports towards more value-added sectors
- Increase of the productivity of existing firms
- Increase of exports of goods and services with higher added value
- Increase of employment and creation of higher paid jobs for highly educated youth, thus preventing brain-drain and attracting talent
- Introduction of a non-bank financial instrument and developing the financial market

4. Estimated costs of the activities and the source of financing

In EUR	2023	2024	2025
1. Budgetary expenditures*	10,000,000	0	0
2. Non-budgetary financing	0	17,000,000	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	10,000,000	17,000,000	0

*National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

By investing in start-up companies, it will contribute to their development as well as strengthening their position on the market. It will contribute to the growth and development of the companies themselves, creation of new highly paid job positions and increase in employment.

6. Expected impact on environment

The target group is financing of green and digital start-ups and innovative SME's. The measure is not expected to have a negative impact on the environment. However, legal obligations and positive practices for improving the environmental impact will be incorporated in the process of making the investment decisions.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Equity and mezzanine investments are poorly available but also poorly understood by mature and start-up companies	low	Strong information campaign and raising awareness about the benefits from equity financing.

Measure 13: Financial support for Roma entrepreneurs

1. Description of the measure

This measure continues from last year and the details of its implementation are shown in Table 11. The measure envisages the establishment of a Matching Fund under the Memorandum for cooperation between Government of the Republic of North Macedonia, the Ministry of Labour and Social Policy, the Employment Service Agency of the Republic of North Macedonia and the Roma Entrepreneurship Development Initiative – REDI, to promote the development of entrepreneurship and to increase access to financing for Roma entrepreneurs.

The initiative is composed of activities which are implemented under the active labour market measures (such as “self-employment loans” implemented by the Employment Service Agency, grant for self-employment in the Operational plan for active labour programmes and measures) and measures implemented by the Macedonian Development bank as state funds allocated under the existing programs, on one side and a matching fund in the area of entrepreneurship, which is implemented by the REDI initiative under a project financed by the EU, USAID and Open society foundation implemented in cooperation with the Saving House Horizonti enabling thus access for Roma community to the programme for unemployed and informal economy.

The aim of this measure is to create criteria and favourable conditions for easier access to financial resources “credit loans”, grants and measures intended for the following objectives:

- encouraging and supporting entrepreneurship,
- retaining existing jobs and creating conditions for new jobs,
- reducing unemployment,
- formalising economic activities and
- using the potential for growth and development.

The measure includes:

1. Provision of financial support to Roma entrepreneurs intended for self-employment and formalisation, which includes support for registration of the businesses and job creation, and
2. Provision of additional field support to Roma entrepreneurs intended for registered businesses and job creation.

The support will be in a form of mentoring in preparation of the business plan, mentoring in the process of formalisation and implementation the business idea along with providing favourable financial sources.

The initiative includes credit instrument, provision of grant for self-employment and measures from the government implemented under the Macedonian Development Bank.

Employment Service Agency through Macedonian Development Bank and commercial banks will implement the activities related to the provision of financial support for Roma entrepreneurs intended for self-employment, job creation and support for formalisation, for persons registered as unemployed.

REDI under the Memorandum for cooperation with the Government and in cooperation with the saving banks and commercial banks will be responsible for provision of financial support for Roma entrepreneurs intended for registered businesses and job creation.

The measure builds on the gained experience and established cooperation, infrastructure, conditions and operative rules for implementation the measure in 2022.

a. Activities planned for 2023

- Mapping the non-formal employees and registered businesses led by Roma interested to apply for support.

- Open call, evaluation and selection of applicants.

b. Activities planned for 2024

- Continuation of the implementation of activities through the revolving fund.

2. Results indicators

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Number of self-employed (New/formalised business of Roma entrepreneurs), through the activity for self-employment, opening of new jobs, support for formalisation, for registered unemployed persons (cumulative)	17	50	100
Number of supported new employments through supported businesses under the measure of favourable and affordable credit funds for existing businesses run by Roma (cumulative)	17	50	100

3. Expected impact on competitiveness

Encouraging the formalisation of informal activities and supporting business for new employments and business promotion (there is no base line studies focused on Roma on this topic in the country).

4. Estimated costs of the activities and the source of financing

The costs for implementation of the measure are estimated at EUR 1,980,000 per year, i.e. EUR 3,960,000 for two years.

In EUR	2023	2024	2025
1. Budgetary expenditures*	990,000	990,000	0
2. Non-budgetary financing	990,000	990,000	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	1,980,000	1,980,000	0

*National public finance sources

The fund for these activities are planned in the annual Operational plan for active employment programmes and measures under the program for self-employment and credit loans implemented by the Employment Service Agency and by the Macedonian Development Bank.

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Encouraging the formalisation of the economic activity among the Roma community for 50 people per year and reducing the informal activity. Encouraging new self-employment and improving the economic activities managed by Roma for already established businesses and registered entities for 30-50 businesses per year. The broader impact to the at least 400 persons from Roma families from this target groups who will be in Social, Health and pension insurance. Gender equality in distribution the loans and affirmative measures under the mentoring programmes and combination with other active measures for employment.

6. Expected impact on the environment

The measure has positive impact because there is place for introducing the new business idea and services supportive to environment.

Risk	Probability (low or high)	Planned mitigating action
Lower interest by the community	Medium	Active promotion of the Fund for Financial Support

Measure 14: Establishment of Management Information System on State Aid

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11.

The EU in its Progress Reports has several remarks on the state aid implementation in North Macedonia: “Rather than tackling the underlying structural challenges and business environment issues, the Government’s flagship policy to attract FDI and improve domestic firms’ competitiveness relies on providing various forms of State aid to businesses. Rather than improving business performance, those state aid schemes have a distortive effect on the market. Based on the Law on Financial Support of Investments, support is provided to companies without a clear policy objective. Furthermore, the law has certain features that are problematic in view of the EU acquis on State aid. The Law on Strategic Investments aims to support so-called strategic projects, lacks policy elaboration and implementing regulations. There is an urgent need to develop a comprehensive and transparent Registry of State Aid and to create a more effective State Aid Notification System. More action is needed to monitor these schemes’ cost-effectiveness and their impact on competitiveness, to ensure coordination of different programmes, and to strengthen the capacity of the Competition Agency and of the institutions providing State aid.”

The State aid shall be regulated to ensure that government interventions minimise both distortions to competition and trade and the risk that selective advantages are granted to specific, well-connected firms. Further, transparent management of the available State Aid programmes and schemes and the manners of their implementation are crucial for achieving a balance of the costs, benefits and risks of the use and misuse of the State Aid “funds”. State aid can promote economic integration, supporting efficient use of public resources, and boost growth and jobs. In the process of achieving structured state aid management system awareness of the state aid granting institutions on the state aid system and character is also important.

a. Activities planned in 2023

- Develop the MIS system framework (institutional, ICT requirements in both hardware and software);
- Develop inventory of the State Aid alike programmes and schemes (of all types as per the regulatory framework on State Aid).

b. Activities planned in 2024

- Establish the State Aid Register as part of the MIS SA.

c. Activities planned in 2025

- Further development of the State Aid Register as part of the MIS SA in its full capacity.

The activities will be implemented inter-institutionally i.e. both providers of the SA and ex-ante control entity - Commission for Protection of Competition in cooperation with the World Bank and lead by Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Sectors and Investments.

2. Results Indicators

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
SA MIS established	0	1	0
Number of state aid providers included in SA MIS	0	0	5+ ⁵¹
Number of SA Schemes/ programmes registered in the SA MIS	0	0	5+ ⁵²

3. Expected impact on competitiveness

The activities of this measure will provide equal level playing field for companies, through increased transparency of paid SA to single entities. Also, it will contribute the competitiveness of the national economy by increased level of competition and information equally accessible to all interested entities that may assess and access them at any point. Namely, the State Aid Register in full capacity may cover the portfolio of information from recognition of the state aid character of the specific set of benefits collective or individual, regional or horizontal through its utilisation. Also, de minimis aid schemes shall be included in the register once they are granted with objective to keep their character of de minimis.

4. Estimated cost of the activities and the source of financing

⁵¹ The number of institutions that provide/manage one or more State Aid alike programmes or schemes.

⁵² The number of programmes/schemes included in the system. the number do not show actual entities – users of state aid as the character of the programmes schemes vary from individual to horizontal, regional, etc. where number of users is more than one.

In EUR	2023	2024	2025
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	2,000,000	1,500,000	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	2,000,000	1,500,000	0

* National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The transparency of data may increase the probability of efficient use of opportunities provided by the state, thus the acceleration of business activity through higher employment may decrease the pressure towards the social care and support and decrease of unemployment rate.

6. Expected impact on the environment

This measure will target all programmes and schemes for support provided by the national and other funds in country including investments into initiatives and projects related to the implementation of the Green Deal priorities.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Insufficient coordination and communication between the institutions	Medium	Appropriate legislative changes for establishing the institutionalised setting for the system
Commitment on the highest level in the institutions involved in the establishment and operation of the SA MIS	Medium	Regular communication and reporting to the ministerial level for the progress and early warning notifications.

Measure 15: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities

The continuous decrease of the rate of informal employment is a confirmation that the implementation of the activities planned within the Action Plan for Formalisation of the Informal Economy 2021–2022 has an impact on reducing the informal employment. The realisation of the activities planned within the Action Plan for Formalisation of the Informal Economy 2021–2022 is ongoing.

Year	2019	2020	2021
Total number of employed	797,651	794,909	795,087
Total number of formally employed	669,625	687,143	698,936
Total number of informally employed	128,026	107,776	96,151
Percentage of informally employed	16.1%	13.6%	12.1%

1. Description of the measure

The measure continues from the previous year, the implementation details are presented in Table 11.

With the expert support provided within the implementation of the “Improving working conditions” project under IPA II and “Improving conditions for employment of seasonal workers”, supported by GIZ, analyses and recommendations were prepared for the design of a system and mechanisms that will contribute to reducing undeclared work in certain activities and sectors of the economy, where the occurrence of undeclared work and employment is prevalent (agriculture, catering, tourism, home services, personal services and so on). In the forthcoming period, the agreed solutions will be translated into a legal framework; activities are also planned to promote and raise awareness among various entities about the negative effects and consequences of the informal employment.

In one of the Joint conclusions, adopted on 24 May 2022 as part of the Economic and financial dialogue, it is stated that the Republic of North Macedonia should adopt a new comprehensive Strategy and Action Plan on Formalisation of the Informal Economy 2023–2025, and provide a high level of political commitment from all institutions relevant to the coordination and implementation. Aiming at implementation of these

recommendations, i.e. ensuring political commitment at a high level, the Government obliged the Ministry of Finance to undertake the necessary activities to coordinate the development of the Strategy for Formalisation of the Informal Economy 2023-2025 with an Action Plan. This will ensure an improved and more efficient coordination of all relevant institutions and stakeholders in the implementation of the planned measures and activities.

a. Activities planned for 2023

- Preparing a Law which will provide for a more simplified employment of seasonal, temporary and casual workers in order to promote formal employment in selected sectors with a greater representation of undeclared work;
- Conducting an informative campaign about undeclared work and the negative effects on workers and society. The campaign will be devised, designed and implemented in close cooperation between the relevant state institutions and the social partners;
- Conducting trainings for various target groups, such as workers, employers, labour inspectors, other inspection services, representatives of other relevant institutions, on issues related to the informal economy, undeclared work, application of new approaches/tools for tackling informal employment and so on.

b. Activities planned for 2024

- Adopting a Law and by-laws that will regulate the simplified employment of seasonal, temporary and casual workers;
- Developing and implementing a software solution (tool) for simplification of the system for registration of seasonal, temporary and casual workers in the Republic of North Macedonia.

2. Results indicators

Indicator	Baseline	Intermediate target(2025)	Target 2026
Participation/share of informally employed in the total number of employed persons (SSO - LFS)	12.1%	11.0%	10.0%

3. Expected impact on competitiveness

Efficient and functional labour markets are in negative correlation with informal employment and undeclared work, while on the other hand they are positively associated with higher competitiveness of the overall economy. In essence, companies and legal entities operating in the formal sector, i.e. formal economy, objectively face higher costs associated with their operation, compared to “informal entities” in the labour market; they pay taxes, fees, contributions and higher salaries for their employees. In the informal economy, significantly lower prices for products and services can usually be achieved, thus creating unfair competition with formal businesses. Reducing the informal economy and stimulating regular (formal) employment will undoubtedly lead to better quality of work and working conditions and to a better business environment.

4. Estimated cost of the activities and the source of financing

The cost of implementing the measure is estimated at EUR 340,000.

In EUR	2023	2024	2025
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	180,000	80,000	0
2.1 of which IPA funding, including WBIF funding	180,000	80,000	0
Total	180,000	80,000	0

*National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The reduction of the emergence of unfair competition between firms and enterprises, which is due to the existence of the informal economy and informal employment, the activities aimed at stimulating the creation of regular employment and the transition “from informal to formal” can lead to a significant reduction in employment

insecurity and to new opportunities for decent work. Therefore, the implementation of the planned measure is expected to have positive impact on the employment in the country. It should be noted that for some of the workers informality is not a choice, but a necessity which they venture into by a lack of decent jobs. That is why a coordinated and multi-sectoral approach is needed in implementing the measure. It is also important to bear in mind that the formalisation of jobs undoubtedly leads to greater protection of workers' safety and health, i.e. higher level of prevention and protection of workers in case of injury at work or illness related to work and the workplace. Naturally, in the design and implementation of the measure and the planned activities, care will be taken to ensure that the impact is gender balanced.

6. Expected impact on the environment

The measure is not expected to have a significant impact on the environment. The legal obligations and positive practices for improving the impact on the environment will be taken into account.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating actions
Lack of commitment and persistence of all relevant stakeholders in their engagement and implementation of activities for combating the informal economy	low	Involvement of all stakeholders in the design phase of the planned measures and activities. Their participation will also be encouraged and ensured through awareness raising activities.
Lack of efficient and effective coordination between the institutions in designing and implementing the policies and activities for reducing the informal economy	low (medium)	Transferring the coordinating role in the fight against the informal economy and undeclared employment to the level of the Deputy Prime Minister. This will ensure an improved and more efficient coordination of all relevant institutions and stakeholders in the implementation of the planned measures and activities. Thereby, ensuring an even higher level of political commitment and coordination.
Lack of public confidence in the effectiveness of the administrative procedures and measures.	(medium) high	Ensuring good and efficient coordination among the ministries and other relevant institutions and creation of clear cross-sectoral rules for implementation of the measures and policies for promotion of decent work. The implementation of the rules will be accompanied by a targeted public campaign on raising public awareness about the impact and effects of informal work and the benefits of formalisation that will involve all public and private actors.
Failure to adopt the legal framework for implementation of the new model on formalisation of the casual, temporary and seasonal work	medium	Adjusting the plan for unforeseen situations and priorities in accordance with the newly developed situation.

Measure 16: Support to development of the innovation eco system

1. Description of the measure

This measure is modified and extended from the last year ERP measure for Enhancing the collaboration between the academy and the industry by creation of Science Technology Park (STP).

Current facts are that there are low investments in research and development, insufficiently strong link between science and economy and human resource capacity building in research and innovation in terms of increasing the number of researchers, entrepreneurs, innovators and strengthening their knowledge and skills remain the main challenges faced by the sector. In that regard, this reform measure will enable continuity of the reform efforts invested in research, development and innovation for strengthening the institutional capacities for collaboration academia – business, as well support new actions.

This new proposed measure is focusing on development of the innovation eco system by adoption and implementation of the Smart Specialisation Strategy and setting the institutional infrastructure for support of the academia - business collaboration - establishment of STP.

In the process of creating a competitive economy, based on knowledge and innovation, there should be a strong link to enhancing the innovation and stimulating cooperation between academia and business for transferring the knowledge, skills development, increasing capacities for research and development etc.

In creation favorable environment for innovation based growth, it is necessary to provide strategic framework as a policy guidance with clear vision for inclusive and smart growth and strengthen the institutional support infrastructure for RDI in order to get closer to the forefront of science and technology and become more competitive in regional economy.

Support the development of the innovation eco system will be realised in a two submeasures:

- a. First is related to adoption of the new strategic document **Smart Specialisation Strategy - S3**, that should replace the Innovation and Competitiveness Strategy.

This strategic framework should give new impetus to the system by creating efficient coordination, prioritisation of domains for smart specialisation, to propose new set of horizontal measures for development of the innovation eco system as well as to propose a set of vertical measures and link it to the second sub component - the development of the institutional implementation infrastructure – foundation of the Science Technology Park.

Industrial policy of the Republic of North Macedonia has a focus on manufacturing industry, but as stated in the strategy, building competitiveness through innovation and the vertical/sectoral support will be linked to the new Smart Specialisation Strategy where are identified domains with highest economic, innovative and research capacities. This strategy should replace and should be the new Innovation and Competitiveness Strategy.

Namely, within the Industrial strategy, the National Roadmap for Research Infrastructure, the EU Progress Report Chapter 20 and 25 recommendations as well as findings in the SBA Policy Index is emphasised the importance of the implementation of the new strategic document for smart specialisation as a stimulus for innovation, research, growth, green and digital transition, contributing considerably to the strengthening of national research and innovation ecosystem and as a relevant framework for boosting competitiveness based on knowledge and innovation.

The strategy is in the last phase of development, thoroughly following the JRC methodology and closely supervised and in collaboration with JRC experts.

The process for development of Smart Specilazation Strategy was launched in 2018 and so far, the quantitative (mapping of economic, innovative, and research capacities) and qualitative mappings (based on 100 interviews with key stakeholders) as well as Entrepreneurial Discovery Process were concluded .

The entrepreneurial discovery process (EDP), successfully finalised in 2022, involved more then 200 stakeholders in quadriple helix, jointly discussing and defining the SWOT, vision and policy mix needed as transformation roadmap for the identified domains for smart specialisation. The identified domains for S3 are 4 vertical (Smart agriculture and food with higher added value; Electro-mechanical industry – Industry 4.0; ICT; Sustainable materials and smart buildings) and 2 horizontal domains (Energy for future, Tourism).

Green and digital transition are integral part of the S3 concept, as well as other economic and social challenges that should be considered.

Mapping of the already completed National R&D Infrastructure will be base for further development and utilisation of the existing capacities for the economy growth.

It is planned that measures and activities should target research support, innovation support, continous dialogue with all stakeholders (continous EDP), strengthening the institutional capacities for development and implementation of the measures.

It is also expected not only to be developed new pilot projects, new policy mix instruments, designed specific instruments, but to modify some of the existing instruments as well.

With implementation of the S3 instruments, will be enabled more efficient preconditions for successful launching the STP as an institutional framework.

Soft measures, increased capacities, established links, networks and dialogue will be upgraded by new platform of institutional infrastructure.

There might be a need for changes in the Law on establishment of the Fund for Innovation and Technology Development, in order to enable new set of instruments.

b. Second subcomponent is development of institutional infrastructure – STP

As it is stated in the Mapping of the R&D Infrastructure⁵³ "If North Macedonia wishes to ensure successful implementation of the S3 and to use the existing opportunities, it should provide the upgrade or construction of new research infrastructures and further develop the research-innovation potential". Regarding the investments in projects of national importance, it is also reasonable to invest in RI projects that will contribute to the reduction of the development gap in relation to the developed EU MS.

Since 2014, the Fund for Innovations and Technology Development (FITD) has provided direct financing to boost innovation activity in SMEs and since recently has introduced measures tailored to enhance academia-business cooperation. In 2020 FITD piloted the innovation vouchers, in 2021 conducted the first call for establishment of Fab Labs located in HEIs embedding the quadruple helix model and with the support of the EC International Service Facility is designing a new support measure – collaborative grants. Since its establishment in 2014, the FITD has invested more than EUR 80 million public funds in about 800 companies to stimulate innovations and adoption of new technologies. The progress has been noticed in the EC North Macedonia 2021 Report, but having in mind the low investment rate in RDI, especially by the private sector, recommendations to ensure a higher level of investment in research and innovation and intensify efforts to increase participation in Horizon Europe and other EU-financed instruments in the area remain. In the EC Progress report for 2022 is recommended to ensure sufficient financing of the Innovation Fund and to adopt the Smart Specialisation Strategy and start developing measures for its implementation.

With the objective to address the identified weaknesses of the innovation ecosystem and intensify the investments in RDI through a systematic approach targeting the academia-business collaboration, North Macedonia will establish the first Science and Technology Park. It is envisaged that the STP will initially be established with public funding, in premises adapted for a business incubator which will also host the national technology transfer office. During the first phase, the STP will offer incubation and technology transfer services, as well as general business services such as fundraising (including access to EU funds), IPR, market analysis, etc. The services will be provided for the STP tenants but also for other stakeholders under regulated terms and conditions. In the following phases, the STP will expand its infrastructure according to the market demand, gravitating towards private investment. Relevant policy, such as the Smart Specialisation Strategy, the Green Agenda, the Digital Agenda, the Agenda on Innovation, Research, Education, Culture, Youth & Sport and the WB6 Common Regional Market will be embedded in the strategic development plans of the STP. The activities of the STP will be complementary to the activities of the FITD and in close coordination with all relevant stakeholders providing support for enhancing innovation activity.

a. Activities planned in 2023

- Adoption of the S3 strategy and related Action Plan, develop the implementation framework, capacity building for implementation, expand the set of instruments enabling development of innovation ecosystem, launch first new instruments for S3
- Legal set-up

The activities for establishing of the STP will start with legal registration of the STP as a separate legal entity in line with the Law on Innovation Activity. Management, advisory and supervisory bodies will be appointed, the Statute and the Systematisation Act will be adopted.

In 2023 is expected that the Smart specialisation strategy will be adopted by the Government and the implementation will start. Important guiding tool will be Smart Specialisation implementation Framework for the EU Enlargement and Neighbourhood Region. The strategy should be sent to EC for approval.

- Strengthening the capacity of STP

Given its novelty within the national innovation ecosystem, during the first year, the activities of the STP will focus on capacity building to achieve operational capacity. Capacity building of employees but also external

⁵³<https://www.rcc.int/download/docs/RI%20Roadmap%20NMKD%20digital.pdf/ead770d94b6db137b6c2d1d7a98ea880.pdf>

expert services will be implemented to develop the strategic documents of the STP, as well as the legal/operational procedures, including terms and conditions for provision of STP services.

For S3 implementation it is essential to increase the capacities of all stakeholders as well as establishment of the governance system, organisation and management system.

- Adaptation of initial premises – business incubator & NTT

The first phase in the development of the STP hard infrastructure will be adaptation of existing construction for purposes of office space and business incubation.

b. Activities planned in 2024

- Further implementation of the AP for S3, implement pilot projects, develop new instruments, support continuous EDP, stronger regional collaboration in WB countries, collaboration with EU S3 platforms, possible IPA or twinning projects
- Operational activities

After setting its operational procedures, the STP will start with providing services and implementing activities guided by its strategic documents, including activities for further infrastructural development.

- Further infrastructural development / construction of new infrastructure

The second phase for the hard infrastructure development will include construction of laboratories. The technical specification of the laboratories will be based on market demand and pre-conducted feasibility study.

c. Activities planned in 2025

- Further S3 AP implementation, new projects and partnerships promoted, new Horizon projects developed
- Operational activities

Once established and operational, the STP will continue and extend its operational activities, depending on market needs, mobilisation of funds and established partnerships.

- Further infrastructural development

Once established and operational, the STP will continually expand its infrastructure. The expansion will be based on market demand and pre-conducted feasibility study.

2. Results Indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2025)
Number of active contracts for business & academia innovation cooperation	0	0	10
Number of new instruments for S3 developed	0	5	10
Developed platform for continuous EDP dialogue	0	4	4

3. Expected impact on competitiveness

The proposed measure with both components and its future roll out will introduce mechanisms to encourage RDI investments, innovation activity, business academia cooperation and commercialisation of innovation. The support for access to finance, as well as the development of innovation infrastructure will increase the research activities in HEIs and PROs which are applicable in industry i.e. will enhance knowledge and technology transfer contributing to the competitiveness and export potential of the companies. The process of enhancing the innovation and research ecosystem will be supported with S3 implementation, stimulating science and economy collaboration too.

The measure is complementary to the activities currently undertaken by the Fund for Innovation and Technological development related to academia-industry cooperation, thus enhancing the sustainability of the results of these measures. By facilitating knowledge and technology transfer and by facilitating the cooperation between the academia and the industry, the STP will also contribute to the BERD which currently is significantly low. It will further increase the capabilities of companies for integrating into the global value chains. The results of

this measure will be closely monitored to provide clearer view on economic growth and competitiveness impact. A similar science and technology park exists in Ljubljana, which has been operating for more than 20 years. Impact of Technology Park Ljubljana is following, 300+ member SME and start-up companies, 30+ established annually, EUR 350+ million revenue, EUR 80+ million in added value (2015), 400+ new high added value jobs, EUR 15+ million in VAT annually (estimated). TPLJ is self-sustainable and profitable with EUR 20 million in assets. Science and technology parks exist and function successfully in our surrounding, Serbia, Bulgaria, Croatia and Greece.⁵⁴

With regards to the implementation of the Smart Specialisation Strategy there will be developed a monitoring and evaluation component with set of indicators. Expected impact on competitiveness of the smart specialisation is implementation of the new legal framework for innovation, including incentives for research and innovation, and implementation of the new secondary legislation and strategic framework for science and research creating the environment favourable for business sector's investments in research, development and innovation, including strengthening of human resources in this area and linking science and economy, which will produce more visible effects on the competitiveness of enterprises in the market.

4. Estimated cost of the activities and the source of financing

In EUR	2023	2024	2025
1. Budgetary expenditures*	1,100,000	1,700,000	2,800,000
2. Non-budgetary financing	0	0	0
2.1. of which IPA funding, including WBIF funding	0	0	0
Total	1,100,000	1,700,000	2,800,000

*National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

RDI investment leads to establishment of new businesses and growth of the existing business, generating new jobs especially for young people and for highly skilled workforce. The enhanced access to finance and investment in innovation infrastructure will encourage women and youth entrepreneurship. Gender equality will be mainstreamed in the implementation of the activities and gender segregated data will be incorporated in the monitoring. With the start of operational activities, the STP will develop a Gender Equality Plan that will include gender diversified data, allocated resources and mechanisms for data collection and monitoring. The strategic documents of the STP will also include performance indicators that will measure contributions or impact of the STP on generating new jobs for young people and highly qualified workforce.

6. Expected impact on environment

Environmental Impact Assessment will be incorporated through appropriate evaluation criteria into the rules and procedures for provision of STP services. In particular, initiatives that have positive impact on the preservation and improvement of the environment will be encouraged. Entities beneficiaries of STP services are expected to contribute to the process of transformation towards a green economy. During the establishment of the Science Technology Park, all environmental impact legal obligations related to the construction works will be respected.

Through Smart Specialisation Strategy is expected implementation of the Green Deal activities, for transformation and specialisation of the domains. So, it is expected a significant impact on green transition, the positive effect is expected in terms of impact on sustainability.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating actions
Lack of interinstitutional cooperation and participatory stakeholder involvement during the establishment phase	Low	Although the STP will be established as a separate legal entity, a close cooperation with the relevant line ministries and other relevant stakeholders will be essential for development of its strategic documents and for establishment of efficient and effective operational procedures. For this purpose, from the beginning, the STP will establish consultation and cooperation mechanisms to involve all

⁵⁴<https://www.tp-lj.si/en/about-us/impact-of-technology-park-ljubljana>

		relevant stakeholders in all related activities.
Lack of efficient governance implementation structure for smart specialisation	Low	The Governance structure should be part of the strategy and there will be provided commitment by all stakeholders
Insufficient STP capacities for developing the strategic and operational documents and for conducting contracts for adaptation of the initial infrastructure	Medium	After the legal registration of the STP, budget allocations are planned for employments, strengthening of human capacities and procuring external services for the STP's successful establishment.
Insufficient pipeline for the STP services: (1) Low capacity for RDI in the academic community (2) Low pipeline of deep tech start-ups (3) Low interest of the business community for the STP services	Low	Providing free technical assistance for fundraising to applicants for RDI projects viable for PoC, knowledge and technology transfer to strengthen the pipeline and market demand. Development and implementation of a Communication Action Plan to identify and mobilise the RDI potential. Close cooperation with FITD and alignment with the FITD support measures.

Measure 17: Strengthening the market rules in the Republic of North Macedonia

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11. The measure will enhance the harmonisation with the EU acquis in the area of free movement of goods and services and strengthen the market surveillance for protection of consumers' rights. Furthermore, through this measure the national institution will be supported in establishing a better regulation for functioning of companies. More specifically, the measure will include activities for:

- Capacity building of the Ministry of Economy to draft and monitor the implementation of the new legislation in the area of free movement of goods and services and to apply corrective measures where necessary;
- Provision of support for putting in operation a real functioning Point of single contacts in accordance with the requirements of the EU Services Directive. Business operators and business organisations will be acquainted with the new legislation and supported in ensuring compliance with it;
- Support of the market surveillance through functional reorganisation of the State market inspection service, upgrade of the surveillance methodology and introduction of new tools, facilitating the work of the market inspectors, as well as by enhancing the coordination and the methodological synchronisation among the various market surveillance entities;
- Support of the national metrology body to improve its measurement standards and services, the coordination with business and secure transparency in the metrology work.

The expectations out of this activity is to enhance the strategic, legislative and institutional framework in the area of free movement of goods and services, to enhance the legislative alignment with the EU acquis as regards Company Law, Law on accounting and Law on audit; to enhance the capacity of national bodies for efficient and effective market surveillance and consumer protection and to enhance the capacity of the national metrology body to execute testing, verification, and calibration services.

a. Activities planned in 2023

- Screening of domestic legislation and administrative practices in the area of free movement of goods and services;
- Drafting new legislation in the area of free movement of goods and services for further legislative alignment in the areas: a) motor vehicles, b) emission of pollutants from non-road mobile engines, c)

chemicals, d) medical products for human and for veterinary use, e) cosmetics, f) pre-packaging, g) textiles, h) footwear, i) aerosol dispensers and j) toys;

- Functional analyses of the State market inspection services;
- Design of an e-Inspection as a single inspection interoperable database.

b. Activities planned in 2024

- Capacity building of the relevant institutions in the area of free movement of goods and services;
- Designing of a system for functional Point of single contacts;
- Upgrading of an existing Register of measuring instruments and improvement of the risk analysis methods based on the data from the register;
- Upgrading of calibration and verification working procedures and laboratory manuals;
- Development of new measurement standards and services.

The activities will be implemented by external partner contracted by the EUD in North Macedonia in cooperation with national institutions lead by Ministry of Economy.

2. Results Indicators

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
New legislation drafted	0	0	20
Capacity building events conducted (trainings, workshops etc.)	0	0	5
Functional Point of single contacts	0	0	1
Digital tools introduced in the inspection institutions	1	1	4
Measurement standards and services developed	/	/	5

3. Expected impact on competitiveness

The measure will contribute to boosting the economic development and trade relations with the EU while improving conformity with health, safety and environmental requirements. It will enhance the harmonisation with the EU acquis in the area of internal market with a primary focus on free movement of goods and services, protection of consumers' rights and better regulation of the business functioning. The capacity building measures will contribute the enforcement of laws and will enhance the new established processes and structures. Particular focus is put on improving market surveillance and consumer protection.

More widely this measure will increase the possibility for trade by allowing consumers to buy more, better-quality products at lower costs. It drives economic growth, enhanced efficiency, increased innovation, and the greater fairness that accompanies a rules-based system. It is oriented towards the alignment of the legal framework in areas of Chapter 1, Chapter 3, Chapter 6 and Chapter 28, as well as to improve the capacities of relevant national institutions to operate efficiently within the enhanced legal framework.

4. Estimated cost of the activities and the source of financing

The cost is estimated at EUR 2,000,000. The source of financing is IPA funds.

In EUR	2023	2024	2025
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	1,000,000	1,000,000	0
2.1. of which IPA funding, including WBIF funding	1,000,000	1,000,000	0
Total	1,000,000	1,000,000	0

*National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Indirectly by increasing the possibility for export by introducing better production standards and business environment, companies will be able to increase their market share and ideally to expand their sales to foreign (EU) markets. This should increase company's revenues/profit and will create possibilities for increasing the production and opening new jobs.

6. Expected impact on the environment

This measure will vigorously promote respect to the principles of environmental suitability. The transposition of the new legislation on free movement of goods is very much linked to addressing modern environmental challenges and ensuring compliance of the national markets with the environmental requirements along with the requirements for safety and health. Thus this measure will contribute to "greening" of the policy-making in the country.

7. Potential risks

Risk	Probability (low or high)	Mitigating actions
Required preconditions in the involved institutions are not met (human resources, system readiness, outsourcing contracts, etc.).	Medium	Preparation of working plans based on the analysis for realistic targets, involvements and deadlines.
Commitment on the highest level in the institutions involved in accelerator development is not reflected in the commitment on operational level.	Medium	Regular communication and reporting to the ministerial level for the progress and early warning notifications.

Measure 18: Modernisation of the postharvest technologies and processes of the agricultural products

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11.

The main objective of the measure is increasing the competitiveness of the agriculture by modernisation of the postharvest technologies and processes in the trade of agricultural products and proper implementation of the agricultural hygiene rules and quality standards, appropriate waste management and environmental protection. Modernisation will include construction and operation of two purchase centres in the Municipality of Resen and Strumica, and one agro-food trade platform in Skopje.

a. Collection and Conditioning Centre in Resen Municipality

The Municipality of Resen accounts for 95% of the total apple production in the Pelagonija Region and for 84% of the total apple production in the country. In 2018, the total production in Pelagonija reached 105,000 tons. The total production potential is estimated at 150,000 tons.

The sector is characterised by the limited availability of modern cold storage and conditioning facilities, resulting in sub-optimal quality, grading, and storage of the produce, resulting in high losses and forgone revenue. In Pelagonija region, the current total cold storage capacity is about 8,000 tons. Two companies operate facilities with larger capacity while a small number of individual farms have built small cooling facilities for their own production and can partially meet their own needs. Modern storage chambers with controlled atmosphere for long-term storage are installed in a single distribution centre in the vicinity of Resen with a capacity of 5,000 tons.

The Collection and Conditioning Centre (CCC) in Resen will fill a critical gap in cooling and conditioning facilities, which will be instrumental for more standardised production and quality management, including sorting and packing, for domestic and international markets. The integrated cooling, sorting, grading and conditioning facility will be technology innovative and can serve as important demonstration for future scale-up.

The CCC will be linked into the national food distribution system organised around the central Agro-Food Platform in Skopje and will provide the facilities and conditions to:

- Improve food safety and quality in compliance with international standards;
- Enhance competitiveness of the apple value chain through quality sorting, grading and packing;
- Enhance aggregation and horizontal integration of small holders for greater market and price negotiation power;
- Contribute to the organisation of a national food distribution system through logistics linkages to Skopje; and
- Create an enabling environment for private investments in the processing and services sectors as quantities and quality becomes more predictable and organised.

The basic design parameters for the CCC will tentatively include:

- 10,000 m² floor area;
- 5,000 m² facility, flexible to anticipate possible increase of quantities;
- A total handling capacity of 5,000 to 8,000 tons per year;
- Cold Storage capacity;
- A sorting and grading line.

b. Collection and Conditioning Centre in Strumica Municipality

The Strumica-Radovis Valley and the Gevgelija-Valandovo Valley in the Southeast Region are the main areas for vegetable production. The total production of the five main vegetable crops – pepper, tomato, cucumber, cabbage, watermelon – represent nearly 60% of North Macedonia's total production of 380,000 tons. The main producer areas are the municipalities of Strumica, Vasilevo, Gevgelija, Bosilovo, Novo Selo, Bogdanci and Valandovo.

The CCC in Strumica will serve as a critical facility in a region of intensive vegetable production where surpluses of produce cannot immediately access the market and therefore require cold storage, sorting, packing or preparation for processing. While some local operators have already invested in private conditioning centres for their own business, the remaining gap in such facilities is large, negatively impacting directly smallholder producers that do not have access to such facilities, and as well as the volume and quality of produce that can be exported to high value markets. Most of the international big retailers currently do not consider the Southeast Region as supplier for their supermarkets as produce originating from there generally does not meet the required sanitary standards. For a region with a comparative advantage in vegetable production, the CCC would be crucial to strengthen competitiveness, access new high value markets and realise higher prices, which in turn would bring direct and spillover economic benefits to the region.

Specifically, the CCC in Strumica will allow for:

- Standardised product handling,
- Support aggregation of volumes and increase market power,
- Provide the necessary infrastructure and services to meet quality, and sanitary and phytosanitary standards required for accessing high value markets, which would be particularly important and impactful for smallholder farms.

The CCC would be part of the national food distribution system organised around an AFP located in Skopje. The basic design parameters for the CCC will tentatively include:

- 12,000 square meters of area,
- 6,000 sqm of built facilities, flexible to anticipate an expansion;
- Handling capacity for 25,000 tons of fresh and processed vegetables;
- Cold storage capacity;
- A multi-functional sorting and grading line.

c. Agri-Food Platform in Skopje area (Gazi Baba Municipality)

The construction of an Agri-Food Platform - AFP (wholesale market and logistics area) in Skopje will be the focal infrastructure for the organisation of fresh food aggregation, marketing and distribution systems in North Macedonia and will serve as a connector to different CCCs. It will allow the small-holders of the region to access to the market (accommodation and food service activities, open air markets, small retailers) but also the main operators of the sector (wholesalers, exporters, hypermarkets and supermarkets) to organise their activities through synergies and economy of scales.

The objective is to create an agro-food platform in the proximity of the city centre to ease food distribution for Skopje and access of the main customers to the wholesale market, and also well connected to the main axes of communication with the Balkan region to promote logistics activities.

The AFP will have, at minimum, the following functionalities:

- Organise and improve the supply of safe and standardised fresh food products for the city of Skopje with a total population of around 600,000 people;
- Provide access to market for local fresh foods (Skopje produces 46,000 tons of vegetables); and
- Provide logistics and other services for agro-food sector, for both, domestic and international markets.

The main objectives of the AFP project are:

- Enhance a commercial dynamic at the agglomeration and regional levels;
- Support the socio-economic development of the region;
- Reduce environmental impacts generated by food distribution operations on urban area;
- Develop a modern logistics to improve the competitiveness of the value chains;
- Improve food safety and hygiene conditions;
- Fight against the informal market.

The initial demand/ market analysis is based on meetings with producers, cooperatives, collectors, wholesalers, processors, importers, exporters, and retailers and underlined the broad stakeholder interest in such infrastructure. Potential export markets will be reachable through the improvement of quality and sanitary standards and will provide greater value to producers and develop more sustainable value chains. Many potential users have already been identified and expressed their interests to have access to such facilities for their activities.

The establishment of these centres and platform will be used also for implementation of the national agricultural CMO – Common market organisation policy and CMO measures which soon will be established in North Macedonia (as candidate country we are obligated to introduce and implement CMO policies in the pre-accession period). The CMO measures include intervention measures for storage of agricultural products in case of market disturbances or measures for school schemes that promote establishing healthy eating habits among children with consumption of fresh fruit and vegetables and additionally have educational purpose.

Responsible for implementation of the measure will be MAFWE with close cooperation with the other relevant governmental, public and private institutions and entities in North Macedonia.

Direct beneficiaries of the measure will be individual agricultural producers, farmers associations, organisations and cooperatives, agricultural holdings/enterprises, traders and wholesalers.

Indirect beneficiaries will be MAFWE and other related public institutions because of the useful data collected with the software installed in the centres, as well as consumers as a result of the increased quality of agri-food products. Additional benefit would be the reduced impact on the environment through food waste reduction, proper waste management and usage of green energy.

The measure is directly related with the main three goals of the National Strategy for Agriculture and Rural Development 2021 - 2028:

- Improving the competitiveness of the agro-food sector, economic sustainability and income of agricultural holdings (proper implementation of mandatory quality and safety standards, proper storage, packaging and distribution in these modern centres will improve the quality and safety of Macedonian agricultural products and will increase their competitiveness);
- Application of environmental practices in production that lead to a reduction of the impact of climate change and adaptation to them (with establishment of the centres food waste will be significantly reduced and managed and green energy will be used);
- Providing sustainable development of rural areas (these centres will employ people from rural areas).

National legal framework related with this measure is: Law on quality of agricultural products⁵⁵ and Law on agriculture and rural development⁵⁶.

The management and operation with centres would be contracted to a private operator or an association of cooperatives through a concession agreement, while for management and operation of the trade platform two options have been identified: (a) a public delegation service contract to a private experienced operator and (b) a

⁵⁵ (Official Gazette of RNM No: 140/2010)

⁵⁶ (Official Gazette of RNM No: 49/2010)

public delegation service contract to a semi-public company, with technical assistance for training of local personnel to operate and guide the operation of the market for several years.

The planned activities for realisation of this measure are listed in the following table for the period 2023-2025.

Activity	2023	2024	2025
Institutional set up	New working systematisation with introduction of Department on CMO		
New national CMO law	Adoption of the new CMO law	Adoption of the bylaws	
Programme for support - CMO			Drafting of the programme
Construction of a purchase centre for fruits and vegetables in Resen and Strumica	Preparatory activities related to construction (Development of Feasibility Study and Detailed Design) Starting with construction	Construction	
Construction of a trading platform for fruits and vegetables in Skopje	Preparatory activities related to construction (Development of Feasibility Study and Detailed Design) Starting with construction	Construction	

2. Result indicators

Indicator	Baseline 2018	Intermediate target (2023)	Target (2025)
Percentage of agricultural products marketed in compliance with quality standards*	40	/	75
Percentage of loss in postharvest production**	30	/	20
Expected new employment	0	/	200+400 new jobs***

Source: * and ** The World Bank Agriculture Modernisation Project (P168014)

***CCCs and AFP. These are seasonal employments, 100 in CCC Strumica, 100 in CCC Resen and 400 in AFP Skopje

3. Expected impact on competitiveness

The implementation of the measure will improve competitiveness and farmers will achieve better economic results from their production. Namely, through the introduction of quality and safety standards, change of the FFV variety structure and improvement of postharvest storage and preservation conditions of the products, it is expected that the products will be with higher quality, higher income and standards that meet European requirements.

The quantity of agricultural products that can be stored in modern purchasing centres with European standards will increase, in Resen 5,000 tons, Strumica 25,000 tons and Skopje 46,000 tons of fruits and vegetables.

4. Estimated cost of the activities and the source of financing

The total cost of the measure for the period 2023-2025 is estimated at around EUR 31.4 million out of which EUR 700,000 are IPA funds and the remaining funds are provided through the World Bank loan.

In EUR	2023	2024	2025
1. Budgetary expenditures* - World Bank loan	5,542,000	25,134,000	24,000
2. Non-budgetary financing - IPA	0	350,000	350,000
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	5,542,000	25,484,000	374,000

*National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

With the construction of the purchasing centres for fruits and vegetables and especially with the introduction of the measures for regulation of the markets, all farmers on the territory of the Republic of North Macedonia will benefit, especially in the region of Strumica, Resen and Skopje. It will reduce the problem with the storage

conditions and storage capacities that currently exist, which result in mud and scattering of agricultural products and economic loss. Gender equality will be respected during the implementation of this measure.

6. Expected impact on the environment

During the construction of the purchase centres, all environmental protection standards will be taken into account. Usage of green energy and reduction and managing of food waste will provide significant positive impact on environment.

The centres and platform will be designed and built with high energy efficiency standards and the options for use of solar energy will be explored to further reduce GHG emissions; the anticipated impacts of climate change and climate related risks at the three locations will be considered to ensure climate resistance of new systems.

7. Potential risks

Risk	Probability (high or low)	Planned mitigating action
A long process of obtaining the necessary building permits and approvals	high	Increased cooperation between the competent institutions
Long process of land expropriation	high	Increasing the capacity of the offices of the ombudsman institution in handling and processing the requests for expropriation to the MoF - UIPR, regional offices

5.2 Analysis of obstacles in other areas and related structural reform measures

4) Improving Public finance management

In addition to the upcoming challenges on the way to achieving a decent level of competitiveness and inclusive growth, another challenging area that needs to be addressed is the public finance management (PFM). North Macedonia has taken several steps to improve public finance management in recent years, but a number of challenges still remain. The authorities strengthened the commitment control, invested resources in the development of stronger PFM systems for public debt and procurement, and increased fiscal transparency. However, there are many simple improvements that could be made to the publication of first data which could improve fiscal transparency in line with the international norms. North Macedonia also struggles to encourage sufficiently competitive bidding in public procurement contracts, although the government has made important progress in the development of e-procurement systems. In general, the government remained committed to the development of financial management systems over the years. Nevertheless, technological developments impose the necessity to expand the functions of the current systems and, even though they are functioning smoothly, it is important to establish new modern integrated information systems as part of the Ministry of Finance's strategic goals. This includes the development of a new Treasury System and a new Integrated Tax Information System (ITIS). One of the key features of ITIS will be flexibility i.e. the possibility of adapting to a change in the processes caused by a change in the Laws for the implementation of Concept of tax reforms. As part of the renewal process of the systems, the government should also carefully review all available options to integrate them into a single Integrated Financial Management Information System (IFMIS). Considering that the government plans to scale up public investment, strengthening the Public Investment Management should be given particular importance. That being said, a PFM reform programme should combine in-depth diagnostics on cash management, development of new integrated IT systems and improved Public Investment Management.

Measure 19: Establishing Integrated Tax Information System in Public Revenue Office (PRO)

1. Description of the measure

This measure continues from last year, and the details of the implementation are shown in Table 11.

The PRO is in the process of the modernisation of its core business processes and reform agenda is the highest priority of the tax administration. In this regards, the most important reform is the establishing of new ITIS. The inherited systems, which were used and some are still used by the PRO, are limited in their functionality and have not evolved to meet the changing needs of the tax administration. The key weakness of the PRO

information system is the lack of real-time information, as well as a reliable and clear picture of the taxpayer compliance status. In addition, there are several ongoing reforms and initiatives aimed at promoting voluntary taxation, improving the effectiveness of taxpayer services, and improving the business environment. These initiatives require the strengthening of IT systems and the development of appropriate functionalities in order to make effective use of these efforts.

In this context, the implementation of the new tax system should not only address the current requirements of the tax authorities but also address the most critical questions and limitations of existing systems, thus eliminating (or reducing) current shortcomings. The new ITIS aims to improve the operational efficiency of tax administration functions, as well as increase revenue by strengthening compliance monitoring and improving taxpayer services. Also coping with the grey economy is one of the key challenges that will be addressed with the digitalisation (projects as My VAT, e-invoice, e-PIT, etc.)

The new ITIS should have the following characteristics: real-time processing, transparency, orientation of the service, continuous availability, automatisation of operations, e-Administration, mass-scale processing (data processing), unified monitoring of tax and other liabilities, the 3T principle (Taxpayer; Type of tax; Tax period), client relations management (CRM), log of events and log of revision (audit), and compliance risk management with the taxpayers. Also, the ITIS will cover all taxes (PIT, VAT and CIT) managed by the PRO, as well as social contributions.

As a first step towards the introduction of a new integrated information system in the PRO from 1 November 2017 to 31 January 2019, the IPA 2 Project "Development and reengineering of business processes for the new tax integrated IT system" was implemented.

Based on the defined work processes in this project, a future model of integrated tax IT system of the PRO was proposed, which will provide optimal processes for collection, reporting, analysis and risk management in accordance with the tax legislation.

Several logical units are defined: registration, management of filing and receiving tax returns, assessment, enforcement, payments, refunds, accounting, auditing, legal affairs, international cooperation, compliance management, service management and data exchange with external systems. Each of the logic units consists of several processes that support the required functionality. This project also defined the hardware architecture of the new IT system needed to support these workflows.

In January 2019, the Public Revenue Office adopted an IT strategy 2019-2022 which envisages the application of modern information and communication technologies to provide a reliable and secure information system for the development of flexible, efficient, effective and service-oriented tax administration.

The Tax System Reform Strategy 2020-2023 points out to the introduction of a new ITIS, which covers all business processes and ensures data records in accordance with the national and international regulations and standards.

The new ITIS is being developed as its own software (web-based application based on the Oracle database) instead of COTS (due to budget/time constraints and sustainability issues).

The existing information systems of the PRO (for example, e-tax portal, DANIS (current Tax Information System), Monthly calculation for integrated payment -MCIP) are gradually being replaced by new modules of ITIS and the existing interfaces will be expanded (for example, KIBS, future IFMIS, Customs and much more).

Implemented development projects and projects which are underway for the establishment of ITIS are: software solution for simplification of the procedures for reporting and payment of personal income tax for individuals - citizens and issuance of a prefilled annual tax return, which is upgraded with modules for submitting Monthly calculation for integrated payment - MCIP and Personal Income Tax-Tax Balance (PIT TB) and thus completes the module that supports the processes of the tax procedure related to the personal income tax. Also, within this frame, the following projects for the establishment of ITIS are being implemented:

- New Masterfile - the PRO gets rid of the independent keeping of the registers of taxpayers in the part of the basic data that it takes over from the registration bodies in charge of those registers (CRN - for natural persons and CR for the trade register), and concentrates on creating taxpayers' registers by types of tax;

- New tax accounting that will enable better tax debt management and public revenue planning;
- A new integrated e-Taxes module in which, in addition to modernising the method of receiving reports and other submissions that taxpayers submit to the PRO, on the so-called electronic mailbox, that is, on the portal, taxpayers will also be able to download electronic documents submitted by the PRO.

With the implementation of these projects from 2019, the basic structure of the IT system of the PRO began to be established, and the basic structure will be completed by replacing the module for processing tax returns and other submissions and determining tax debt. To complete the IT system, there remain modules of the information system, which are planned to be implemented in the period until 2025. Most of the modules for the new ITIS are financed with budget funds, and the rest of the ITIS will be financed with a loan through the World Bank. In the part of the PRO, a proposal has been prepared for Component 2: Supporting the tax reforms of the IT strategy of the PRO and promotion of the ITIS, which include the remaining projects/modules for completing the IT system.

In the framework of the digital transformation of the PRO and the introduction of ITIS, two components are emphasised:

Component 1. Completion of the remaining modules from ITIS

In order to complete the new IT system, modules of PRO's information system remain, as follows:

- Realisation of procurement of software for implementation of tax procedure per case in 2023, which will end in 2024;
- New ITIS modules for e-commerce and e-invoice;
- Data warehouse; and
- Business Intelligence Tools as components: risk management, compliance and fact-based decision-making.

a. Activities planned in 2023

- The realisation of the procurement of the software for the implementation of the tax procedure by subject, including Masterfile and tax accounting;
- Starting activities for the establishment of a Data Warehouse.

b. Activities planned in 2024

- Continuation of the realisation of the procurement of the software for the implementation of tax procedure by subject;
- Establishing a Data Warehouse and business intelligence tools - Data Warehouse and BI;
- Establishing a new ICT infrastructure.

c. Activities planned in 2025

- Usage of business intelligence tools when processing reports from taxpayers and for risk management and compliance management.

Component 2. Ensuring security of IS (Information system) and smooth functioning of the ITIS

This component comprise of: activities to increase the safety and security of IS and establishing of Disaster Recovery Centre.

a. Planned activities in 2023

- Continuation of the modernisation of the ICT infrastructure;
- Continuation of activities to increase the security of the PRO systems.

b. Planned activities in 2024

- Continuation of the activities to increase the security of the PRO systems;
- Continuation of the activities for the development and restructuring of the IT subsystems of the PRO;
- Starting activities for the establishment of a Disaster Recovery Centre.

c. Planned activities in 2025

- Increasing the reliability of the PRO systems;
- Development and restructuring of the IT subsystems of the PRO;

- Establishment of a Disaster Recovery Centre.

2. Results Indicators

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2025)
Percentage of business processes implemented in the new ITIS	N/A	At least 90%	At least 95%
Percentage of taxpayer services that have been digitalised	83%	Up to 95%	Up to 100%
Number of governmental institutions with which the ITIS is exchanging data	15	At least 25%	At least 30%
Percentage of transferred types of data into the Data Warehouse	N/A	60%	80%
Percentage of successful tests for security and safety of the system	N/A	50%	100%
Percentage of successful tests of the Data Recovery Centre	N/A	50%	100%

3. Expected impact on competitiveness

This measure takes into account the opportunities offered by digitalisation, new communication channels and the large increase of internal and external data sources, which will allow at the end tax administration to fully digitalise services towards taxpayers, thus helping the companies to save time and costs. Digital transformation of the tax administration will inevitably lead to increasing the collection of taxes estimated at least 10%, as well as reducing the informal economy, which helps formal business to increase their revenues, automated fact based decisions and to voluntarily comply.

4. Estimated cost of the activities and the source of financing

The cost for implementation of the measure is estimated at EUR 5,000,000.

In EUR	2023	2024	2025
1. Budgetary expenditures* - World Bank loan	2,500,000	1,350,000	1,150,000
2. Non-budgetary financing - IPA	0	0	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	2,500,000	1,350,000	1,150,000

* National public finance sources

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The digitalisation of the business processes of the tax administration will inevitably lead to less financial burden to the businesses, which can further on allocate funds to increase employment, thus reducing poverty. Another positive impact is gender equality because digitalisation does not favour or discriminate any particular gender.

6. Expected impact on the environment

This measure will lead to improving environmental sustainability. The digitalisation of the tax administration's business processes will have a positive impact on the environment. Paperless administration means less pollution and in the same time will reduce time and costs of the new digitalised business processes, which will save resources.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Lack of human and institutional capacities in the PRO, especially in the Directorate of Information Technology	High	Human resource management policy, especially in the IT
Insufficient dedication and resistance to change by the PRO staff	Medium	Ensured transparency and inclusion of as much as possible staff of the PRO in the projects and trainings for the employees
Late procurement of hardware	Medium	Temporary use of the existing equipment
Non-provision of legal frameworks	Medium	Harmonisation with the existing legislation

5.3 Summary of reform measures

A. Reforms addressing the three key challenges:
1. Strengthening of human capital for inclusive development
Measure 1: Further development of qualification system
Measure 2: Increasing the flexibility and security of the labour market
Measure 3: Enhancing the system for social inclusion of vulnerable groups
Measure 4: Strengthening the quality of the Primary Health care
2. Fostering the green transition
Measure 5: Promotion of renewable energy sources
Measure 6: Improvement of energy efficiency
Measure 7: Establishing wastewater collection and treatment infrastructure in accordance with EU requirements
Measure 8: Establishing an integrated and financially self-sustainable waste management system
3. Improving the competitiveness of domestic companies, their integration in the global value chains and formalisation of the economy
Measure 9: Implementation of an Intelligent Transport System (ITS) along Corridor X
Measure 10: Broadening the scope of digital services provided on National E-service Portal
Measure 11: Streamline the use of parafiscal charges
Measure 12: Hybrid fund for green and digital start-ups and innovative SME's
Measure 13: Financial support for Roma entrepreneurs
Measure 14: Establishment of Management Information System on State Aid
Measure 15: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities
Measure 16: Support to development of the innovation eco system
Measure 17: Strengthening the market rules in the Republic of North Macedonia
Measure 18: Modernisation of the postharvest technologies and processes of the agricultural products
B. Reforms addressing other challenges:
Measure 19: Establishing Integrated Tax Information System in Public Revenue Office (PRO)

6. The cost and financing of structural reforms

The total cost for financing the structural reform measures under ERP 2023-2025 is EUR 400,030,646 for the whole period under which the Programme is submitted, i.e. for 2023-2025. Of that amount, EUR 133,381,645 are provided from the Central Budget, EUR 7,790,000 are funds provided from other national public finance sources, EUR 99,795,001 from IPA funds, 2,238,000 are provided through other grants, EUR 139,826,000 are provided through project loans and the source of financing for EUR 17,000,000 will be additionally determined. Central budget funds account for 33.3% of total financing costs, 1.9% of total funds are provided from other national public finance sources, IPA funds account for 24.9%, other grants for 0.6%, 35.0% of total funds are provided through project loans, while the source for 4.2% of the funds will be additionally determined.

Compared to the previous Economic Reform Programme (ERP 2022-2024), the total costs for financing the structural reform measures from ERP 2023-2025 are higher by EUR 10,545,461, i.e. 2.7%.

When proposing the structural reform measures, the relevant institutions should have envisaged them in the budget.

The highest amount of funds for implementation of the measures is planned for the measures fostering the green transition, in particular the measure for establishing wastewater collection and treatment infrastructure in accordance with EU requirements for which in the period 2023-2025 a total of EUR 171,574,956 are planned to be allocated and the measure for establishing an integrated and financially self-sustainable waste management system for which a total of EUR 35,475,878 are planned. For the measure for strengthening of human capital for inclusive development, i.e. the measure for enhancing the system for social inclusion of vulnerable groups a total of EUR 44,906,000 are planned. The measure for improving the competitiveness of domestic companies, their integration in the global value chains and formalisation of the economy, in particular the measure for modernisation of the postharvest technologies and processes of the agricultural products it is planned a total of EUR 31,400,000 to be allocated. The measure for establishment of hybrid fund for green and digital start-ups and innovative SME's is next in the amount of allocated funds, for which a total of EUR 27,000,000 are planned. In general, most of the measures contain activities for adoption of new laws or amendment of existing laws and bylaws.

7. Institutional issues and stakeholder involvement

The Economic Reform Programme 2023-2025 was prepared by the inter-ministerial working group for the preparation of the ERP, which includes nominated ERP coordinators from relevant ministries and institutions. The whole process is coordinated by the Ministry of Finance - as the National coordinator. In the process of preparing the Programme, the following institutions were involved: Cabinet of the Deputy Prime Minister in charge of economic affairs, coordination of economic sectors and investments, National Bank, Office of the President of the Government, Ministry of finance, Ministry of Economy, Ministry of Labour and Social Policy, Ministry of Education and Science, Ministry of Transport and Communication, Ministry of Agriculture, Forestry and Water Economy, Ministry of Information Society and Administration, Ministry of Health, Ministry of environment and physical planning, Public revenue office, Secretariat of European affairs, Fund for Innovation and Technology Development. In the preparation process, according to current practice, in addition to the member of the working group, representatives of the sectors in the institutions responsible for policy making, as well as the budget departments were actively involved.

In the process of preparation of the programme, face-to-face working meetings, trainings and consultations were organised with the institutions, and the tools for organising virtual events were used as well, through which the advisory mission of the EC was held. Also, electronic communication was used to the maximum, all with the aim of the preparation of the ERP moving within the established time dynamics for its delivery to the EC.

On May 24, 2022, the Economic and Financial Dialogue on ministerial level with the EU was held, at which the Joint conclusions with policy guidance were adopted, which are the basis for creating reform measures for ERP 2023-2025.

On June 22, 2022, a Regional EU meeting for starting the process of preparation of the ERP 2023-2025 was held where inter alia the new ERP Guidance Note was presented, with focus on the three key challenges the country has to overcome in the next period, and connection of structural reform measures with the key challenges, SDGs, European Green Deal, EU Digital Agenda and the link between ERP and IPA 3 programming.

In the period July-December, 2022, as part of the EU funded multi-beneficiary project⁵⁷, several workshops with CEF⁵⁸ were held, related to team planning and development of institutional capacities for better ERP, programming of structural reforms for ERP 2023-2025, key performance indicators and exchange of good practices for key performance indicators.

In August 2022, the Government adopted the Information for the Economic and Financial Dialogue between EU and Western Balkan and Turkey and the process of preparation of the Economic Reform Programme 2023-2025, containing the Action plan with the Joint Conclusions - Policy Guidances with Recommendations adopted on May 24, 2022, as well as the Work Plan with time dynamics for preparation of ERP 2023-2025.

⁵⁷EU funded multi-beneficiary project "Strengthening Line Ministries' Capacities to Assess Fiscal Implications of Structural Reforms", a regional project for Western Balkans countries and Turkey

⁵⁸Centre of Excellence in Finance, Ljubljana

In September 2022, the relevant institutions submitted to MoF draft of the sector diagnostics with proposals of reform measures for ERP 2023-2025.

The EC Internet Advisory Missions on the proposed measures were held on November 23 and 24, 2022, and in discussions with the institutions, proposals were made to improve the measures.

In December 2022, the relevant institutions submitted to the MoF final report on the level of implementation of the activities of the Action Plan for implementation of the policy recommendations of the Economic and Financial Dialogue with the EU from May 24, 2022.

From 15 to 29 of December draft ERP 2023-2025, Chapter 2 - Implementation of the policy guidance and Chapter 5 – Structural reform measures, were published on the MF's website (<https://finance.gov.mk/public-consultation-for-the-draft-economic-reform-programme-2023-2025/?lang=en>), as part of the process for public consultation and at the same time electronic invitation was sent to stakeholders, including the Economic and Social Council, for the submission of opinions and comments regarding the measures. The received comments and suggestions are attached in Annex 3.

In December 2022 the macroeconomic and fiscal framework for ERP 2023-2025 was prepared.

In January 2023, ERP was submitted with Information to the Government, with draft conclusions to accept the text of ERP 2023-2025 and to oblige the Minister of Finance to submit it to the EC.

The Government adopted the Programme at a session held on 01.02.2023.

Annex 1: Summary data

Table 1a. Macroeconomic prospects

	ESA Code	2021	2021	2022	2023	2024	2025
		bn EUR	Rate of change				
1. Real GDP at market prices	B1*g	11.287	3.9	2.7	2.9	4.1	5.0
2. GDP at market prices	B1*g	11.690	7.6	15.5	10.6	6.5	7.1
Components of real GDP							
3. Private consumption expenditure	P3	8	8.1	3.6	2.4	3.4	3.6
4. Government consumption expenditure	P3	2	-0.4	0.5	0.8	1.0	1.1
5. Gross fixed capital formation ⁵⁹	P51	3	0.9	14.5	5.1	7.8	8.5
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	:	:	:	:	:	:
7. Exports of goods and services	P6	7	11.7	8.0	4.5	8.0	8.8
8. Imports of goods and services	P7	9	11.9	12.0	4.3	7.6	7.8
Contribution to real GDP growth							
9. Final domestic demand		12.8	5.5	7.2	3.6	5.3	5.8
10. Change in inventories and net acquisition of valuables	P52+P53	:	:	:	:	:	:
11. External balance of goods/services	B11	-2	-1.6	-4.5	-0.7	-1.2	-0.8

Source: SSO and calculations of the Ministry of finance

Table 1b. Price developments

		2021	2022	2023	2024	2025
1. GDP deflator	%	3.6	12.4	7.5293	2.4	2.0
2. Private consumption deflator	%	2.1	13.5	7.1	2.5	2.0
3. HICP	%	:	:	:	:	:
4. National CPI	%	3.2	14.3	8.5	2.4	2.0
5. Public consumption deflator	%	3.3	11.0	5.5	2.4	2.0
6. Investment deflator	%	15.3	12.0	5.3	1.6	1.7
7. Export price deflator (goods & services)	%	10.4	11.2	3.6	1.4	1.5
8. Import price deflator (goods & services)	%	12.3	11.9	3.0	1.4	1.5

Source: MoF Calculations and NBRNM

Table 1c. Labour market developments

	ESA code	2020	2021	2022	2023	2024	2025
		Level	Rate of change				
1. Population (thousands)			2,067.5	2,061.9	2,055.7	2,049.1	:
2. Population (growth rate in %)			-0.2	-0.3	-0.3	-0.3	-100.0
3. Working-age population (persons. thousands ⁶⁰)			1,695	1,709	1,722	1,738	:
4. Participation rate			56.1	56.5	57.0	57.7	:
5. Employment ⁶¹ (persons. thousands)			801	826	855	888	:
6. Employment ⁶² . hours worked			:	:	:	:	:
7. Employment (growth rate in %)			0.8	3.1	3.5	3.8	:
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate ⁶³			15.8	14.4	12.9	11.4	:
11. Labour productivity ⁶⁴ . persons		868.0	3.1	-0.4	-0.6	0.3	:
12. Labour productivity ⁶⁵ . hours worked			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Source: SSO and MoF calculations

⁵⁹ Data refers to gross capital formation

⁶⁰ Age group of 15-64 years

⁶¹ Occupied population, domestic concept national accounts definition

⁶² National accounts definition

⁶³ Harmonised definition, Eurostat

⁶⁴ Real GDP per person employed

⁶⁵ Real GDP per hour worked

Table 1d. Sectoral balance

% of GDP	ESA	2021	2022	2023	2024	2025
1. Net lending/borrowing vis-à-vis the rest of the world	B9	2.0	-1.0	0.7	1.2	2.8
of which:						
- Balance of goods and services		-16.0	-21.9	-19.9	-14.8	-12.9
- Balance of primary incomes and transfers		12.9	14.5	14.2	12.7	11.7
- Capital account		5.1	6.4	6.4	3.3	4.0
2. Net lending/borrowing of the private sector	B9/EDP B9	2.9	-1.5	:	:	:
3. Net lending/borrowing of general government		-5.4	-5.1	-4.6	-3.4	-2.9
4. Statistical discrepancy		0.5	0.3	0.0	0.0	0.0

Source: NBRNM and MoF

Table 1e. GDP, investment and gross value added

	ESA	2021	2022	2023	2024	2025
GDP and investment						
GDP level at current market prices (in bn Denars)	B1g	720.4	831.7	920.2	980.5	1,050.0
Investment ratio (% of GDP)		32.3	35.9	35.9	36.9	38.1
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-5.2	:	:	:	:
2. Industry (excluding construction)		0.9	:	:	:	:
3. Construction		-5.5	:	:	:	:
4. Services		7.5	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

Table 1f. External sector developments

Euro billion	2021	2022	2023	2024	2025
1. Current account balance(% of GDP)	-3.1	-7.4	-5.6	-2.1	-1.2
2. Export of goods	6.0	6.9	7.1	7.4	7.6
3. Import of goods	8.4	10.6	11.0	10.7	10.8
4. Trade balance	-2.4	-3.7	-3.9	-3.3	-3.2
5. Export of services	1.7	2.2	2.5	2.7	2.8
6. Import of services	1.2	1.6	1.7	1.8	1.9
7. Service balance	0.5	0.6	0.8	0.9	0.9
8. Net interest payments from abroad	:	:	:	:	:
9. Other net factor income from abroad	-0.5	-0.5	-0.6	-0.7	-0.8
10. Current transfers	2.0	2.6	2.8	2.8	2.9
11. Of which from EU	:	:	:	:	:
12. Current account balance	-0.4	-1.0	-0.9	-0.3	-0.2
13. Capital and financial account balance	0.6	0.9	1.0	0.5	0.7
14. Foreign direct investment, net	0.4	0.5	0.5	0.6	0.6
15. Foreign reserves	3.6	:	:	:	:
16. Foreign debt	9.4	:	:	:	:
16a. Of which: public	4.7	:	:	:	:
16b. O/w: foreign currency denominated	:	:	:	:	:
16c. O/w: repayments due	:	:	:	:	:
17. Exchange rate vis-à-vis EUR (end-year)	61.6	61.6	:	:	:
18. Exchange rate vis-à-vis EUR (annual average)	-0.1	0.0	:	:	:
19. Net foreign saving (% of GDP)	61.6	61.6	:	:	:
20. Domestic private saving (% of GDP)	-0.1	0.0	:	:	:
21. Domestic private investment (% of GDP)	:	:	:	:	:
23. Domestic public saving (% of GDP)	:	:	:	:	:
23. Domestic public investment (% of GDP)	:	:	:	:	:

Source: National Bank of the Republic of North Macedonia

Table 1g. Sustainability indicators

		2018	2019	2020	2021	2022
1. Current Account Balance	% of GDP	0.2	-3.0	-3.0	-3.1	
2. Net International Investment Position	% of GDP	-56.2	-57.3	-64.9	-61.7	:
3. Export market share	% growth	12.3	4.0	1.3	3.3	:
4. Real Effective Exchange Rate	% growth	1.4	-1.7	1.9	1.1	:
5. Nominal Unit Labour Costs	% growth	6.5	7.0	12.6	1.2	:
6. Private sector credit flow	% of GDP	3.3	2.8	2.4	4.1	:
7. Private sector debt	% of GDP	86.8	87.6	94.3	93.9	:
8. General Government Debt	% of GDP	40.4	40.4	50.8	52.0	49.5

Source: National Bank of the Republic of North Macedonia and Ministry of Finance

Table 2a. General government budgetary prospects

	ESA	2021	2021	2022	2023	2024	2025
		bn denars	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-39,1	-5,4	-5,1	-4,6	-3,4	-2,9
2. Central government	S1311	-40,6	-5,6	-4,9	-4,1	-3,3	-2,9
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-0,6	-0,1	:	:	:	:
5. Social security funds	S1314	2,1	0,3	-0,2	-0,5	-0,1	-0,1
General government (S13)							
6. Total revenue	TR	233,5	32,4	31,8	32,8	32,5	32,4
7. Total expenditure ⁶⁶	TE	272,6	37,8	36,9	37,4	35,9	35,3
8. Net borrowing/lending	EDP.B9	-39,1	-5,4	-5,1	-4,6	-3,4	-2,9
9. Interest expenditure	EDP.D41	9,1	1,3	1,2	1,4	1,6	1,6
10. Primary balance ⁶⁷		-30,0	-4,2	-3,9	-3,2	-1,8	-1,3
11. One-off and other temporary measures ⁶⁸		:	:	:	:	:	:
Components of revenues							
12. Total taxes (11 = 12a+12b+12c)		137,0	19,0	18,3	19,0	19,2	19,2
12a. Taxes on production and imports	D2	101,3	14,1	13,8	14,0	14,1	14,1
12b. Current taxes on income and wealth	D5	31,8	4,4	4,1	4,5	4,6	4,6
12c. Capital taxes	D91	3,8	0,5	0,5	0,5	0,4	0,4
13. Social contributions	D61	70,6	9,8	9,4	9,6	9,6	9,5
14. Property income	D4	3,7	0,5	0,6	0,6	0,6	0,6
15. Other (15 = 16-(12+13+14)) ⁶⁹		22,2	3,1	3,4	3,6	3,2	3,1
16 = 6. Total revenue	TR	233,5	32,4	31,8	32,8	32,5	32,4
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁷⁰		207,6	28,8	27,8	28,6	28,7	28,7
Selected components of expenditures							
17. Collective consumption	P32	78,1	10,8	10,9	10,1	9,7	9,3
18. Total social transfers	D62 + D63	121,5	16,9	16,0	15,8	15,4	15,3
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	121,5	16,9	16,0	15,8	15,4	15,3
19 = 9. Interest expenditure	EDP.D41	9,1	1,3	1,2	1,4	1,6	1,6
20. Subsidies	D3	33,3	4,6	4,5	3,9	3,1	3,0
21. Gross fixed capital formation	P51	30,5	4,2	4,4	6,3	6,2	6,2
22. Other (22 = 23-(17+18+19+20+21)) ⁷¹		:	:	:	:	:	:
23.=7. Total expenditures	TE ⁷²	272,6	37,8	36,9	37,4	35,9	35,3
p.m. compensation of public sectoremployees	D1	49,9	6,9	6,5	6,2	6,0	5,7

Source: Ministry of Finance

⁶⁶ Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9⁶⁷ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9)⁶⁸ A plus sign means deficit-reducing one-off measures⁶⁹ P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (other than D.91)⁷⁰ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate⁷¹ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8⁷² Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9

Table 2b. General government budgetary prospects

	ESA	2021	2022	2023	2024	2025
		bn denars				
Net lending (B9) by sub-sectors						
1. General government	S13	-39.08	-42.74	-42.76	-33.67	-30.97
2. Central government	S1311	-40.56	-41.07	-37.99	-32.32	-30.21
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-0.58	:	:	:	:
5. Social security funds	S1314	2.07	-1.67	-4.77	-1.35	-0.76
General government (S13)						
6. Total revenue	TR	233.48	264.39	301.44	318.67	340.05
7. Total expenditure ⁷³	TE	272.55	307.13	344.20	352.34	371.02
8. Net borrowing/lending	EDP.B9	-39.08	-42.74	-42.76	-33.67	-30.97
9. Interest expenditure	EDP.D41	9.12	10.28	12.99	15.70	16.84
10. Primary balance ⁷⁴		-29.95	-32.46	-29.77	-17.97	-14.13
11. One-off and other temporary measures ⁷⁵		:	:	:	:	:
Components of revenues						
12. Total taxes (11 = 11a+11b+11c)		136.97	152.47	175.06	187.81	201.41
12a. Taxes on production and imports	D2	101.30	114.55	129.06	138.26	148.53
12b. Current taxes on income and wealth	D5	31.85	33.87	41.80	45.16	48.29
12c. Capital taxes	D91	3.82	4.05	4.20	4.40	4.60
13. Social contributions	D61	70.63	78.60	88.09	93.66	99.59
14. Property income	D4	3.72	4.79	5.37	6.11	6.16
15. Other (15 = 16-(12+13+14)) ⁷⁶		22.17	28.54	32.92	31.09	32.88
16 = 6. Total revenue	TR	233.48	264.39	301.44	318.67	340.05
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁷⁷		207.60	231.07	263.14	281.47	301.01
Selected components of expenditures						
17. Collective consumption	P32	78.11	90.25	92.67	94.90	97.15
18. Total social transfers	D62+D63	121.49	133.01	145.02	151.27	160.14
18a. Social transfers in kind	P31=D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	121.49	133.01	145.02	151.27	160.14
19 = 9. Interest expenditure	EDP.D41	9.12	10.28	12.99	15.70	16.84
20. Subsidies	D3	33.31	37.14	35.87	29.96	31.96
21. Gross fixed capital formation	P51	30.52	36.46	57.65	60.52	64.94
22. Other (22 = 23-(17+18+19+20+21)) ⁷⁸		:	:	:	:	:
23.=7. Total expenditures	TE ⁷⁹	272.55	307.13	344.20	352.34	371.02
p.m. compensation of public sectoremployees	D1	49.86	53.81	56.96	58.42	59.75

Source: Ministry of Finance

Table 2c. Discretionary fiscal measures adopted/announced according to the Programme

Measures		ESA Code (Expenditure/Revenue component)	Date of adoption	Budgetary impact (% of GDP - change from previous year)				
				2020	2021	2022	2023	2024
Temporary measures¹	expenditures							
	revenues							
	Subtotal							
Non-temporary measures¹	Subtotal							
	Total							

Source: Ministry of Finance

⁷³ Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9⁷⁴ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9)⁷⁵ A plus sign means deficit-reducing one-off measures⁷⁶ P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (other than D.91)⁷⁷ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate⁷⁸ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8⁷⁹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9

Table 3. General government expenditure by function

Percentage of GDP	COFOG	2021	2022	2023	2024	2025
1. General public services	1	4.3	4.5	4.6	:	:
2. Defence	2	1.3	1.5	1.7	:	:
3. Public order and safety	3	2.3	2.2	2.1	:	:
4. Economic affairs	4	4.1	4.3	5.4	:	:
5. Environmental protection	5	0.2	0.4	0.3	:	:
6. Housing and community amenities	6	2.4	2.3	2.2	:	:
7. Health	7	6.4	5.4	5.1	:	:
8. Recreation, culture and religion	8	0.6	0.6	0.5	:	:
9. Education	9	3.8	3.7	3.6	:	:
10. Social protection	10	12.5	12.0	11.9	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	37.8	36.9	37.4	35.9	35.3

Source: Ministry of Finance

Table 4. General government debt developments

Percentage of GDP	ESA	2021	2022	2023	2024	2025
1. Gross debt ⁸⁰		52.0	49.5	51.0	51.8	51.4
2. Change in gross debt ratio		1.2	-2.5	1.5	0.8	-0.3
Contributions to change in gross debt						
3. Primary balance ⁸¹		4.2	3.9	3.2	1.8	1.3
4. Interest expenditure ⁸²	EDPD.41	1.3	1.2	1.4	1.6	1.6
5. Real growth effect		-1.9	-1.2	-1.3	-2.0	-2.4
6. Inflation effect		-1.7	-5.6	-3.4	-1.1	-1.0
7. Stock-flow adjustment		-0.7	-0.8	1.5	0.4	0.1
of which:						
- Differences between cash and accruals ⁸³		:	:	:	:	:
- Net accumulation of financial assets ⁸⁴		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other ⁸⁵		:	:	:	:	:
p.m. implicit interest rate on debt ⁸⁶		2.7	2.7	3.2	3.3	3.3
Other relevant variables						
8. Liquid financial assets ⁸⁷						
9. Net financial debt (9 = 1 - 8)						

Source: Ministry of Finance

Table 5. Cyclical developments

Percentage of GDP	ESA	2021	2022	2023	2024	2025
1. Real GDP growth (%)	B1g	3.9	2.7	2.9	4.1	5.0
2. Net lending of general government *	EDP.B.9	-5.4	-5.1	-4.6	-3.4	-2.9
3. Interest expenditure	EDP.D.41	1.3	1.2	1.4	1.6	1.6
4. One-off and other temporary measures ⁸⁸		:	:	:	:	:
5. Potential GDP growth (%) ⁸⁹		2.4	1.6	3.0	3.3	3.6
Contributions (percentage points):						
- labour		0.0	1.1	1.1	1.5	2.1
- capital		0.8	0.8	1.1	1.5	1.5

⁸⁰ As defined in Regulation 3605/93 (not an ESA concept)

⁸¹ Cf item 10 in Table 2a

⁸² Cf item 9 in Table 2a

⁸³ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant

⁸⁴ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant

⁸⁵ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

⁸⁶ Proxied by interest expenditure divided by the debt level of the previous year

⁸⁷ AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).

⁸⁸ A plus sign means deficit-reducing one-off measures

⁸⁹ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

- total factor productivity		3.1	0.9	0.7	1.1	1.3
6. Output gap		-2.3	-1.3	-1.4	-0.7	0.7
7. Cyclical budgetary component		-0.8	-0.4	-0.5	-0.2	0.2
8. Cyclically-adjusted balance (2-7)		-4.6	-4.7	-4.2	-3.2	-3.2
9. Cyclically-adjusted primary balance (8-3)		-3.3	-3.5	-2.7	-1.6	-1.6
10. Structural balance (8-4)		:	:	:	:	:

* Data pertains to central government budget

Source: Ministry of Finance

Table 6. Divergence from previous programme

	2021	2022	2023	2024	2025
1. GDP growth					
Previous programme	4.1	4.6	5.2	5.7	:
Latest programme	3.9	2.7	2.9	4.1	5.0
Difference (p.p.)	-0.1	-1.9	-2.3	-1.6	:
2. General government net lending (% of GDP)					
Previous programme	-6.4	-4.3	-3.4	-2.9	:
Latest programme	-5.4	-5.1	-4.6	-3.4	-2.9
Difference (p.p.)	0.9	-0.8	-1.2	-0.5	:
3. General government gross debt (% of GDP)					
Previous programme	51.9	53.3	53.0	51.7	:
Latest programme	52.0	49.5	51.0	51.8	51.4
Difference (p.p.)	0.1	-3.8	-2.0	0.1	:

Source: Calculations of the Ministry of Finance

Table 7. Long-term sustainability of public finances

Percentage of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	:	34.8	38.9	32.9	32.1	31.0	29.9
of which:							
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	8.6	10.5	10.2	9.7	8.2	6.0
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	4.5	6.3	5.4	6.0	6.9	7.8
- Long-term care (<i>this was earlier included in the health care</i>)	:	:	:	:	:	:	:
Education expenditure	:	4.0	3.9	4.3	4.5	4.7	5.0
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	0.7	1.2	1.0	0.8	0.6	0.4
Total revenues	:	32.4	30.5	31.5	31.2	30.6	29.7
of which: property income	:	:	:	:	:	:	:
of which: trade-related revenue	:	:	:	:	:	:	:
of which: royalties, concessions etc.	:	:	:	:	:	:	:
of which: from pensions contributions (or social contributions, if appropriate)	:	6.0	6.9	6.8	6.8	6.8	6.7
Pension reserve fund assets	:	:	:	:	:	:	:
of which: consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions*							
Labour productivity growth	2.9	2.2	-5.6	3.3	2.8	2.5	2.4

Real GDP growth	6.5	3.4	-6.1	5.4	4.0	3.7	3.5
Participation rate males (aged 20-64) ⁹⁰	74.8	77.7	76.7	79.0	81.3	83.5	85.3
Participation rate females (aged 20-64)	50.4	50.4	54.0	59.8	64.9	70.3	75.6
Total participation rate (20-64)	62.8	64.2	65.5	69.5	73.2	76.9	80.5
Unemployment rate	35.2	32.2	16.6	7.5	5.9	4.5	3.5
Population aged 65+ over total population	11.3	11.7	14.6	19.0	24.1	29.8	37.3

* Labour market data refer to the age group 15-64

Source: Calculations of the Ministry of Finance

Table 7a. Contingent liabilities

Measures		Maximum amount of contingent liabilities ⁹¹ (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19	Subtotal		
Others	Subtotal		
Total			

Source: Ministry of Finance

Table 8. Basic assumptions on the external economic environment underlying the programme framework

		2021	2022	2023	2024	2025
Short-term interest rate	Annual average	:	:	:	:	:
Long-term interest rate	Annual average	:	:	:	:	:
USD/EUR exchange	Annual average	1.18	1.04	0.98	0.98	:
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	61.63	61.63	:	:	:
Global GDP growth, excluding EU	Annual average	6	3.1	2.9	3.4	:
EU GDP growth	Annual average	5.4	3.3	0.3	1.6	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU (y-o-y)	Annual average	11	4.8	2.5	3.7	:
Oil prices (Brent, USD/barrel)	Annual average	70.7	101.8	85	78	:

Source: European Commission, Economic Forecast Autumn 2022 and European Central Bank

Table 9a: Social scoreboard indicators

	Data source	2018	2019	2020	2021	2022
Equal opportunities						
1. Adult participation in learning during the last 12 months, age 25-64	Eurostat	N/A	N/A	N/A	N/A	N/A
2. Share of early leavers from education and training, age 18-24	Eurostat	7,1%	7,1%	5,7%	N/A	N/A
3. Share of population with basic overall digital skills or above, age 16-74	Eurostat	N/A	32,0%	N/A	34,62%	N/A
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	Eurostat	29,8%	24,5%	26,2%	N/A	N/A
5. Gender gap in employment rate, age 20-64	Eurostat	21.4 pps.	21.3 pps.	19.9 pps.	N/A	N/A
6. Income quintile share ratio - S80/S20	Eurostat	6,16	5,56	5,92	N/A	N/A
Working conditions						
7. Employment rate, age 20-64	Eurostat	56,1%	59,2%	59,1%	N/A	N/A
8. Unemployment rate, age 15-74	Eurostat	20,8%	17,3%	16,4%	N/A	N/A
9. Long-term unemployment rate, age 15-74	Eurostat	15,5%	12,4%	12,4%	N/A	N/A
10. Gross disposable income of households in real terms, per capita	Eurostat	N/A	N/A	N/A	N/A	N/A

⁹⁰Labour market calculation refer to the age group of 15-64 years old.

⁹¹Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP.

Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	Eurostat	41,1%	39,9%	39,8%	N/A	N/A
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	Eurostat	45,9%	44,0%	46,3%	N/A	N/A
13. Impact of social transfers (other than pensions) on poverty reduction	Eurostat	14,8%	15,0%	15,18%	N/A	N/A
14. Disability employment gap, age 20-64	Eurostat	N/A	N/A	N/A	N/A	N/A
15. Housing cost overburden rate	Eurostat	10,2%	9,9%	8,5%	N/A	N/A
16. Children aged less than 3 years in formal childcare	Eurostat	8,8%	13,0%	6,3%	N/A	N/A
17. Self-reported unmet needs for medical care	Eurostat	2,3%	2,5%	1,7%	N/A	N/A

Source: Eurostat

N/A: (not available)

Table 9b: Other selected indicators

	Data source	2018	2019	2020	2021	2022
Other social and healthcare indicators						
1.Public social protection expenditure in % of GDP	MF	11,5	11,9	2,4	12,7	N/A
2.Public healthcare expenditure in % of GDP	MF	4,9	5	6,3	6,6	N/A
3.Household out-of-pocket payments as a % of total health expenditure	Eurostat	42,1	40,4	N/A	N/A	N/A
4.Percentage of population not covered by health insurance (Health Insurance Fund data)	HIF	10	9,7	10,1	N/A	N/A
5.Ratio of doctors per 1,000 inhabitants	Eurostat	6,36	6,47	N/A	N/A	N/A
6.Ratio of nurses per 1,000 inhabitants	Eurostat	N/A	N/A	N/A	N/A	N/A
Environment						
7.Total environmental tax revenues as a share of total revenues from taxes and social contributions	SSO	N/A	N/A	N/A	N/A	N/A
8.Greenhouse gas emissions per capita	SSO	0,004 CO2-eq. [kt]	0,006 CO2-eq. [kt]	N/A	N/A	N/A
9.Generation of waste excluding major mineral wastes	Eurostat	458 kg per cap.	N/A	437 kg per cap.	N/A	N/A
Digital economy						
10.Percentage of households with broadband access (mobile and fixed)	SSO	79,3%	81,8%	79,9%	83,7%	N/A
11.Share of total population using internet [NB: population 16-74]	SSO	79,2%	81,4%	81,4%	86,4%	N/A
Energy						
12.Energy imports dependency (%)	Eurostat	58,40%	58,516	63,3	N/A	N/A
13.Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	Eurostat	302.18 kg/EUR	321.27 kg/EUR	307.66 kg/EUR	N/A	N/A
14.Share of renewable energy sources (RES) in final energy consumption (%)	Eurostat	18,18%	16,81%	19,22%	N/A	N/A
Transport						
15.Railway Network Density (meters of line per km2 of land area)	UNECE	26,85	26,85	26,85	26,85	N/A
16.Motorisation rate (Passenger cars per 1000 inhabitants)	Eurostat	200	205	207	N/A	N/A
Agriculture						
17.Share of gross value added (Agriculture, Forestry and Fishing)	Eurostat	9,8%	9,4%	9,8%	9,0%	N/A
18.Share of employment (Agriculture, Forestry	SSO	15,7%	13,9%	12,0%	11,5%	N/A

and Fishing)						
19.Utilised agricultural area (% of total land area)	Eurostat	49,7%	49,7%	49,7%	49,7%	N/A
Industry (except construction)						
20.Share of gross value added	Eurostat	21,5%	20,8%	19,7%	19,4%	N/A
21.Contribution to employment (% of total employment)	SSO	23,9%	24,1%	23,9%	23,1%	N/A
Services						
22.Share of gross value added	SSO	62,6%	63,3%	64,2%	N/A	N/A
23.Contribution to employment (% of total employment)	SSO	52,9%	55,0%	57,1%	57,9%	N/A
Business Environment						
24.Rank in Global Competitiveness Index (Source: World Economic Forum)	WEF	84	82	N/A	N/A	N/A
25.Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	IMF	N/A	N/A	N/A	N/A	N/A
Research, Development and Innovation						
26.R&D intensity of GDP (R&D expenditure as % of GDP)	Eurostat	0,36%	0,37%	0,38%	N/A	N/A
27.R&D expenditure – EUR per inhabitant	Eurostat	18,8	19,9	N/A	N/A	N/A
Trade						
28.Export of goods and services (as % of GDP)	SSO	60,4%	62,4%	57,8%	66,2%	N/A
29.Import of goods and services (as % of GDP)	SSO	72,8%	76,2%	70,5%	82,3%	N/A
30.Trade balance (as % of GDP)	SSO	-12,5%	-13,8%	-12,7%	-16,0%	N/A

Source: SSO, Eurostat,IMF,MF,WEF,UNECE,HIF

N/A: (not available)

Table 10a: Costing of structural measures (in EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Measure 1: Further development of qualification system					
Year 2023	5,572,004	0	0	0	5,572,004
Year 2024	5,732,004	0	0	0	5,732,004
Year 2025	5,732,004	0	0	0	5,732,004
Measure 2: Increasing the flexibility and security of the labour market					
Year 2023	0	45,000	0	0	45,000
Year 2024	0	0	0	0	0
Year 2025	0	0	0	0	0
Measure 3: Enhancing the system for social inclusion of vulnerable groups					
Year 2023	0	462,000	14,675,000	900,000	16,037,000
Year 2024	0	621,000	14,048,000	500,000	15,169,000
Year 2025	0	300,000	13,400,000	0	13,700,000
Measure 4: Strengthening the quality of the Primary Health care					
Year 2023	0	200,000	26,000	660,000	886,000
Year 2024	3,740,000	402,000	156,000	4,664,500	8,962,500
Year 2025	3,740,000	359,800	286,000	2,467,500	6,853,300
Measure 5: Promotion of renewable energy sources					
Year 2023	0	0	500,000	0	500,000
Year 2024	0	30,000	500,000	0	530,000
Year 2025	0	23,000	500,000	0	523,000
Measure 6: Improvement of energy efficiency					
Year 2023	0	6,000,000	0	0	6,000,000
Year 2024	0	600,000	0	0	600,000
Year 2025	0	1,020,000	0	0	1,020,000
Measure 7: Establishing wastewater collection and treatment infrastructure in accordance with EU requirements					
Year 2023	0	731,000	0	56,460,652	57,191,652
Year 2024	0	926,000	0	56,265,652	57,191,652
Year 2025	0	926,000	0	56,265,652	57,191,652
Measure 8: Establishing an integrated and financially self-sustainable waste management system					
Year 2023	0	312,699	0	16,764,451	17,077,150
Year 2024	0	223,749	0	8,975,615	9,199,364
Year 2025	0	223,749	0	8,975,615	9,199,364
Measure 9: Implementation of an Intelligent Transport System (ITS) along Corridor X					

Year 2023	0	0	0	6,500,000	6,500,000
Year 2024	0	0	0	9,300,000	9,300,000
Year 2025	0	0	0	300,000	300,000
Measure 10: Broadening the scope of digital services provided on National E-service Portal					
Year 2023	0	1,668,000	0	0	1,668,000
Year 2024	0	4,550,000	0	0	4,550,000
Year 2025	0	3,750,000	0	0	3,750,000
Measure 11: Streamline the use of parafiscal charges					
Year 2023	0	150,000	0	0	150,000
Year 2024	0	0	0	0	0
Year 2025	0	0	0	0	0
Measure 12: Hybrid fund for green and digital start-ups and innovative SME's					
Year 2023	0	0	10,000,000	0	10,000,000
Year 2024	0	0	17,000,000	0	17,000,000
Year 2025	0	0	0	0	0
Measure 13: Financial support for Roma entrepreneurs					
Year 2023	0	0	1,980,000	0	1,980,000
Year 2024	0	0	1,980,000	0	1,980,000
Year 2025	0	0	0	0	0
Measure 14: Establishment of Management Information System on State Aid					
Year 2023	500,000	1,500,000	0	0	2,000,000
Year 2024	1,500,000	0	0	0	1,500,000
Year 2025	0	0	0	0	0
Measure 15: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities					
Year 2023	0	180,000	0	0	180,000
Year 2024	0	80,000	0	0	80,000
Year 2025	0	0	0	0	0
Measure 16: Support to development of the innovation eco system					
Year 2023	100,000	0	400,000	600,000	1,100,000
Year 2024	150,000	0	700,000	850,000	1,700,000
Year 2025	150,000	0	800,000	1,850,000	2,800,000
Measure 17: Strengthening the market rules in the Republic of North Macedonia					
Year 2023	0	1,000,000	0	0	1,000,000
Year 2024	0	1,000,000	0	0	1,000,000
Year 2025	0	0	0	0	0
Measure 18: Modernisation of the postharvest technologies and processes of the agricultural products					
Year 2023	0	1,872,000	0	3,670,000	5,542,000

Year 2024	0	2,554,000	0	22,930,000	25,484,000
Year 2025	0	350,000	0	24,000	374,000
Measure 19: Establishing Integrated Tax Information System in Public Revenue Office (PRO)					
Year 2023	0	0	0	2,500,000	2,500,000
Year 2024	0	0	0	1,350,000	1,350,000
Year 2025	0	0	0	1,150,000	1,150,000

Table 10b: Funding of structural reform measures (in EUR)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Measure 1: Further development of qualification system								
Year 2023	4,048,502	0	0	1,523,502	0	0	0	5,572,004
Year 2024	4,208,502	0	0	1,523,502	0	0	0	5,572,004
Year 2025	4,208,502	0	0	1,523,502	0	0	0	5,572,004
Measure 2: Increasing the flexibility and security of the labour market								
Year 2023	0	0	0	0	45,000	0	0	45,000
Year 2024	0	0	0	0	0	0	0	0
Year 2025	0	0	0	0	0	0	0	0
Measure 3: Enhancing the system for social inclusion of vulnerable groups								
Year 2023	13,380,000	0	0	1,100,000	0	1,557,000	0	16,037,000
Year 2024	13,400,000	0	0	1,000,000	0	769,000	0	15,169,000
Year 2025	13,400,000	0	0	300,000	0	0	0	13,700,000
Measure 4: Strengthening the quality of the Primary Health care								
Year 2023	786,000	0	100,000	0	0	0	0	886,000
Year 2024	5,112,500	0	3,850,000	0	0	0	0	8,962,500
Year 2025	3,013,300	0	3,840,000	0	0	0	0	6,853,300
Measure 5: Promotion of renewable energy sources								
Year 2023	500,000	0	0	0	0	0	0	500,000
Year 2024	500,000	0	0	0	30,000	0	0	530,000
Year 2025	500,000	0	0	0	23,000	0	0	523,000
Measure 6: Improvement of energy efficiency								
Year 2023	150,000	0	0	850,000	0	5,000,000	0	6,000,000
Year 2024	90,000	0	0	510,000	0	0	0	600,000
Year 2025	180,000	0	0	1,020,000	0	0	0	1,200,000
Measure 7: Establishing wastewater collection and treatment infrastructure in accordance with EU requirements								
Year 2023	10,895,990	0	0	18,895,662	0	27,400,000	0	57,191,652
Year 2024	10,895,990	0	0	18,895,662	0	27,400,000	0	57,191,652
Year 2025	10,895,990	0	0	18,895,662	0	27,400,000	0	57,191,652
Measure 8: Establishing an integrated and financially self-sustainable waste management system								
Year 2023	3,377,235	0	0	13,699,915	0	0	0	17,077,150
Year 2024	2,195,567	0	0	7,003,797	0	0	0	9,199,364
Year 2025	2,195,567	0	0	7,003,797	0	0	0	9,199,364

Measure 9: Implementation of an Intelligent Transport System (ITS) along Corridor X								
Year 2023	0	0	0	0	0	6,500,000	0	6,500,000
Year 2024	0	0	0	0	0	9,300,000	0	9,300,000
Year 2025	0	0	0	0	0	300,000	0	300,000
Measure 10: Broadening the scope of digital services provided on National E-service Portal								
Year 2023	368,000	0	0	1,300,000	0	0	0	1,668,000
Year 2024	3,250,000	0	0	1,300,000	0	0	0	4,550,000
Year 2025	3,250,000	0	0	500,000	0	0	0	3,750,000
Measure 11: Streamline the use of parafiscal charges								
Year 2023	0	0	0	150,000	0	0		150,000
Year 2024	0	0	0	0	0	0	0	0
Year 2025	0	0	0	0	0	0	0	0
Measure 12: Hybrid fund for green and digital start-ups and innovative SME's								
Year 2023	10,000,000	0	0	0	0	0	0	10,000,000
Year 2024	0	0	0	0	0	0	17,000,000	17,000,000
Year 2025	0	0	0	0	0	0	0	0
Measure 13: Financial support for Roma entrepreneurs								
Year 2023	990,000	0	0	0	990,000	0	0	1,980,000
Year 2024	990,000	0	0	0	990,000	0	0	1,980,000
Year 2025	0	0	0	0	0	0	0	0
Measure 14: Establishment of Management Information System on State Aid								
Year 2023	0	0	0	0	0	2,000,000	0	2,000,000
Year 2024	0	0	0	0	0	1,500,000	0	1,500,000
Year 2025	0	0	0	0	0	0	0	0
Measure 15: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities								
Year 2023	0	0	0	100,000	80,000	0		180,000
Year 2024	0	0	0	0	80,000	0	0	80,000
Year 2025	0	0	0	0	0	0	0	0
Measure 16: Support to development of the innovation eco system								
Year 2023	1,100,000	0	0	0	0	0	0	1,100,000
Year 2024	1,700,000	0	0	0	0	0	0	1,700,000
Year 2025	2,800,000	0	0	0	0	0	0	2,800,000
Measure 17: Strengthening the market rules in the Republic of North Macedonia								
Year 2023	0	0	0	1,000,000	0	0	0	1,000,000
Year 2024	0	0	0	1,000,000	0	0	0	1,000,000
Year 2025	0	0	0	0	0	0	0	0
Measure 18: Modernisation of the postharvest technologies and processes of the agricultural products								

Year 2023	0	0	0	0	0	5,542,000	0	5,542,000
Year 2024	0	0	0	350,000	0	25,134,000	0	25,484,000
Year 2025	0	0	0	350,000	0	24,000	0	374,000
Measure 19: Establishing Integrated Tax Information System in Public Revenue Office (PRO)								
Year 2023	2,500,000	0	0	0	0	0	0	2,500,000
Year 2024	1,350,000	0	0	0	0	0	0	1,350,000
Year 2025	1,150,000	0	0	0	0	0	0	1,150,000

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2022-2024

Stage of reform implementation: 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

	Name and number of reform measure	Stage of reform implementation (1-5) ⁹²
	Measure 1: Further development of the qualification system	Stage of reform implementation (1-5)
Activities planned for 2022	1. Adoption of a new Law on vocational education and training with separate chapters for Regional VET Centres and dual education	2
	2. Adaptation and reconstruction of 3 Regional VET Centres	4
	3. Development of Standards for higher education qualifications, primarily for professions in the field of education, such as pedagogue, psychologist, caregiver, educator	3
	4. Establishment of the last 3 sectoral commissions: for graphic design, forestry and wood processing and for sports and recreation	1
	5. Preparatory activities for evaluation and adoption of a bylaw on methodology for evaluation of qualification standards registered in the Register (validity period 4 years)	3
	6. Adoption of one-year and four-year work programme	4
Description of implementation and explanation if partial or no implementation	1. In cooperation with the business community, chambers, companies, educational institutions, a new Law on Vocational Education and Training has been prepared, which provides special chapters for the functioning of the regional centres and determining dual education. The Ministry of Education and Science in parallel is working on new Law for Secondary Education.	
	2. Starting from 2021, three Regional VET Centres are officially functioning. An analysis of the training needs of the employees in the three centres was made, and standards were developed for the space and equipment for schools. The reconstruction of the Regional VET Centre in Kumanovo – KiroBurnaz is in accordance with the dynamics. The deadline for completion of the reconstruction is 27.04.2023. The reconstruction of the Regional VET Centre in Ohrid – VanchoPitoshevski is advancing. Up to September 2022, the percentage of realisation is 15% (13.89%). The finalising of this reconstruction will be prolonged to the second half of 2023. The reconstruction of the Regional VET Centre in Tetovo – MoshaPijade in the process of obtaining permission for reconstruction from the municipality. Since the Law on VET has not been adopted, the MoES instructed the Directors of the 3 RVETCs to follow the Concept for the establishment of RVETC and proceed with the preparation of the relevant official documents per the Concept since the content of the Concept is already fully reflected in the draft Law on VET. Accordingly, the 3 RVETC established a new structure, adopted organigrams and statute following the functions foreseen in the Concept for the establishment of RVETC	
	3. In 2022 TheNationalBoard for National Qualification Framework has adopted the standard for a teacher in higher education as a first higher education qualification standard. Within the framework of the Twinning project, standards for higher education qualifications will be developed, namely: standards for teachers for primary and secondary education, for psychologists and pedagogues, and for tourism and catering, as a national priority. Currently there is an ongoing process of forming a working group with representatives from these areas and experienced professors from the respective faculties	

⁹²0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

	<p>who will contribute to the development of these standards.</p> <p>4. Currently there are 6 functional sectorial councils, since 5 of them were established earlier, now they are in process for obtaining the second mandate. The sectorial councils for geology, mining and metallurgy, art, graphic design, forestry and wood processing and for sports and recreation are expected to be established in 2023. The nomination of the proper candidates for the sectorial councils is very sensitive procedure because the person nominated from the stakeholder needs to have the important competences in comply with the Sectorial councils authorities stated in the Law on NQF.</p> <p>5. The evaluation of 39 qualification standards that was planned for 2022 as regular process for each 4 year is postponed due to preparatory activities for development of the Methodology for evaluation which is planned to be realised within the Twinning project activities. Methodology for evaluation of the qualification standards on regular bases in order to be up date with the latest innovation and technologies will be developed in coordination with all relevant stakeholders</p> <p>6. National Council for Higher Education, Science and Research in the course of July adopted the one – year program for 2023. The four-year work programme was adopted in December 2021. http://www.nacionalensovetzavoinid.com.mk/ Short overview of the undertaken activities: <ul style="list-style-type: none"> • Rulebook on the standards and procedures for external evaluation and self-evaluation is published. • Prepared list of electronic databases of scientific magazines in order professors and universities to have an access to them. • Rulebook on the norms and standards for the establishment of higher education institutions and for the performance of higher education activities. • Rulebook on the norms and standards for establishing scientific institutes and for the performance of scientific research activity. • Proposal - decree on measures and criteria for stimulating talented students • Drafting the Proposal - decree for determining the scientific research fields at the third level (areas), as an addition to already developed the two levels of the International Frascati Classification. Drafting the Proposal for harmonisation with the National Classification of Occupations according to the addition of the two levels of the International Frascati Classification. Drafting the Rulebook on the content of study programs is also in progress, a commission established by the Council is working on it.</p> <p>In order to support the inclusiveness in the education, the existing state elementary schools are transformed as elementary schools with resource centres, and the existing special classes in elementary schools (in total in 23 schools) continue to work as centres for supporting students with disabilities. The procedure for finalising the process of transformation of special primary schools into schools with resource centres is ongoing and is in accordance with the Law for Primary Education.</p> <p>In support of the new Concept for Primary Education, the learning materials for the 4th grade for the academic year 2021/2022 were digitised. The created contents were uploaded to the e-library platform, but at the same time a total of 25,264 textbooks were printed and distributed. The digitalisation of teaching contents covered the subjects: mother tongue (Macedonian, Albanian, Turkish, Serbian and Bosnian), history and society, mathematics and natural sciences. In addition, accompanying materials such as videos, animations and quizzes were produced. This process is based on the analysis of existing resources in schools, after which a total of 39 smart boards were delivered to certain municipalities. In addition, 10,000 tablets were purchased for students who do not have their own electronic device. Some of these tablets are planned to be delivered to students from the 4th and 5th grade who are beneficiaries of educational allowance, respectively, they belong to deprived social categories.</p> <p>According to the Law on Higher Education, the National Council for Higher Education and Scientific Research, was constituted and started working on June, 2021. By proposal from the Board for the Evaluation of Higher Education and in accordance with the Minister of Education and Science, the National Council for Higher Education and Scientific Research created a Rulebook on the standards and procedures for external evaluation and self-evaluation, prepared bases of works for which the Ministry in charge of higher education provides access to teachers and associates selected at public universities. The list of relevant domestic and international events was also determined, at which artistic performances are considered in the accreditation of mentors and areas in which</p>
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	<p>translations of capital works will be considered as referential scientific publications. The National Council prepared and created a Rulebook on the norms and standards for the establishment of higher education institutions and for the performance of higher education activities, as well as the preparation of the Rulebook on the norms and standards for establishing scientific institutes and for the performance of scientific research activity which is in the final stage. The Proposal - decree on measures and criteria for stimulating talented students and for scholarships for students who achieve above-average results in their studies is also being prepared by the council. Drafting of the Proposal - decree for determining the scientific research fields of the third level (areas), as an addition to the two levels of the International Frascati Classification and proposals for harmonisation with the National Classification of Occupations according to the addition of the two levels of the International Frascati Classification, is underway. Drafting of the Rulebook on the content of study programs in accordance with the Law on Higher Education is also in progress.</p> <p>Within the activities of the Twinning project "Further support for the implementation of the National Qualifications Framework" with reference number MK IPA 17 SO 01 21 a Manual for practitioners in all higher education (HE) and VET institutions on the relevant themes and issues has been developed. It will include the practical guidelines and recommendations, as well as instruments for the implementation and development of the internal and external QA measures according to the policy goals, requirements of (correspondingly) NQF, EHEA-QF, ECVET, ECTS, EQAVET, latest developments in the Bologna Process.</p>	
	Measure 2: Increasing the flexibility of the labour market	Stage of reform implementation (1-5)
Activities planned for 2022	1. Activities to promote legal changes in the labour law, aimed at increasing the flexibility of the labour market (atypical forms of employment contracts, repetitive seasonal work, telework, work from home, etc.). Organisation of round tables, tribunals and so on	1
	2. Adoption of a new Law on Labour Relations and preparation of bylaws in accordance with the new Law	2
	3. Organisation of educational, trainings/seminars on application of the new legal provisions (for labour inspectors, social partners and so on)	0
Description of implementation and explanation if partial or no implementation	1. This activity will be implemented after the adoption of the Law on Labour Relations. The consultations carried out during the preparation phase of the draft text of the new Law on Labour Relations made it possible to promote the changes aimed at increasing the flexibility of the labour market.	
	2. A proposal for a Law on Labour Relations has been prepared and consultations with stakeholders are underway	
	3. This activity will be implemented after the adoption of the Law on Labour Relations	
	<p>The Operational Plan for Active Employment Programmes and Measures and Labour Market Services is being implemented in continuity in order to improve the employment of persons. The Plan for 2022 covered about 14,700 people with budget of approximately EUR 30 million, which represents an increase of 20% compared to 2021. The focus was on programmes and measures adjusted to the needs of the most vulnerable categories of unemployed and included active labour market measures that encouraged and supported job creation and increase employability of the unemployed, in particular of the young unemployed, long-term unemployed, social assistance beneficiaries, Roma, etc. The Operational Plan for 2023 is under preparation, with planned budget of approximately EUR 32 million.</p>	
	Measure 3: Enhancing the system for social inclusion of vulnerable groups	Stage of reform implementation (1-5)
	I. Inclusion of vulnerable groups through activation	
Activities planned for 2022	1. Monitoring and evaluation of activities for activation of minimum guaranteed assistance beneficiaries in the labour market	5
	2. Elaborating provisions in the Law on Employment and Insurance Against Unemployment conducive to provision of services for supported employment by various service providers	5
	3. Developing a Law on Social Enterprises and providing financial and technical support for social enterprises that focus on improving	4

	employment prospects for vulnerable population, including persons with disabilities	
	4. Elaborating new employment model for persons with disabilities with a view to greater inclusion of persons with disabilities in the open labour market	4
Description of implementation and explanation if partial or no implementation	1. The Study on the impact of social benefits on the labour market activation of vulnerable groups was prepared. Short-term and long-term solutions are envisaged to overcome the institutional and systemic challenges for efficient activation of GMA beneficiaries.	
	2. A draft proposal of the Law on Employment and Insurance in Case of Unemployment was prepared, which includes provisions that enable the provision of supported employment services by various service providers. Completion of the consultation process and adoption of the Law is planned for 2023.	
	3. In order to improve the legal framework for social entrepreneurship, a working group formed by the Ministry of Labour and Social Policy with technical support of the EU-funded project "Support to Social Enterprises" is working on a proposal Law on Social enterprises. The draft text of the Law on Social Enterprises is in its final stage of preparation, and consultations with relevant stakeholders will be carried out in the first half of 2023, followed by its adoption. Since the establishment of the Centre for Social Enterprises, in November 2021, support (mentoring, internships, training, counselling, etc.) has been provided to about 300 members of the non-governmental sector and other entities that identify themselves as social enterprises. With expert support, a programme for training and capacity building of the regional centres for support of social enterprises and the Centre of Social Enterprises is being implemented, as well as a solution for the sustainability of the established structure. In order to improve access to funding for social entrepreneurs, the Innovation and Technological Development Fund has awarded grants to encourage social entrepreneurship, for the first time. In addition, within the two EU-funded projects in July and August 2022, calls were published for the provision of grants to organisations acting as social enterprises.	
	4. A document was prepared in which a new model for employment of persons with disabilities in the open labour market was developed, as well as a quantitative analysis of the fiscal implications of model. On the basis of the developed model a draft Law on Employment and Rehabilitation of Persons with Disabilities was prepared.	
II. Improving the availability of quality social services		
Activities planned for 2022	1. Providing financial and technical support for further development and diversification of social services in local communities across the country	4
	2. Developing a new software which integrates cash benefits and social protection services	3
Description of implementation and explanation if partial or no implementation	1. In September 2022, according to the Law on Social Protection, there are 69 licensed providers of social services (compared to 20 providers in 2020) in Skopje and other municipalities in the country, providing services to about 3,200 users. Part of the newly established services are financed by a loan from the World Bank for the development of social services that were selected in a public call, in 2020. In 2022 a new public call was also published for awarding grants to municipalities for the development of new social services through the aforementioned World Bank loan, and based on the needs of citizens identified in the local action plans for advancing social protection.	
	2. A tender procedure was conducted and a contractor for the new software solution was selected.	
	The Youth Guarantee continued to be implemented, and with the outreach activities that were carried out in partnership with youth organisations, young people, members of GMA beneficiary families, were especially targeted. Between April and July 2022, 4,475 people were registered in the system under the Youth Guarantee, of which 52% were women, 6.6% Roma, 72% young people under 24 years old. Out of the total number of persons who entered the Youth Guarantee, 1,955 persons or 44% had a successful exit from the programme over a period of 4 months (1,725 people got employed and 230 people were involved in one of the active employment measures aimed at increasing employability). Additionally, in order to reduce social exclusion among certain categories of persons, the development of social services according to the needs of beneficiaries and according to the local circumstances continued, which means providing quality and innovative social services available in the place of residence of the beneficiary, in order to prevent institutionalisation and social exclusion.	

	Currently, in accordance with the Law on Social Protection, 69 social service providers are licensed, compared to 20 providers in 2020, which provide services to about 3,200 beneficiaries. Most of the new services are home based services, mainly for the elderly, but also personal assistance for persons with disabilities. This number is expected to increase, by covering licensed service providers of all categories, thus increasing the coverage of beneficiaries with access to the necessary services in their community.	
	Measure 4: Strengthening the quality of the Primary Health Care	Stage of reform implementation (1-5)
Activities planned for 2022	1. Establishment of a national body for implementation of PHC reforms. 2. Development of PHC protocols: - For the selected primary care general medicine physicians for the five most common non-communicable diseases: diabetes, asthma, COPD, hypertension and hypothyroidism, - For the selected primary care gynaecologists for prenatal care , cervical cancer and family planning, - For the selected primary care paediatricians for obesity in children and spinal deformities. 3. Development and codification of a List of interventions that can be provided by the selected PHC doctors (doctors in general medicine, gynaecologists and paediatricians) 4. Providing specialisation in family medicine for at least 20 doctors who already work as selected primary care doctors 5. Amendments to relevant laws and bylaws 6. Upgrading of software modules in the system of 'My appointment' for code of interventions, protocols and forms that should be filled in by the selected doctors when providing health services 7. Conducting a public campaign and development of information and education materials related to the developed PHC protocols 8. Equipping the departments of at least 300 of the selected family medicine specialists with a set of vital signs (otoscope, rhino scope, ophthalmoscope, blood pressure monitor, stethoscope), ECG and inhaler	0
Description of implementation and explanation if partial or no implementation	Activities have been postponed for 2023.	
	Measure 5: Promotion of renewable energy sources	Stage of reform implementation (1-5)
Activities planned for 2022	1. Preparation of an Action plan for biofuels 2. Preparation of bylaws from the Law on biofuels 3. Detailed analysis to improve the legal framework for prosumers and comply with ECS guidelines	1 1 5
Description of implementation and	1-2. The Action plan for biofuels and the bylaws from the Law on biofuels were not prepared due to the fact that the Law on biofuels was not adopted. The draft law on biofuels will be revised in order to be compliant with the provisions of the Renewable Energy Directive 2018/2001.	

explanation if partial or no implementation	<p>3. Analysis was prepared to improve the legal framework for prosumers and the Ministry of Economy in June 2022 has adopted Amendments to the Rulebook on Renewable energy sources ("Official Gazette" no. 138/22). The amendments enable every household, small consumer and budget user/unit user to enter into a contract for the supply and delivery of excess produced electricity with any electricity supplier, including the universal supplier.</p> <p>Also, with the changes, it is possible for the prosumersto set up a PV plant with a higher installed capacity in order to fully satisfy their consumption, which makes the whole concept more attractive for certain categories of subjects.</p> <p>Therefore, instead of the previous 4 kW, it is adopted that the installed capacity of the PV plant is not higher than 6 kW, for households and instead of the previous 20 kW, and it is adopted that the installed capacity of the PV plant is not higher than 30 kW, for a small consumer, budget user and unit user.</p>	
	Measure 6: Improvement of Energy Efficiency	Stage of reform implementation (1-5)
Activities planned for 2022	1.Adoption of amendments of Energy Efficiency Law or in Law for establishing DBNM for developing of the EEF (depending on the results from the analysis)	2
	2.Preparation of Inventory for energy performance for public buildings on the territory of Republic of North Macedonia	3
	3.Preparation of typology of buildings needed for adoption of the Strategy for reconstruction of buildings by 2030	4
	4.Issuing licenses and authorisations on energy audits in large traders and buildings	3
	5.Preparation the rest of bylaws arising from the Energy Efficiency Law	3
Description of implementation and explanation if partial or no implementation	1. The amendments of Energy Efficiency Law are under preparation	
	2. Phase of selection of consultants that will work on the Inventory	
	3. Analysis of data from last census and first results of typology are expected till end of 2023	
	4. Establishment of the process for trainings and exams after the adoption of the Rulebooks	
	5. The rest of the Rulebooks are in a phase of preparation	
	Measure 7: Establishing wastewater collection and treatment infrastructure in accordance with EU requirements	Stage of reform implementation (1-5)
Activities planned for 2022	1.Tendering procedure and start the project for Improved Implementation of the EU Floods Directive through Harmonisation of National Legislation and Preparation of Flood Risk Management Plans	1
	2. Tendering procedure and starting the activities for Development and Implementation of River Basin Management Plans for all River Basins (River Vardar, CrnDrim, Strumica) under the Water Framework Directive with Implementation of Measures.	
	3.Tendering procedure for supply and Supply of Specific Equipment for Water Monitoring Information System	
	4.Tendering procedure and start the implementation of the project activities for Technical audit of existing wastewater collection and treatment plants systems in North Macedonia and preparation of necessary documentation for Supply of Water Equipment for Municipalities of Radovish, Kichevo, Strumica, Prilep, Berovo, Kumanovo, Bitola and Tetovo	
	5.Tendering procedure and start the implementation of the project activities for Further support in the implementation of the reforms in the water sector	
	6.Continuation of activities for Improvement of the wastewater collection infrastructure in the City of Skopje	
	7.Signing a Contract and start the implementation of the project for Rehabilitation and extension of the sewage network in the Municipality of Kichevo (104 km of network, 4630 new households connected)	

	8. Conducting a tendering procedure and start the implementation of the project for Construction of Waste Water Treatment Plant and extension of the sewage network in the Municipality of Bitola (capacity 112.474 PE and 375 m extension to the existing collector sewer) and (9 km new + 13 km reconstructed)	
	9. Conducting a tendering procedure and start the implementation of the project for Construction of WWTP (capacity 95 152 PE) and construction of sewage network in the Municipality of Tetovo (19 km main collector sewer + 32.4 km secondary foul sewer)	
	10. Conducting a tendering procedure and start the implementation of the project for Construction of WWTP for the City of Skopje (Design and construction of the Central WWTP for 625.000 PE up to 2035)	
Description of implementation and explanation if partial or no implementation	Activities foresee finalisation of tender procedure and start of implementation. For above mentioned activities, the tender procedures are not finalised due to repeat of action, revision of documentation and the like. It is expected the tender procedures to be finalised during 2023 and contracts to be signed afterwards.	
	Measure 8: Establishing an integrated and financially self-sustainable waste management system	Stage of reform implementation (1-5)
Activities planned for 2022	1. Continuation of activities for closure of the non-compliant landfills and dumpsites in the East and Northeast regions	3
	2. Start the project for Supporting of the implementation of the Regional Waste Management System in the East and Northeast regions	1
	3. Signing a Contract for preparation and revision of the National Planning Documents for Waste Management	1
	4. Signing the Contract and starting of implementation of Twinning Contract for Support in the implementation of the waste management legislation and extended producer responsibility scheme	5
	5. Starting the activities for construction of the transfer stations and the regional landfill for the east and Northeast region	1
Description of implementation and explanation if partial or no implementation	1. Regarding the East region, activities are ongoing for closure of dumpsites and, where missing, urban plans are being prepared.	
	2. Tender procedure is ongoing, contract signature expected in 2023.	
	3. Tender procedure is ongoing, contract signature expected in 2023.	
	4. Twinning contract signed end of November 2022 and implementation has started.	
	5. Tender procedure is ongoing, contract signature expected in 2023. (linked to the second activity above).	
	Measure 9: Increasing the competitiveness of the electricity market	Stage of reform implementation (1-5)
Activities planned for 2022	1. Amendment and approval of the new Project Roadmap to finish the process in year 2022	5
	2. HLMD (High level market design) drafting and approval (electricity market connection between EU country and non EU country connection)	5
	3. Full CACM (legislation) adoption in North Macedonia	4
	4. Rules for electricity trading in organised electricity market	5
	5. Drafting and submission of the SDAC procedures amendments for inclusion of BG-MKD border of electricity	4
	6. Training materials preparation and members' training activities	4

Description of implementation and explanation if partial or no implementation	<p>1. MEMO joined the SDAC (Single day ahead coupling) as an observer member. Full membership is one of the preconditions for a successful market merger with a market run by a member state of the European Union. Closely related to the full adoption of the CACM in the Republic of North Macedonia.</p> <p>2. Draft Law amending the Law on Energy has been prepared and accepted by the Parliament.</p> <p>The measure represents an increase in the competitiveness of the electricity market, as it implies the day-ahead coupling of the electricity markets between MK and BG. At the moment, all procedures for this measure have been completed and the online test period has begun.</p> <p>The tender for the procurement of the software required to make the coupling work has been completed and installed in the organised market operator MEMO. The trial period of work is in progress. Due to difficulties in applying the CACM regulation between an EU member state and a non-member state, MEMO joined the SDAC (Single day ahead coupling) as an observer member. Therefore, this trial period may last until a solution is found at the state level to regulate the sales tax.</p> <p>An amendment was made to the Law on Energy, which was adopted in the Parliament, the market rules for an organised market were drawn up, the training process is ongoing, but until a solution is found for what I mentioned earlier, the work mode will be trial . After that, a regular mode of operation will occur between the two electricity exchanges, when we expect a larger and smoother flow of energy between the two countries. This is expected to happen at any moment, but no later than spring 2023.</p>																		
	<table> <tr> <th data-bbox="459 592 1832 691">Measure 10: Implementation of an Intelligent Transport System (ITS) along Corridor X</th><th data-bbox="1832 592 2042 691">Stage of reform implementation (1-5)</th></tr> </table>	Measure 10: Implementation of an Intelligent Transport System (ITS) along Corridor X	Stage of reform implementation (1-5)																
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Activities planned for 2022	<table> <tr> <td data-bbox="459 691 1832 724">1. Completing the national ITS Strategy</td><td data-bbox="1832 691 2042 724">4</td></tr> <tr> <td data-bbox="459 724 1832 783">2. Selecting contractor and supervision of the ITS deployment. Estimated duration of the contracts is 12 months for ITS deployment and 18 months for supervision</td><td data-bbox="1832 724 2042 783">1</td></tr> <tr> <td data-bbox="459 783 1832 815">3. Start of installation and supervision activities</td><td data-bbox="1832 783 2042 815">0</td></tr> </table>	1. Completing the national ITS Strategy	4	2. Selecting contractor and supervision of the ITS deployment. Estimated duration of the contracts is 12 months for ITS deployment and 18 months for supervision	1	3. Start of installation and supervision activities	0												
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3. Start of installation and supervision activities	0																		
Description of implementation and explanation if partial or no implementation	<p>1. Consultant for preparation of National ITS Strategy has been selected and the activities have started in April 2022. The first draft of the strategy is expected till February 2023.</p> <p>2. Selection of the contractor for construction and selection of supervision of construction is expected in Q1-Q2 2023. Signing of contracts expected in Q2-Q3 2023.</p> <p>3. Expected start of ITS deployment is Q2-Q3 2023.</p>																		
	<table> <tr> <th data-bbox="459 994 1832 1086">Measure 11: Broadening the scope of digital services provided on National E-service Portal</th><th data-bbox="1832 994 2042 1086">Stage of reform implementation (1-5)</th></tr> </table>	Measure 11: Broadening the scope of digital services provided on National E-service Portal	Stage of reform implementation (1-5)																
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Description of implementation and explanation if partial or no implementation	1. The business analyses is in process and it is integral part of the service delivery process. The business analyses is completed for some of the planned services and it is continues activity.	
	2. The mapping of the registers for planned 135 e-services is finished.	
	3. This activity is not well specified, therefore cannot be measured.	
	4. The technical specification is consisted of two parts. The first part, covering 80% from equipment is financed by DEU and it is done. The public procurement by government institutions will be realised in 2023.	
	5. The Methodology for measuring e-service delivery including piloting is developed.	
	6. The Register of registers is developed but its usage by government institutions will start in 2023.	
	7. Reengineering of processes is an integral part of e-services development process. It is continuous activity.	
	8. Within the IPA2017: Enhancing e-Government project, the development of 135 new services for citizens and businesses is planned. The development of these services is ongoing and they are planned to be ready by the end of the project, in August 2023.	
	9.	
	Measure 12: Streamline the use of parafiscal charges	Stage of reform implementation (1-5)
Activities planned for 2022	1.Make an assessment of the legal, institutional and operational framework for para-fiscal charges in Republic of North Macedonia	5
	2.Make an assessment of best EU or regional practices for establishing legal, technical and organisational framework to ensure transparency and predictability of para-fiscal charges	5
	3.Develop study for rationalisation of parafiscal charges to include the fiscal implication of such action taking in consideration the process of digitalisation of processes and make an assessment of the List of 377 parafiscal charges –legal background, fiscal implications and possibility for digitalisation	3
Description of implementation and explanation if partial or no implementation	1.An assessment of the legal, institutional and operational framework for para-fiscal charges in Republic of North Macedonia has been completed	
	2.An assessment of best EU or regional practices for establishing legal, technical and organisational framework to ensure transparency and predictability of para-fiscal charges has been completed	
	3.Proposal for establishing legal, technical and organisational framework for parafiscal charges has been completed. This activity along with developing methodology for streamlining parafiscal charges is replacing the study for rationalisation of parafiscal charges. Consultants are currently working on the methodology which will be the key document according to which pilot 50-100 charges will be optimised.	
	Measure 13: Hybrid fund for green and digital start-ups and innovative SME's	Stage of reform implementation (1-5)
Activities planned for 2022	1. Selection of a private company for managing the Fund (Fund Manager), in a process in two phases	0
	2. Establishment and operationalisation of the Fund	0
	3. Generating pipeline and improving investment readiness on the market and start with investments	0
Description of implementation and	1.Planned activities for 2022 have not been concluded. The Government is still considering the possibilities for establishing the Fund and the methods for its financing.As soon as a final decision is made by the Government, the Fund can engage in further steps in areas of its interest and support.	

explanation if partial or no implementation	2.No funding from central budget has been provided to FITD for activities in direction of establishing the Hybrid Fund in 2022.	
	3.No implementation.	
	Measure 14: Financial support for Roma entrepreneurs	Stage of reform implementation (1-5)
Activities planned for 2022	1. Setting up the basic infrastructure, conditions and operative rules for implementing the measure	5
	2. Prepare operational guidelines for the implementation of Measure 1 and the establishment of a Project administration	5
	3. Mapping the non-formal employees and registered businesses led by Roma interested to apply for support	5
	4. Open call, evaluation and selection of applicants	3
Description of implementation and explanation if partial or no implementation	1.These measures are already being planned within the Operational Plan for active employment programmes and measures in the self-employment measure, the call for credit within the Employment Service Agency is open for the whole year, while the measures are implemented through the Macedonian Development Bank, where Roma entrepreneurs can also use them. REDI also established a basic experience with saving house (Horizonti) in supporting entrepreneurship.	
	2.Operational guidelines for the implementation of the Measures and the establishment of Project Administration exist within the framework of the same programs both at the level of institutions and at the level of REDI	
	3.Redi have a mapping report from the field for non-formal employees and registered businesses led by Roma interested to apply for support (at least 1000 people have intention to be part of this common measures	
	4.Evaluation process have to be under the targeted quota, and this quote is not reached	
	Measure 15: Establishment of Management Information System on State Aid	Stage of reform implementation (1-5)
Activities planned for 2022	1.Develop the MIS system framework (institutional, ICT requirements in both hardware and software)	0
	2.Develop inventory of the State Aid alike programmes and schemes (of all types as per the regulatory framework on State Aid)	0
Description of implementation and explanation if partial or no implementation	In January 2023 an agreement has been signed thus ensuring funds for the Building Effective, Transparent and Accountable Public Financial Management Institutions Project. Part of project's activities are aimed for the development of a new State Aid Management Information System (SAMIS), which will be used by all state aid providers, to improve institutional capacity to effectively manage state aid and increase internal and external transparency and accountability for the monitoring and evaluation of state aid. (The Project also contain the Integrated Financial Management Information System, as well as Integrated Tax Information System)	
	Measure 16: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities	Stage of reform implementation (1-5)
Activities planned for 2022	1. Finalising the design of the model and mechanism which promote formal employment in selected sectors with high incidents of undeclared activities	4

	2. Performing cost-benefits analysis from implementation of the proposed model and developing legal framework, institutional and administrative mechanisms for its implementation	4
	3. Implementing preparatory activities for rolling-out the agreed model, including definition of procedures, forms, training of staff;	2
	4. Introduction of an identification cards system for employees (Workplace ID Cards) in certain sectors where undeclared work is present (e.g., construction, catering, and so on)	3
	5. Analysis and design of model proposals for reducing undeclared work among seasonal workers/simplifying the procedures for registration of these workers (in the agricultural sector)	4
	6. Design and implementation of an informative and educational campaign on undeclared work and the negative effects on workers and society. The campaign will be devised, designed and implemented in close cooperation between the relevant state institutions and the social partners	2
	7. Conducting trainings for different target groups (workers, employers, labour inspectors, other inspection services, representatives of other relevant institutions), on issues related to the informal economy, undeclared work, application of new approaches/tools for dealing with informal employment, and so on	1
	8. Design and establishment of a system/tool for collecting and exchanging data between institutions and strengthening their cooperation, data analysis, etc., in the area of informal employment and undeclared work	4
	9. Preparing a new Strategy for Formalisation of the Informal Economy, for the following period 2023-2027, along with an Action Plan for 2023 – 2024	0
Description of implementation and explanation if partial or no implementation	1. A business model for temporary, casual and seasonal work engagements was developed in consultation with relevant institutions/stakeholders, such as the Health Insurance Fund, the Employment Service Agency and the Pension and Disability Insurance Fund; and it was presented to the Working group on formalisation of undeclared work in May 2022. The legal aspects regarding the introduction of the proposed model are being elaborated.	
	2. Cost-efficient implementation analysis of the proposed model was prepared. The analysis will be finalised after determining the social security contribution rates and finalising the legal framework.	
	3. The start of the activity 3 is conditioned by the completion of activity number 2. According to the dynamics of the “Improving Working Conditions” Project under IPA, this activity would be carried out in the last quarter of 2022.	
	4. A model proposal for identification cards for employees in certain sectors (construction) was developed, which was presented to the competent institutions and social partners. The legal aspects of the model are being elaborated.	
	5. In cooperation with the IPA project “Improving working conditions” and the GIZ Project “Improving Employment Opportunities for Seasonal Workers in the SEE Region”, the MLSP is developing a unique model for temporary, casual and seasonal employment that will meet the needs of workers and employers in agriculture, tourism, catering, personal and household services, which is expected to be achieved by adopting a new legal solution. The establishment of an electronic system for the registration of seasonal workers was proposed, which imposes the need for an appropriate legal framework which will facilitate the employment of workers. On the basis of the proposed flexible solution, a business process was developed, as well as an IT specification for the implementation of the software (portal).	
	6. A strategy and action plan for raising awareness, education and informative campaign were defined. The design and slogan of the campaign were also prepared.	
	7. These trainings are planned to be conducted in the forthcoming period, following the finalisation of the new approaches/tools for dealing with informal employment.	
	8. A system for collecting and sharing data between institutions has been prepared and methodology and indicators have been developed for the size and	

	characteristics of formal and informal employment and undeclared work in the Republic of North Macedonia. The system is completed with a software which is in the advanced stage of development.	
	9. In order to implement this activity and ensuring political commitment at a high level, the Ministry of Labour and Social Policy proposed to the Government to appoint a new chairman, members and deputy members of the Coordinating Body responsible for coordinating the development and implementation of the Strategy for formalisation of the informal economy 2023-2025.	
	Measure 17: Enhancing cooperation between the academy and the industry - STP	Stage of reform implementation (1-5)
	Establishment of a Science and Technology Park (STP)	
Activities planned for 2022	1. Legal set-up The activities for establishing of the STP will start with legal registration of the STP as a separate legal entity in line with the Law on Innovation Activity. Management, advisory and supervisory bodies will be appointed, the Statute and the Systematisation Act will be adopted	0
	2. Strengthening the capacity of STP Given its novelty within the national innovation ecosystem, during the first year, the activities of the STP will focus on capacity building to achieve operational capacity. Capacity building of employees but also external expert services will be implemented to develop the strategic documents of the STP, as well as the legal/operational procedures, including terms and conditions for provision of STP services	0
	3. Adaptation of initial premises – business incubator & NTTO The first phase in the development of the STP hard infrastructure will be adaptation of existing construction for purposes of office space and business incubation	0
Description of implementation and explanation if partial or no implementation	1. The legal set-up of the STP has not occurred. As a result, activities no. 2 and 3 from 2022 have not been conducted.	
	2. Several contacts among the FITD, Ministry of Education and Science, Ministry of Defense for allocating premises for the initiation of the work of the STP have been during 2021 and 2022, but have not been concluded in a final solution. In this direction, the Fund will continue contacts during 2023 with related institutions to find a proper solution for the legal set-up and construction/adaptation of premises for the STP. If these steps are successfully concluded, the Fund will focus on capacity building with employees and experts who will operationalise the functioning of the STP.	
	3. No implementation.	
	Measure 18: Strengthening the market rules in the Republic of North Macedonia	Stage of reform implementation (1-5)
Activities planned for 2022	1. Screening of domestic legislation and administrative practices in the area of free movement of goods and services	5
	2. Drafting new legislation in the area of free movement of goods and services for further legislative alignment in the areas: a) motor vehicles, b) emission of pollutants from non-road mobile engines, c) chemicals, d) medical products for human and for veterinary use, e) cosmetics, f) pre-packaging, g) textiles, h) footwear, i) aerosol dispensers and j) toys	1
	3. Functional analyses of the State market inspection services	5
	4. Design of an e-Inspection as a single inspection interoperable database	0
Description of implementation and	1a. In the area of free movement of services: -conducted screening of 400 legal acts, of which 123 are within the scope of the Services Directive, of these 123 acts in 31 laws and 26 by-laws, provisions that	

explanation if partial or no implementation	<p>need to be amended have been identified.</p> <p>1b. In the area of free movement of goods:</p> <ul style="list-style-type: none"> -Preparation of the text of Part I of the Strategy for the free movement of goods -Preparation of a List of non-technical regulations of the RSM that may cause unjustified barriers to trade -Analysis of legal gaps in the section of textile directives -Analysis of legal gaps in the area of footwear directives 	
	<p>2. According to the conducted screening, amendments are preparing to the:</p> <p>2a. Free movement of goods:</p> <ul style="list-style-type: none"> - A new Law on Market Supervision will be adopted by the end of 2023, in order to comply with the new directive <p>2b. Company Law:</p> <ul style="list-style-type: none"> - A new Company Law will be adopted by the end of 2023, with the aim of further harmonization with EU law, regarding the use of digital tools, cross-border operations, as well as the rules for encouraging long-term engagement of shareholders 	
	<p>3. Evaluation of State market inspectorate(SMI) in the form of functional analysis and recommendations for changes. A functional analysis for SMI was made, with recommendations and additionally a Draft Strategy for Change Management and plan was prepared. Currently this activity is in the planning phase, initial preliminary results are expected towards the end of 2023.</p>	
	<p>4. The activities for the realisation of the measures are taking place within the framework of the IPA project for strengthening the internal market, and according to the time dynamics, the measures are expected to be completed by the end of 2023.</p>	
	Measure 19: Modernisation of the post-harvest management of the agricultural products	Stage of reform implementation (1-5)
Activities planned for 2022	1. Institutional set up - New working systematisation with introduction of Department on CMO	1
	2. New national CMO law - Adoption of the new CMO law	2
	3. Programme for support – CMO - Drafting of the programme	0
Description of implementation and explanation if partial or no implementation	1. New working systematisation with introduction of Department on CMO will be submitted on Governmental procedure by the end of the year.	
	2. Working Group for the new CMO law is established. Adoption of the new CMO law is planned to be at the end of June 2023 year.	
	3. Programme for support – CMO - Drafting of the programme is related with the CMO law and will be finalised after the adoption of the law.	
	Measure 20: Establishing Integrated Tax Information System in PRO	Stage of reform implementation (1-5)
Activities planned for 2022	Component 1. Completion of the remaining modules from Integrated Tax Information System	
	1.Continuation of the realisation of the procurement of the software for conducting a tax procedure per case	0
	2.Commencement of activities for establishing a data warehouse	0
	Component 2. Ensuring security of IS (Information system) and smooth functioning of the Integrated Tax Information System	
	1.Continuation of modernisation of the ICT infrastructure	0
	2.Continuation of activities to increase the security of the Public Revenue Office systems	0

	3. Commencement of activities for the establishment of a Disaster Recovery Centre	0
Description of implementation and explanation if partial or no implementation	In January 2023 an agreement has been signed thus ensuring funds for the Building Effective, Transparent and Accountable Public Financial Management Institutions Project. Part of project's activities are aimed for the development of Integrated Tax Information System (ITIS), aimed at strengthening the operational effectiveness of PRO activities. (The Project also contain the Integrated Financial Management Information System, as well as State Aid Management Information System)	

Annex 2: Links between reform areas and relevant policy documents

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
Measure 1: Further development of qualification system The measure will increase the quality of curricula and will lead to the acquisition of knowledge, skills and competences that will enable smooth transition from school to work.	Key challenge #1: Improving the quality and relevance of the education system to increase employment and mitigate skills mismatch levels	Linked to 6th conclusion, recommendation 16: Develop new vocational education and training (VET) legislation with a focus on inclusion, labour market needs and a new methodology of financing VET as well as provide a yearly report for improving higher education, including recommendations for a new formula for the financing of higher education.	Chapter 3.26 Education and culture Recommendations: →adopt the Vocational Education and Training (VET) Law and establish and operationalise the regional VET centers; →finalise and adopt the Law for Adult Education; →improve access to quality education for all, in particular children with disabilities and children from Roma communities, increase pre-school enrolment and continue improving support for teachers'	SDG 4 - Quality Education - With provided better education the young people will acquire transversal skills that will contribute to better mobility of the workforce and career development.	Green Agenda for the Western Balkans, part of Education and awareness raising states that in order to be successfully implemented, the Green Agenda for WB needs to be reflected in the reforms of the education systems in order to guarantee that people are equipped and prepared for the labour market and society for tomorrow.	Digital agenda for WB in the area of development of digital skills states that these skills are necessary for the development of the digital economy and society and that educational systems needs to adapt to the ongoing digital transformation. In that sense, it states that the European Digital Competence Framework for Citizens ("DigComp") is one of the tools that can be introduced in regional VET systems.	-This measure is financially supported by IPA 2019 – Sectoral Budget support; - Twinning project for additional support for implementation of the national qualifications framework which started in September 2021 with a duration of 30 months. -Increasing attractiveness, inclusiveness and relevance of VET and Adult Education

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
			training and professional development.				
Measure 2: Increasing the flexibility and security of the labour market The measure will contribute to increasing the employment rate and improving the labour market conditions. At the same time, this measure refers to the modernisation of the legal framework for non-standard employment contracts and the labour market.	Key challenge #1: Improving the quality and relevance of the education system to increase employment and mitigate skills mismatch levels	Linked to 6 th conclusion, recommendation 17: →Continue efforts to strengthen access to active labour market policies, particularly for low-skilled unemployed and people in vulnerable situations.	Chapter 19 - Social policy and employment Recommendations: →continue to implement labour market activation measures for young, long-term and low-skilled unemployed people, including women, persons with disabilities and Roma, and ensure proper monitoring and evaluation of the measures.	SDG 8 –Decent work and economic development; SDG 5 – Gender equality; SDG1 – End poverty	/	/	/
Measure 3: Enhancing the system for social inclusion of vulnerable groups The goal of this	Key challenge #1: Improving the quality and relevance of the education system to increase employment and mitigate skills mismatch levels	Linked to 6 th conclusion, recommendations 17 and 18: →Continue efforts to strengthen access to active labour	Chapter 19 - Social policy and employment Recommendations:→ establish a monitoring and evaluation system for social services and	SDG 1 – End poverty; SDG 5 – Gender equality; SDG 8 –Decent work and economic development. The		Digital agenda for WB in the area of eGovernment points that the digital transformation can increase the accessibility,	Action document 2022 „EU for improved health and social protection and gender equality“, „Strengthened monitoring and

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
reform is decreasing the poverty rate, especially for vulnerable categories and their successful re-integration in the society. Hence, of utmost importance is linking social benefits with the activation of GMA beneficiaries.		market policies, particularly for low-skilled unemployed and people in vulnerable situations. →Further increase the capacity of and cooperation between the employment agencies and centres for social work as well as education and training institutions to provide integrated services and measures for improvement of inclusion in the labour market.	continue the social protection reform with stronger links to employment activation.	measure is directly related to the above-mentioned goals for sustainable development through activities to reduce the poverty rate and ensure employment for vulnerable groups.		transparency, responsiveness, reliability, and integrity of public governance.	quality assurance of social services at all levels" Action programme 2019, project „Transformation and rehabilitation of Public Institute Topansko Pole“
Measure 4: Strengthening the quality of the Primary Health Care The measure has a goal to improve the primary health care through reform of the payment method of the primary	Key challenge #1: Improving the quality and relevance of the education system to increase employment and mitigate skills mismatch levels Key challenge #2: Improving the competitiveness of domestic companies, including integration	/	Chapter 28: Consumer and health protection Recommendations: → intensify efforts on tobacco control by effectively implementing the EU Acquis on this; → ensure adequate funding and specialised knowledge	SDG 3 - Ensure healthy lives and promote well-being for all at all ages SDG 5 - Achieve gender equality and empower women and girls -5.6 Ensure universal access to sexual and	/	Digital agenda for WB in the area of eHealth that refers to tools and services that use information and communication technologies that can improve prevention, diagnosis, treatment, monitoring and management of	/

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
healthcare which will secure better preventive, defining and adopting standards for health services, reducing the level of referral to a higher level of health care, a larger number of general practitioners who will have a specialisation in family medicine, encouraging the realisation of certain health services by nurses and facilitating the administrative load.	into global value chains (GVCs) and reducing informal economy Good healthcare protection is directly linked to the human capital of the country, as it has impact on productivity and employability of the worker, as well as productivity of the company.		for early detection and treatment, based on data from the registers	reproductive health and reproductive rights		health and lifestyle.	
Measure 5: Promotion of renewable energy sources The implementation of the measure will ensure:	Key challenge #3: Energy sector modernisation and transition to clean energy	Linked to 5 th conclusion, recommendations 13, 14 and 15: →Increase the number of staff and the technical engineering capacity	Chapter 15 - Energy Recommendations: →increase the number of staff and the technical/engineering capacity of the Energy Department in the	SDG 7 – Affordable and clean energy - Increased renewable energy sources and improving energy efficiency as well as reducing the	Green Agenda for the Western Balkans, pillar for Decarbonisation, Clean energy transition, aiming to ensuring clean and affordable	/	/

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
diversification of the supply, increased competition of the energy market and increased resilience to energy price hikes. The measure promotes use of alternative methods for energy efficiency and increased use of renewable energy sources		of the Energy Dept. in the Ministry of Economy and the Energy Agency. →Adopt and implement energy efficiency legislation, including bylaws to the energy efficiency law. →Following development and adoption of the legal and regulatory framework, establish the envisaged Energy Efficiency Fund.	Ministry of Economy and the Energy Agency → adopt and implement the energy efficiency implementation legislation.	dependency on energy import The measure is in line with the goals for ensuring clean and affordable energy from the European Green Deal as well as the goals for decarbonising the energy system and reduction of greenhouse emissions	energy, as well as decarbonising the energy system and reduction of greenhouse emissions.		
Measure 6: Improvement of energy efficiency This measure will ensure adoption of bylaws arising from the Energy Efficiency Law, adoption of Strategy for reconstruction of buildings by 2030 and establishment of	Key challenge # 3: Energy sector modernisation and transition to clean energy	Linked to 5 th conclusion, recommendations 13, 14 and 15: →Increase the number of staff and the technical engineering capacity of the Energy Dept. in the Ministry of Economy and the Energy Agency. →Adopt and implement energy efficiency legislation,	Chapter 15 - Energy Recommendations: → increase the number of staff and the technical/engineering capacity of the Energy Department in the Ministry of Economy and the Energy Agency → adopt and implement the energy efficiency implementation	SDG 7 – Affordable and clean energy - Improving energy efficiency and reducing private energy consumption, as well as reducing the number of households that are unable to keep home adequately warm	Green Agenda for the Western Balkans, pillar for Decarbonisation, Clean energy transition, aiming to ensuring clean and affordable energy, as well as reconstruction, use and building energy efficient buildings.	/	/

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
Energy Efficiency Fund.		including bylaws to the energy efficiency law. →Following development and adoption of the legal and regulatory framework, establish the envisaged Energy Efficiency Fund.	legislation.				
Measure 7: Establishing wastewater collection and treatment infrastructure in accordance with EU requirements This measure will ensure sustainable water management, wastewater collection and treatment and protection and conservation of water resources	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	/	Chapter 27: Environment and climate change Recommendations: →accelerate efforts for the reduction of air pollution at the local and national level and the reduction of point and diffuse pollution of freshwater resources; →enforce measures to establish a regional waste management system, in particular in the east and Northeast regions; → implement the Paris Agreement, including by adopting a climate a Law, consistent with the EU	SDG 6 –Ensure availability and sustainable management of water and sanitation for all SDG 11 - Make cities inclusive, safe, resilient and sustainable	Green Agenda for the Western Balkans, pillar for Depollution: air, water and soil.	/	IPA II

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
			2030 framework.				
Measure 8: Establishing an Integrated and financially self-sustainable waste management system This measure will ensure establishment of a functional system for regional waste management based on harmonised waste legislation in 2021.	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	/	Chapter 27: Environment and climate change Recommendations: → accelerate efforts for the reduction of air pollution at the local and national level and the reduction of point and diffuse pollution of freshwater resources; → enforce measures to establish a regional waste management system, in particular in the east and Northeast regions; → implement the Paris Agreement, including by adopting a climate a Law, consistent with the EU 2030 framework.	SDG 2 – Good health and well-being SDG 11 - Make cities inclusive, safe, resilient and sustainable SDG 12 - Sustainable consumption and production	Green Agenda for the Western Balkans, pillar for Circular economy: sustainable production and consumption.	/	IPA II
Measure 9: Implementation of an Intelligent Transport System (ITS)	Key challenge #2: Improving the competitiveness of domestic companies, including integration	/	Chapter 14: Transport policy Recommendations: → strengthen the operational and	SDG 9 – Industry, Innovation and infrastructure SDG 11 – Sustainable cities	Green agenda for Western Balkans, pillar on Decarbonisation: climate, energy,	The measure is in line with the goals for digitalisation of the industry from the European Digital	WBTF (WB project)

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
along Corridor X The measure envisages implementation of on A1 Motorway, part of Corridor X, section Tabanovce - Gevgelija in the length of 175 km that will collect data on weather conditions and air pollution including systems for monitoring GHG (SLCP) emissions. This measure will provide significant improvement in the performance of the current traffic flow through reduced delays due to timely reporting and traffic redirection. The greatest impact is expected to be an increase in safety	into global value chains (GVCs) and reducing informal economy		administrative capacity of the inspection bodies and develop enforcement capacity to reduce fatalities on road and rail infrastructure; → implement the connectivity reform measures on rail reform and open the rail transport market, set up a national system to continuously collect data on road crashes, and finalise pending border-crossing agreements/protocols; → adopt legislation on Intelligent Transport Systems (ITS) and combined transport, and make further efforts to produce a strategic framework to implement ITS and the core network	and communities	mobility.	Strategy.	

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
and in saving travel time.							
Measure 10: Broadening the scope of digital services provided on National E-service Portal The goal of the measure is enhancing public service delivery by deployment of e-services on the National E-services portal, thus reducing time and cost of businesses and citizens in their daily interactions with public bodies.	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	Linked to 5 th conclusion, recommendation 11: -Continue the digitalisation of public services for businesses and citizens by upgrading and enhancing the use of e-portals for services.	Chapter 10: Information society and media Recommendations: →finalise and adopt the long-term information and communication technology (ICT) strategy, → strengthen the independence and capacity of the media regulator, the public service broadcaster and of the regulator on electronic communication.	SDG 8 - Decent work and economic growth SDG 9 – Industry, Innovation and infrastructure	Green Agenda for Western Balkan, pillar Decarbonisation: climate, energy and mobility, part on Smart and sustainable mobility. Digitalisation will be a key enabler for the five pillars of the GAWB in line with the concept of the dual green and digital transition.	The measure is in line with the goals for digital transformation and online platforms which will give business a possibility to digitalise as part of the European Digital Strategy, as well as the initiatives for open digital society from the same strategy. Strengthening digital economy and society as per DAWB.	IPA project "Strengthening e-governance in North Macedonia"
Measure 11: Streamline the use of parafiscal charges The goal of the measure is to	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value	Linked to 4 th conclusion, recommendation 10: - Use the list of mapped para-fiscal	Economic criteria - Functioning of market economy Recommendation: Streamline para-fiscal charges in line with	SDG 8 - Decent work and economic growth SDG 9 - Industry, Innovation and infrastructure	Digitalisation will be a key enabler for the five pillars of the GAWB in line with the concept of the dual green and	The measure is in line with the goals for digital transformation and online platforms which will give business a possibility	IPA - Technical assistance through the project "Streamline the use of parafiscal charges"

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
simplify the system of non-tax duties and para-fiscal fees, improve their transparency and predictability, and thus contribute to a more favourable business environment	chains (GVCs) and reducing informal economy	charges to evaluate, optimise and rationalise para-fiscal charges at central and local levels.	the established inventory	SDG 16 - Promote peaceful and inclusive societies for sustainable development.	digital transition.	to digitalise as part of the European Digital Strategy, as well as the initiatives for open digital society from the same strategy. Strengthening digital economy and society as per DAWB.	
Measure 12: Hybrid investment fund for start-ups and innovative micro, small and medium enterprises The establishment of this fund will enable diversification of the economy and improvement of productivity. Investing in start-up companies will contribute to their development and strengthening of their market	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	/	Economic criteria - Capacities to cope with competitive pressure and market forces within the Union - Physical capacity and quality of infrastructure	SDG 8 – Decent work and economic growth	Green Agenda for WB: the measure through its activities will support the pillars by appropriate financial instruments.	/	/

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
position. It will provide for creation of now high-paid jobs and increase in employment.							
Measure 13: Financial support for Roma entrepreneurs The measure foresees establishing of a matching fund as to promote the development of entrepreneurship and to increase access to financing of Roma entrepreneurs	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	/	Economic criteria - Functioning of market economy - Functioning of financial markets - Business environment, Access to finance	SDG 8 - Decent work and economic growth	/	/	/
Measure 14: Increasing the State Aid transparency The measure foresees establishing of a comprehensive and transparent state aid registry aimed at close	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	/	Economic criteria - Functioning of market economy - Functioning of productmarkets - State influence on the product market Chapter 8: Competition policy	SDG 8 - Decent work and economic growth	/	/	/

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
monitoring the state aid schemes, their cost-effectiveness, including strengthening the capacities of the Commission for protection of competition.							
Measure 15: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities The measure provides for simplified registration of seasonal, temporary and casual work in agriculture, catering, tourism, personal services and other sectors with a high incidence of	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	Linked to the 4th conclusion, recommendation 12: →Adopt a comprehensive new strategy and Action Plan for formalisation of the informal economy 2023-2025 and ensure high level political commitment by all institutions relevant for the coordination and implementation.	Economic criteria - Functioning of market economy - Functioning of product markets - Business environment Chapter 20 - Enterprise and industrial policy Recommendation: →continue implementing, assess and renew the strategy and action plan to formalise the informal economy, with specific attention to its business environment component.	SDG 8 - Decent work and economic development	/	In line with the goal for strengthening the digital economy and society	IPA – project "Improving working conditions"

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
informal work							
Measure 16: Support to development of the innovation eco system– STP The measure will introduce mechanisms to encourage RDI investments, innovation activity, business academia cooperation and commercialisation of innovation. The facilitated access to finance, as well as soft and hard infrastructure will increase the research activities in higher education institutions that are applicable to industry. This measure will provide better	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	/	Economic criteria - Capacity to cope with competitive pressure and market forces within the Union - Education and innovation	SDG 4 - Quality Education; SDG 8 - Decent work and economic growth; SDG 9 – Industry, innovation and infrastructure	STP will enhance innovation activity related to achieving the goals of the European Green Deal and the Green Agenda for the Western Balkans by enhancing access to finance for RDI earmarked for green transformation of the economy and facilitating transfer of green technologies	STP will enhance innovation activity related to achieving the goals of the European Digital Agenda and the Digital Agenda for the Western Balkans by enhancing access to finance for RDI earmarked for green transformation of the economy and facilitating transfer of green technologies	/

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
education and increased number of young people who will have relevant job skills for decent employment.							
Measure 17: Strengthening the market rules in the Republic of North Macedonia The measure will enhance the harmonisation with the EU Acquis in the area of free movement of goods and services including support for real functioning of Point of single contact, reorganisation of state market inspection service and improvement of measurement standards and services.	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	/	Chapter 1 - Free movement of goods: Chapter 3 - Right of establishment and freedom to provide services:	SDG 8 - Decent work and economic growth; SDG 16 – Peace, justice and strong institutions - The measure will contribute to improving the business environment and boosting economic growth and trade relation with EU by improving conformity with health, safety and environmental requirements - Creating transparent and efficient institutions.	/	Strengthening digital economy and society as per Digital Agenda for Western Balkan.	IPA

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
Measure 18: Modernisation of the postharvest technologies and processes of the agricultural products The measure aims to increase competitiveness of the agricultural sector by implementing appropriate quality standards and Common market organisation measures. It will ensure food security amid climate change, lessen the environmental impact by reducing waste and improve competitiveness of farmers.	Key challenge #2: Improving the competitiveness of domestic companies, including integration into global value chains (GVCs) and reducing informal economy	/	Chapter 11 - Agriculture and rural development Recommendation: →adopt a legislative framework for further alignment with the EU acquis in the area of common market organisation.	SDG2 - Zero Hunger SDG 8 - Decent work and economic growth	Green Agenda for Western Balkan, pillar Depollution: air, water, soil, and pillar Sustainable food systems and rural areas.	/	/
Measure 19: Establishing Integrated Tax	Key challenge #2: Improving the competitiveness of	/	Chapter 16-Taxation Recommendation: →further improve the	SDG 8 Decent work and economic growth	According to the Tax System Reform Strategy 2021-2025	Measures is in line with the Digital Agenda for the	/

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
Information System in Public Revenue Office (PRO) The new ITIS aims to improve the operational efficiency of tax administration functions, strengthen compliance monitoring and improve taxpayer services. Digitalisation of the business processes of the tax administration will inevitably lead to less financial burden to the businesses, which can further on allocate funds to increase employment and thus reducing poverty. It will inevitably lead to increase in tax collection, as well as	domestic companies, including integration into global value chains (GVCs) and reducing informal economy		capacity of the tax administration by efficiently implementing the tax system reform strategy; → develop a new integrated IT tax system for the Public Revenue Office, improve its compliance risk management and further extend e-services for tax payers; →start preparation for putting in place a mechanism for the effective implementation of the automatic exchange of tax information with EU Member States in line with the OECD Global Standard.		the objective of the Priority 5 (Introducing green taxation) is to improve legal arrangements regarding green taxation. The priority is in line the Green Agenda for the Western Balkans, where the revenues from carbon taxation should be higher in mid and long term.	Western Balkans: e-Government	

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2022	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
decrease in informal economy, thus supporting the formal businesses to increase their revenues and voluntarily comply.							

Annex 2a: Links between reform measures in the Economic Reform Programme areas, investments in the areas of Economic and investment plan for Western Balkans, IPA and SPP

Reform Measure	Area in ERP Guidance Note	Area in Economic and Investment Plan	Investments – Single Project Pipeline			
			Ongoing		Planned	
			Project	m EUR	Project	m EUR
Promotion of renewable energy sources	Green transition	Investing in clean energy (solar renewable energy sources)	PV Oslomej 2 и PV Bitola	30.0		
					PV Oslomej 3	90.0
		Investing in clean energy (hydro renewable energy sources)			Zletovica Phase – Hydro Power Plants	30.0
			Renovation of Hydro Power Plants phase III	38.2		
		Investing in clean energy (wind renewable energy sources)			Wind Park Miravci	88.0
			Wind Park Bogdanci II	27.3		
		Investing in clean energy (modern, low emission gas infrastructure)			Construction of National Gas Pipelines, Gostivar – Kichevo Section and Sveti Nikole - Veles Section	22.0
		Investing in clean energy (gas and electricity connections)	Gas interconnection North Macedonia – Greece	85.0	Gas Interconnection North Macedonia - Kosovo	12.0

Reform Measure	Area in ERP Guidance Note	Area in Economic and Investment Plan	Investments – Single Project Pipeline			
			Ongoing		Planned	
			Project	m EUR	Project	m EUR
Improvement of energy efficiency			Electricity interconnection North Macedonia- Albania	49.0	Gas Interconnection North Macedonia - Serbia	14.0
		Investing in clean energy (modernisation of district heating)	District heating of Bitola	39.0		
		Investing in clean energy (energy efficiency, renovation wave)	Public Sector Energy Efficiency Project	25.0		
			Energy Efficient Renovation of Student Dormitories	20.0		
Establishing wastewater collection and treatment infrastructure in accordance with EU requirements		Greening the Western Balkan – Investing in the environment and climate (depollution - reduce water pollution)	Wastewater Treatment Plant Skopje	196.0	Improvement of the Wastewater Collection Infrastructure in the City of Skopje	9.7
			Improvement of Municipal Water Infrastructure in North Macedonia	50.0	Rehabilitation and expansion of the sewerage network in the municipality of Kicevo	10.8
			Wastewater treatment plant in the Municipality of Tetovo	28.6	Wastewater treatment plant in the Municipality of Bitola	26.7
					Wastewater treatment plants and rehabilitation of the sewerage network in Veles, Stip and Vinica	63.0
Establishing an Integrated and financially self-sustainable waste management system		Greening the Western Balkan – Investing in the environment and climate (depollution - waste management)	Solid Waste Treatment Project (landfills) Southwest, Southeast, Vardar, Pelagonija and Polog region	84.0	Solid Waste Treatment Project (landfills) Skopje region	26.5
			Closure of landfills, construction of a central waste management facility for the eastern and north-eastern region in Sveti Nikole	14.0		
		Greening the Western Balkan – Investing in the environment and climate (soil depollution)			Lindane contaminated sites at OHIS factory (second basin)	35.0
Implementation of an Intelligent	Digital	Investing in sustainable transport	Western Balkan Trade and	26.2		

Reform Measure	Area in ERP Guidance Note	Area in Economic and Investment Plan	Investments – Single Project Pipeline			
			Ongoing		Planned	
			Project	m EUR	Project	m EUR
Transport System (ITS) along Corridor X	transformation	(digital technologies for improved information systems and road safety)	Transport Facilitation Project			
			New electronic tolling systems along - Corridor VIII	13.0		
Broadening the scope of digital services provided on national e-service portal		Investing in digital future (better public services to citizens)	Introducing new e-services on the national portal	10.0		
Streamline the use of para-fiscal charges	Business environment and reduction of the informal economy	Boosting a private sector				
Hybrid investment fund for green and digital start-ups and innovative small and medium enterprises			Support of SMEs, mid-caps and green transition	100.0	Financing sustainable and social investments and activities in climate finance	50.0
					Credit line to create and save jobs, support of female entrepreneurship and green investments	50.0
Financial support for Roma entrepreneurs			Financial support for Roma entrepreneurs	4,0		
Establishment of a state aid management information system			Development of State Aid Management Information System	2.2		
Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities						
Support to development of the innovation eco system						
Strengthening the market rules in the Republic of North Macedonia	Economic integration reforms					
	Energy market reforms	Investing in clean energy (regional energy market and further integration with EU energy market)				

Reform Measure	Area in ERP Guidance Note	Area in Economic and Investment Plan	Investments – Single Project Pipeline			
			Ongoing		Planned	
			Project	m EUR	Project	m EUR
Modernisation of the postharvest technologies and processes of the agricultural products	Agriculture, industry and services	Greening the Western Balkan – Investing in the environment and climate (farming and food production – sustainable production patterns and food systems)	Agriculture Sector Modernization project	46.0		
			Irrigation Programme North Macedonia	80.0	Zletovica - Phase Irrigation	34.7
Further development of qualification system	Education and skills	Investing in human capital (education and skills)	Primary Education Project	21.5		
Increasing the flexibility and security of the labour market	Employment and labour market	Investing in human capital (employment)				
Enhancing the system for social inclusion of vulnerable groups	Social protection and inclusion	Investing in human capital (social protection and inclusion)	Social Services Improvement Project	28.7		
			Social Insurance Administration Project	13.8		
Straightening the quality of the Primary Health Care	Healthcare systems	Investing in human capital (health) Investing in digital future (e-health services)	Covid-19 response project	90.0	Clinical Centre Skopje	500.0
	Transport market reforms	Investing in sustainable transport (sustainable urban mobility plan), Greening the Western Balkan – Investing in the environment and climate (air depollution)			Bus Rapid Transit Project	70.0
		Investing in sustainable transport (core transport network)	Road Corridor VIII Rankovce - Kriva Palanka	102.0	Road Corridor VIII, rehabilitation of section Kumanovo - Rankovce	15.0
			Road Corridor VIII Kriva Palanka - Deve Bair (Bulgarian border)	12.5	Highway Corridor VIII Construction Project (Tetovo - Gostivar, Gostivar – Bukojchani, Trebenishta - Struga – Kjafasan) and Prilep - Bitola	750.0
			Motorway Corridor VIII Gostivar – Kicevo phase I (Bukojcani - Kicevo)	130.0	Joint Border Station Tabanovce	5.2
			Motorway Corridor VIII Kicevo -	638.1	Rail Corridor VIII (eastern	700.0

Reform Measure	Area in ERP Guidance Note	Area in Economic and Investment Plan	Investments – Single Project Pipeline			
			Ongoing		Planned	
			Project	m EUR	Project	m EUR
			Ohrid		part) section III	
					Rail Corridor VIII Kicevo Lin phase I (Kicevo Struga)	426.0
			Rail Corridor VIII (eastern part) section I	46,4	Rail Corridor X Rehabilitation of section Kumanovo - Deljdrovce	50.0
			Rail Corridor VIII (eastern part) section II	214.0	Replacement of protective fences according to EN standards on Corridor 10 highways	9.6
		Comprehensive transport network – not included in EIP	Project for municipal-local roads	70.0	Roads Prilep – bridge Leniska river and Quarry Mavrovo - Belovodica	8.0
			Motorway Interchange Stenkovec - BC Blace	194.8	Installation of signalisation of the railway level crossings	2.1
					Measures for improvement of road safety along the selected road sections	2.7
			National Roads Programme	181.0		
PRO digital transformation by establishing ITIS	Public Financial Management		Building Effective, Transparent and Accountable Public Financial Management Institutions in North Macedonia	22.7		
			Second Municipal Service Improvement Project	25.0		
			Ongoing:	2,758	Planned:	3,101
			Total million EUR 5,859			

Annex 3: External contribution to the ERP 2023-2025

Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
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Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
General	30.12.2022,official letter Reform priority 3) Improving the competitiveness of domestic companies, their integration in the global value chains and formalisation of the economy on pg.43 some additional challenges related to the agricultural sector can be mentioned, such as: very small holdings; low labor and land productivity; allocation of agricultural land mainly to low-value added crops; limited irrigation infrastructure; inefficient AKIS and limited access to high-quality inputs.	World Bank, Joana Madjoska, Mario Jankulovski mjankulovski@worldbank.org	Accepted	Except the part „ allocation of agricultural land mainly to low-value added crops; limited irrigation infrastructure; inefficient AKIS and limited access to high-quality inputs “ which are covered by other programs and projects of the Ministry.
Measure: Establishing Integrated Tax Information System in Public Revenue Office (PRO)	30.12.2022,official letter The cost of the Strengthening Tax Administration Practices and Systems in PRO component in the World Bank-funded project is €8,135 million (and not 5 million as estimated on p. 74)	World Bank, Joana Madjoska, Mario Jankulovski mjankulovski@worldbank.org	Accepted	The sum of €8,135 million is after negotiation and its final.
Measure: Implementation of an Intelligent Transport System (ITS) along Corridor X	30.12.2022,official letter This measure is well described, but it should include the latest developments in the design of the ITS system. Namely, it is agreed that implementation will be split in two parts. The South part of the ITS will start with implementation in 2023 (a year earlier than stated on p. 45) and is funded through the World Bank-funded Trade and Transport Facilitation project. The North part is designed, but funding is yet to be secured (most likely from a WBIF).	World Bank, Joana Madjoska, Mario Jankulovski mjankulovski@worldbank.org	Accepted	Due to insufficient planned funds (lack of funds for VAT and dollar-euro exchange rate difference in the public procurement plan) in the existing project documentation for procurement and implementation of ITS equipment on Corridor X, outdated equipment specifications (2018), lack of Elaborat/Evaluation Strategy of environmental protection and the need for phased implementation (by systems or geographically), improved Project documentation was prepared together with the preparation of Tender

Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
				documentation for the selection of a implementation contractor. The New project documentation envisages the realisation in two phases, of the North and South parts of Corridor X. According to the funds available within the WBTFP project and in agreement with the World Bank, the South part with a length of 98.0 km and the Traffic control center for ITS in Negotino will be implemented. Construction is expected to begin in the third quarter of 2023. The North part is designed, but funding is yet to be secured.
Measure: Hybrid fund for green and digital start-ups and innovative SME's	30.12.2022,official letter This measure should be replaced with a co-investment facility for accelerators and regional VC funds based on the latest communication between the World Bank and the Ministry of Finance. Namely, while there is a clear market gap in financing seed and growth stage start-ups, and the government's role in addressing this market failure is critical, the initially proposed model of hybrid fund for green and digital start-ups and innovative SMEs was too complex and carries challenges and risks during implementation. Therefore, Bank conducted a follow-up mission and provided recommendations based on four key principles: i) the need to support private capital mobilisation, given the reduced fiscal space of the Government; ii) the need to broaden the investor base, both the domestic and foreign one; iii) the importance to continue building the domestic innovation ecosystem; and iv) the significance to leverage existing structure and rely on simple solutions to facilitate implementation and increased feasibility. Those recommendations are:	World Bank, Joana Madjoska, Mario Jankulovski mjankulovski@worldbank.org	-	This remark will be subject to discussion in the process of preparation of the ERP 2024-2026.

Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
	<ul style="list-style-type: none"> Consider consolidating and refocusing the Government's grant schemes on the pre-seed stage of a startup's life cycle (< EUR-equivalent 60,000); for all other stages, increase reliance on market-based instruments that could leverage private capital and expertise. However, private investors tend to feel more comfortable taking risks beyond the pre-seed stage and are more likely to fund a startup. Thus, while the Government's role should probably remain important during a startup's seed and growth stage, a greater reliance on market-based instruments would allow the Government to share risks with the private sector and potentially achieve a larger market development impact with the same amount or less public resources spent. Make greater use of the local and regional innovation ecosystem to deliver government support. FITD has been the largest provider of financing support for innovation and entrepreneurship in North Macedonia, with the majority of the financial support is provided directly to companies. The only program delivering benefits to firms through intermediaries is the Accelerator Program, which represents just 2.5 percent of its total spending. Albeit the direct support might have been appropriate for the early stage of development of North Macedonia's startup industry, a different approach that leverages further the capital and knowledge of the emerging local ecosystem will be more appropriate as the market grows and matures. We suggest exploring the following: <ul style="list-style-type: none"> a) Extend the FITD's accelerator program, but under specific conditions that include covering a share of the accelerators' operational costs but tied to well-defined and quantifiable milestones that would lead toward greater financial independence (e.g., targets for revenue as a share of operating costs, success fee when accelerated startups raise financing, or targets linked to its financing function). b) Restructure the investment program currently embedded in the accelerator program into a co-investment facility, that will support accelerators to mobilise additional private investors (such 			

Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
	<p>as business angels) and earn revenue through investments in the companies they mentor and train. A co-investment facility by the Government could help boost such mobilisation, provided that the Government participates as a passive co-investor. This investment facility for accelerators should be flexible and allow them to experiment with different investment models (e.g., co-investing with business angels, crowdfunding platforms or even setting up seed funds). In addition, its structure should be flexible, whereby the Government may co-invest with accelerators on a fund level or on a project level. However, independent of the model and structure, the mobilisation of private capital should be mandatory. Based on global experiences, it is likely that this facility that would be anchored in accelerators would help finance the seed stage up to tickets of about 500K.</p> <p>c) Develop a co-financing facility to invest alongside private VC funds on a project level: The late seed and growth stage start-ups will likely be financed by regional VC funds. Rather than creating a new fund with the complexities mentioned above, it would be better to leverage existing private VC funds (those that already exist today, as well as funds that emerge in the future). This co-investment would be done at a project level to address the concern that public money should only benefit start-ups in North Macedonian. A pre-approval mechanism could be considered that would simplify the approval process for fund managers by allowing them to seek government approval on a portfolio level instead of submitting approval requests for each project. Pre-approved fund managers could access co-financing for each startup up to a pre-defined investment limit. If domestic VC fund managers are emerging, the facility could be expanded to co-invest alongside them. Similar to the accelerator investment facility, it is understood that the Government would be a passive investor, which should be reflected in the corresponding agreements.</p>			
Measure: Establishment of Management	<p>30.12.2022, official letter</p> <p>The funding for this activity is provided by the World Bank (not IFS as stated on page 56) and the amount is €2,219,800 (not €3.5</p>	<p>World Bank, Joana Madjoska, Mario Jankulovski</p>	Accepted	Regarding the "IFS" and the amount, appropriate corrections have been made.

Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
Information System on State Aid	million). In terms of the state aid provided in the country, it may be useful to include some of the findings and recommendations from the Trade Policy 2.0 report recently published by the World Bank, such as that the cost of tax incentives provided to FDI firms is a significant and a growing share of tax revenue, increasing from 1.3 percent in 2011 to about 5 percent of total tax revenue from 2017 onwards, while tax incentives were critical for profitability of only 16 percent of firms receiving them. Authorities should consider conducting a regular, thorough review of the incentives and publishing reports on the cost of tax incentives provided. Apart from revising tax exemptions to be in line with the EU acquis, it would be useful to explore shifting away from tax holidays towards a more performance-based system of tax credits to make tax incentives more cost-effective and improve their firm behavioral benefits.	mjankulovski@worldbank.org		
Measure: Support to development of the innovation eco system	30.12.2022, official letter It is excellent that this measure now includes a significant subcomponent on development and implementation of the Smart Specialization Strategy. However, the envisioned budget of €1.1 mil in 2023, €1.7 mil in 2024 and €2.8 mil in 2025 for both the implementation of the S3 and the development of the Science and Technology Park is not sufficient. While the budget of the strategy is still being prepared, it is likely to be tenfold of what is now planned. This will include adjustment of existing programs that already have budget allocations to meet the S3 requirements (such as FITD's existing instruments, Law for support of investments...), but also new instruments (for example for financing research, and business –academia collaboration grants, technology transfer offices) that don't have budget allocations. Bank support to the Smart Specialization Strategy could be mentioned in the text.	World Bank, Joana Madjoska, Mario Jankulovski mjankulovski@worldbank.org	Rejected	Precise planning of the budget at this moment is not possible. The projected amount is based on the input from the previous EDP for the planned budget for development of STP and the planned budget from the Ministry of Economy for implementation of S3 strategy. Once the Smart specialization strategy and the related Action Plan are adopted precise budget will be calculated. Measures will be dispersed for implementation from the ministries, institutions, donor projects etc. In the process of development there was important support from JRC, WB, GIZ, IME project in engaging experts for

Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
				development of activities projected in the Methodology for S3 development. It is welcomed World bank and different donors to be involved in the implementation phase too. Additionally IPA can be considered as a source of financing, but at this moment it is not possible to give detailed financial structure for S3 implementation.
Measure: Increasing the flexibility and security of the labor market	30.12.2022,official letter The adoption of the new Labor Law which will facilitate new types of employment (flexible work, remote work, freelancing, seasonal work...) will contribute to improvement of the working conditions, increase attractiveness of certain jobs, and formalise jobs that are currently not included in the system. It aims to strike a good balance between flexibility of engagements, simplicity of hiring and firing, and reasonable job security for the employees. Due to the complexity and novelty of this Law the broad public consultation needs to continue. Additionally, new working arrangements (such as seasonal work and freelance work) may need to be tied to the tax reform and payment of social contributions, but at the same time the provision of adequate health and pension insurance for those employees needs to be well regulated and provided. Also, the government needs to "implement reforms to improve the quality of healthcare and education systems in order to increase trust and stimulate workers to pay the social security contributions" as stated on p.41. Measure 15: "Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities" also calls for preparation of a Law which will provide for a more simplified employment of seasonal, temporary and casual workers in order to promote formal employment in selected sectors with a greater representation of undeclared work. This could be	World Bank, Joana Madjoska, Mario Jankulovski mjankulovski@worldbank.org	Partially accepted	<ul style="list-style-type: none"> • We do recognise the importance of having broad public consultations, which have been launched end of 2022. We intend to continue carrying out the public debates in 2023. We've already took full advantage by drafting the proposal of the Law on Labour Relations in close consultation with social partners and other stakeholders since 2019. • The seasonal, temporary and casual work will be regulated with a specific law and there will be a clause in the Labour Law, which will provide a reference to the specific legislation that will regulate this matter. Namely, the analysis carried out in 2021/2022 suggested introducing lex specials that will provide for less

Remark area section	Comment received (include date received, format of the comment, main content)	Contributing stakeholder (include institution, contact person and contact details)	Status of comment (accepted/rejected)	Comment (justification for acceptance/rejection)
	embedded in the Labor Law. It may be useful to note that LFS indicators in 2022 are not comparable to earlier releases due to the use of new census data.			<p>complex and bureaucratic registration of the non-standard work arrangements that are of seasonal, temporary and casual character. The business model and mechanism for seasonal, temporary and casual have been developed in consultation with the Public Revenue Office and the Ministry of Finance, where the Public Revenue Office will play an important role (an entry point) in the registration process. Other legislations (e.g. law regulating mandatory social contributions) will need subsequent amendments to extend the coverage of social security to the non-standard type of workers.</p> <ul style="list-style-type: none"> • The reforms in the quality of healthcare and education are covered with specific parallel measures (Measure 1, 3 and 4) and they complement the reforms foreseen in Measure 2. • The suggestion with regards to the LFS 2022 indicators will be added in a footnote.

Annex 4: Result Indicators of the structural reform measures per areas

i. PUBLIC FINANCIAL MANAGEMENT							
Measure 19	Indicators	Baseline (2021)	Intermediate target (2023)	Target (2025)	/	/	
Establishing Integrated Tax Information System in Public Revenue Office (PRO)	Percentage of business processes implemented in the new Integrated Tax Information System	N/A	At least 90%	At least 95%			
	% of taxpayer services that have been digitalised	83%	Up to 95%	Up to 100%			
	Number of governmental institutions with which the ITIS is exchanging data	15	At least 25%	At least 30%			
	Percentage of transferred types of data into the Data Warehouse	N/A	60%	80%			
	Percentage of successful tests for security and safety of the system	N/A	50%	100%			
	Percentage of successful tests of the Data Recovery Centre	N/A	50%	100%			
ii. GREEN TRANSITION							
Measure 5	Indicators	Baseline (2018)	Intermediate target (2022)	Intermediate target (2023)	Target (2025)	/	/
Promotion of renewable energy sources	Share of RES in the final consumption	18.2%	24%	26%	29%		
	Share of RES in electricity	24.8%	34%	37%	46%		
	Share of RES in transport	0.1%	3%	3%	5%		
	Share of RES in heating and cooling	32.2%	37%	40%	42%		
	Total installed capacity of RES	766,37 MW	1,087 MW	1,162 MW	1,493 MW		
Measure 6	Indicators	2023-2025	/	/	/	/	/
Improvement of energy efficiency	Number of issued authorisations for energy audit in buildings	150					
	Number of issued licenses for energy audit in buildings	60					

	Number of issued authorisations for energy audit in large enterprises	70					
	Number of issued licenses for energy audit in large enterprises	50					
	MVP software	Functional					
	Energy efficiency investments in municipal public buildings - Number of successfully finalised energy renovation contracts	>50					
Measure 7	Indicators	Baseline (2020)	Intermediate target (2024)	Target (2028)	/	/	/
Establishing wastewater collection and treatment infrastructure in accordance with EU requirements	Number of WWTPs in the country	25	27	30			
	WWTP capacity (PE)	595,000	801,000	1,607,800			
	Percentage of population covered with the WWTPs	27.5	37.33	74.7			
	% of households connected to the wastewater treatment plants for agglomerations above 10 000 p.e.	16.8	21				
	% of households connected to sewerage systems	68	75				
	% of household served with waste collection service	75	80				
Measure 8	Indicators	Baseline	Intermediate target	Target	/	/	/
Establishing an Integrated and financially self-sustainable waste management system	Number of populations receiving the service	0	370,901	1,800,000			
	Percentage of recycled waste from municipal waste	5%	25% (2025)	28% (2028)			
	Net reduction of greenhouse gases in the waste sector on a level of 2% by 2050 compared to 1990			21% (2028)			
iii. DIGITAL TRANSFORMATION							
Measure 9	Indicators	Baseline (2018)		Target (2025)		/	/
Implementation of an Intelligent Transport	Reduced number of traffic accidents expressed in % along	No. of accidents	% decreased	No. of accidents	% decreased		

System (ITS) along Corridor X	Corridor 10	67	0%	56	16.6%				
	Reduce travel time in % along Corridor 10	No. of accidents	% decreased	No. of accidents	% decreased				
		103	0%	85.5	17%				
Measure 10	Indicators	Baseline (2022)		Intermediate target (2023)		Intermediate target (2024)	Target (2025)	/	/
Broadening the scope of digital services provided on National E-service Portal	Number of registered users of the National Portal	82,000		87,000		92,000	97,000		
	Number of e-services offered	200		380		450	550		
	Number of applications submitted through the National Portal	25,000		33,000		41,000	49,000		
iv. BUSINEES ENVIORMENT AND REDUCTION OF THE INFORMAL ECONOMY									
Measure 11	Indicators	Baseline (2020)		Intrmediate target (2023)		Target (2025)	/	/	/
Streamline the use of parafiscal charges	Number of parafiscal charges amended	0		At least 50		Up to 100			
	Number of parafiscal taxes lowered for SME's	0		At least 50		Up to 100			
Measure 12	Indicators	Baseline (2021)		Intrmediate target (2023)		Target (2024)	/	/	/
Hybrid fund for green and digital start-ups and innovative SME's	Volume of attracted private investments in the Fund	0		0		EUR 17 million			
	Number of supported start-up companies and innovative SMEs	0		1		30			
Measure 13	Indicators	Baseline (2022)		Intrmediate target (2023)		Target (2024)	/	/	/
Financial support for Roma entrepreneurs	Number of self-employed (New/formalised business of Roma entrepreneurs), through the activity for self-employment, opening of new jobs, support for formalisation, for registered unemployed persons (cumulative)	17		50		100			
	Number of supported new employments through supported	17		50		100			

	businesses under the measure of favourable and affordable credit funds for existing businesses run by Roma (cumulative)						
Measure 14	Indicators	Baseline (2022)	Intrmediate target (2023)	Target (2024)	/	/	/
Establishment of Management Information System on State Aid	SA MIS established	0	1	0			
	Number of state aid providers included in SA MIS	0	0	5+ ⁹³			
	Number of SA Schemes/programmes registered in the SA MIS	0	0	5+ ⁹⁴			
Measure 15	Indicators	Baseline	Intermediate target (2025)	Target (2026)	/	/	/
Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities	Participation/share of informally employed in the total number of employed persons (SSO - LFS)	12.1%	11.0%	10.0%			
v. RESEARCH DEVELOPMENT AND INNOVATION							
Measure 16	Indicators	Baseline (2023)	Intermediate target (2024)	Target (2025)	/	/	/
Support to development of the innovation eco system	Number of active contracts for business & academia innovation cooperation	0	0	10			
	Number of new instruments for S3 developed	0	5	10			
	Developed platform for continuous EDP dialogue	0	4	4			
vi. ECONOMIC INTEGRATION REFORMS							
Measure 17	Indicators	Baseline (2022)	Intrmediate target (2023)	Target (2024)	/	/	/

93 The number of institutions that provide/manage one or more State Aid alike programmes or schemes.

94The number of programmes/schemes included in the system. the number do not show actual entities – users of state aid as the character of the programmes schemes vary from individual to horizontal, regional, etc. where number of users is more than one.

Strengthening the market rules in the Republic of North Macedonia	New legislation drafted	0	0	20			
	Capacity building events conducted (trainings, workshops etc.)	0	0	5			
	Functional Point of single contracts	0	0	1			
	Digital tools introduced in the inspection institutions	1	1	4			
	Measurement standards and services developed	/	/	5			
vii. ENERGY MARKET REFORMS							
viii. TRANSPORT MARKET REFORMS							
ix. AGRICULTURE INDUSTRY AND SERVICES							
Measure 18	Indicators	Baseline (2018)	Intermediate target (2023)	Target (2025)	/	/	/
Modernisation of the postharvest technologies and processes of the agricultural products	Percentage of agricultural products marketed in compliance with quality standards	40	/	75			
	Percentage of loss in postharvest production	30	/	20			
	Expected new employment	0	/	200 + 400 new jobs			
x. EDUCATION AND SKILLS							
Measure 1	Indicators	Baseline (2020)	Intermediate target (2021)	Intermediate target (2022)	Intermediate target (2023)	Target (2024)	Target (2025)
Further development of qualification system	Ratio of students enrolling to VET schools compared to general education	58%-42%	60,3%-39,7%	62%-38%	64%-36%	64%-36%	64%-36%
	System for VNIL	-	Piloting 1	Piloting 2	Piloting 3	Efficient system for validation	Established system for validation
	Number of established Regional VET Centres	Adoption of changes in the Law	Refurbishment and Transforming 3 VET schools	Functional 3 Regional VET centres	Purchase of equipment and development of	New 2 Regional VET centres established	Functional 5 Regional VET centres

					programmes for 3 regional VET Centres		
	Ration of participation in Life Long Learning (from 25 - 64 participating in education or training) (%)	2.8	3.0	3.0	3.1	3.2	3.2
	Ration of early leavers from education and training at age 18 – 24 (%)	7.1	7.0	7.0	6.9	6.8	6.7
xi. EMPLOYMENT AND LABOUR MARKETS							
Measure 2	Indicators	Baseline (2021)	Intermediate target (2025)	Target (2026)	/	/	/
Increasing the flexibility and security of the labour market	Employment rate (20-64) - TOTAL	59.5%	60.0%	61.0%			
	Employment rate (20-64) - WOMEN	49.2%	49.6%	50.0%			
	Employment rate (15+)	47.2%	48.4%	49.5%			
	Unemployment rate of young people (15-29)	27.6%	27.0%	24.0%			
	Long-term unemployment rate	12.5%	12.0%	10.0%			
xii. SOCIAL PROTECION AND INCLUSION							
Measure 3	Indicators	Baseline	2025	2026	/	/	/
Enhancing the system for social inclusion of vulnerable groups	Poverty rate	21.8% (2020)	21%	20.5%			
	% of people living in households with very low work intensity (0-59)	15% ⁹⁵ (2020)	14.8%	14.5%			
	% of severely materially deprived people	28.6% (2020)	-	28%			
	Number of licenced services	69	80	100			
xiii. HEALTHCARE							
Measure 4	Indicators	Baseline (2021)	Intermediate target (2024)	Target (2025)	/	/	/

⁹⁵https://makstat.stat.gov.mk/PXWeb/pxweb/mk/MakStat/MakStat__ZivotenStandard__LaekenIndikatorSiromastija/375_ZivStd_Mk_LaekenINTENZITET_ml.px/table/tableViewLayout2/?rxid=46ee0f64-2992-4b45-a2d9-cb4e5f7ec5ef

Straightening the quality of the Primary Health Care	Reduction in referral to a higher level of health care for services that can be performed by the family doctors	-	Reduction by 25% compared to 2020	Reduction by 50% compared to 2020			
	Percentage of patients with chronic non-communicable diseases (diabetes, hypertension and hypothyroidism) who are monitored at the primary level	0	30%	50%			
	Percentage of patients who underwent preventive examination for timely detection of the diseases	0	30%	60%			

Annex 5: Indicators for the Macedonian economy in 2021 according to the Macroeconomic Imbalances Procedure of the European Commission

The degree of fulfillment of the main macroeconomic imbalances indicators by the Macedonian economy as of 2021, in accordance with the EC thresholds is given below. This approach could also show the level of convergence of the Macedonian economy towards the EU.

Table: Scoreboard indicators for North Macedonia according to Macroeconomic Imbalances Procedure

Indicators	Indicative thresholds		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	upper	lower											
External imbalances and competitiveness													
Current account balance (% of GDP, 3-year moving average)	-4	6	-3.8	-2.6	-2.4	-1.8	-1.4	-1.8	-2.0	-1.3	-1.5	-2.3	-3.4
International Investment position, net (end-year, % of GDP)	-35		-52.6	-55.1	-55.9	-53.1	-56.0	-57.7	-58.0	-56.2	-57.3	-64.9	-61.7
Real effective exchange rate (CPI-based, 3-year percent change)	-11	11	-1.3	-2.4	2.1	2.7	2.2	1.8	0.3	2.1	-0.7	1.6	1.3
Share in the world export (at current prices, 5-year percent change)	-6		23.9	-3.5	4.2	27.5	49.6	56.5	68.3	76.1	72.0	32.9	12.9
Nominal unit labour costs (3-year percent change)		12	0.6	1.6	4.2	1.7	2.9	2.0	7.0	11.4	16.4	29.0	24.2
Internal imbalances													
Real estate prices (annual change in %, deflated)		6	-9.4	-1.4	-5.5	-0.4	-0.3	1.4	-3.2	1.1	2.6	-0.9	3.1
Credit flows to the private sector (% of GDP)		14	3.5	2.5	2.9	4.5	4.5	3*	2.5	3.3	2.8	2.4	4.1
Private sector debt (% of GDP)		133	82.1	87.2	84.4	85.9	88	87.6*	87.5	86.8	87.6	94.3	93.9
Public debt (% of GDP)		60	32.0	38.3	40.3	45.8	46.6	48.8	47.7	48.4	49.2	61.0	60.8
Liabilities of the financial sector (annual percent change)		16.5	9.5	10.0	5.0	7.9	8.1	3	3.7	3.4	11.4	6	9.8
Unemployment rate (3-year moving average)		10	31.9	31.5	30.4	29.3	27.7	25.9	24.1	22.3	20.1	18.1	16.4
Activity rate (3-year change in percentage points)	-0.2		0.5	-0.2	0.3	1.0	0.8	-1.2	-0.9	-0.1	1.3	-0.7	-1.6
Long term unemployment rate (3-year change in percentage points)		0.5	-2.8	-0.8	-2.8	-2.5	-4.2	-4.8	-6	-5.8	-6.7	-5	-3
Youth unemployment (3-year change in percentage points)		2	-1.2	-1.1	-1.7	-2.1	-6.6	-3.6	-6.3	-1.9	-12.7	-11.1	-9.1

* corrected for the write-offs of loans

Source: National institutions, IMF, Eurostat; NBRNM calculations using available data. However, some indicators do not correspond fully with the requirements under this approach. Shaded fields data point to noncompliance with the threshold.

The current account deficit of the Macedonian economy, as a three-year moving average, in the period 2011-2021, is maintained below the minimum vulnerability threshold (-4% of GDP), i.e. ranges within limits. Since 2011, the net international investment position (IIP) has been deepening, with certain improvement in 2014 and 2018. In 2020, it further deepened given the increased external liabilities mainly of the government to overcome pandemic consequences, while in 2021, it moderately reduced to -61.7% of GDP, which is still significantly below the vulnerability threshold of -35 % of GDP. It should be borne in mind that the net international position on the liabilities side also includes foreign direct investment, which makes up nearly half of the increase in total liabilities abroad in the last several years. In this light, according to the EC's approach, considering the effect of foreign direct investment, other indicators should also be taken into account, such as net external debt, which includes only net debt instruments. At the end of 2021, the net external debt of the Republic of North Macedonia was 30.3% of GDP (slightly lower compared to the end of 2020 when it equaled 31% of GDP).

In the period 2013-2021, the three-year change in real effective exchange rate (REER) indicates a moderate appreciation of about 2%, mainly related to the nominal effective exchange rate (except for 2019 when it mildly depreciated), which is within the allowable range. Export market share of the economy in the world exports, as a five-year change, after the fall in 2012 due to the global crisis, registered an accelerated annual growth in the period 2013-2019. Such developments reflect the improved export performance, determined by structural economic changes. In 2020 - 2021, the growth rate of the market share slowed down, which in 2020 is due to the slightly greater decline in Macedonian exports compared to the decline in world exports of goods, and in 2021, to the faster recovery of world exports than of the Macedonian exports, while the indicator is still within the allowed range. Nominal unit product costs, as a three-year change, accelerated in 2017 and 2018 and slightly exceeded the threshold in 2019 (amid faster wage growth and minor fall in productivity in line with the employment growth), pointing to risks to the competitiveness of the economy. In 2020, the indicator remained above the threshold, taking into account the movement of productivity, amid GDP fall due to the pandemic, and in 2021, the indicator, although slower, again exceeded the threshold, amid further wage growth. *Generally speaking, in the area of external imbalances, the Macedonian economy shows potential vulnerability in the area of external liabilities (with arguments that make this issue relative), while attention should be paid to the movement of nominal unit product costs.*

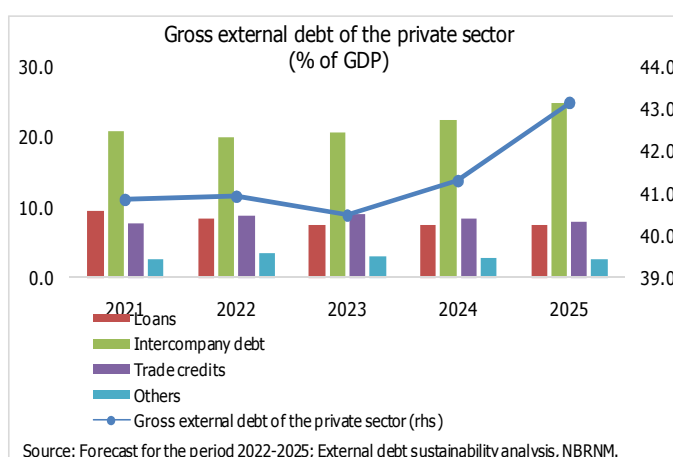
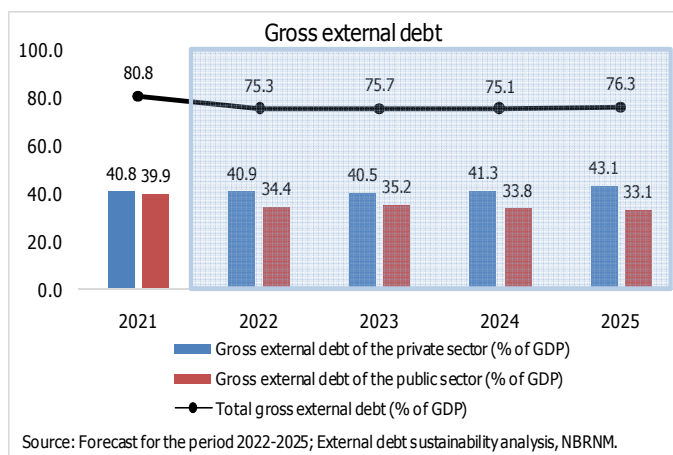
Analysing the internal imbalances, the annual changes in banks' loans to the private sector in the period since 2011 have been moderate and constantly below the vulnerability threshold (14% of GDP). In 2021 this indicator

accelerated to 4.1% of GDP (2.4% of GDP in 2020), but is still significantly below the threshold. In 2021, financial sector liabilities recorded an annual growth of 9.8%, which is an acceleration compared to last year, yet below the threshold (16.5%). Real estate prices registered moderate positive changes in 2018-2019, slight decrease in 2020 and moderate increase (3.1%) in 2021. The total domestic and foreign debt of the private sector (loans from domestic banks and abroad) was also constantly below the threshold of vulnerability. In 2021, it slightly reduced to 93.9% of GDP, which is well below the threshold of 133% of GDP. In 2020, the need to overcome the economic consequences of the pandemic significantly increased the public debt to 61% of GDP, thus exceeding the threshold for the first time, which at the end of 2021 was at a similar level (60.8% of GDP).

Unemployment rate, as a three-year moving average, although abating in recent years, has constantly been well above the threshold of 10%. Two of the additional labor market indicators, the unemployment rate among young population (aged 15 to 24) and the long-term unemployment rate (unemployed for more than a year) in 2021, registered favorable changes (reduction of youth unemployment and long-term unemployment, but at a slower rate), within the safe zone. After the growth in 2019, the activity rate in 2020 and 2021 was again in the negative changes zone, above the allowable threshold. *Hence, analysing internal imbalances, the Macedonian economy continues to show vulnerability arising from the unemployment, and in the last two years, from the activity rate and the public debt, mainly as posed by the pandemic.*

Annex 6: External debt sustainability analysis

According to the analysis of the external debt sustainability⁹⁶, the gross external debt at the end of 2022 is estimated at 75.3% of GDP, which indicates a decrease relative to the previous year by 5.4 p.p. of GDP. The estimated decrease of the external debt in 2022 mainly reflects the assessment for lower public debt by 5.5 p.p. of GDP, mainly due to the decrease in the central government debt, as well as a slightly lower external debt of the public enterprises. On the other hand, the private component of the external debt is expected to stay relatively stable. The structural analysis for the private sector debt shows higher trade credits, while the intercompany debt and the financial loans are expected to decrease. In 2023, a minimal increase of the external debt is estimated, in accordance with the expected external public debt increase, while small reduction of the private sector external debt is expected. For 2024 no significant changes are predicted, while in 2025 a mild increase of the external debt is expected up to a level of 76.3% of GDP, because of the higher private debt that is driven by the intercompany debt, while further reduction of the public debt is expected. Thus, the level of external debt in 2025 is expected to be lower than the actual in 2021 by 4.5 p.p., due to the decrease in the public sector debt by 6.8 p.p. and the increase of the private sector debt by 2.3 p.p. of GDP.

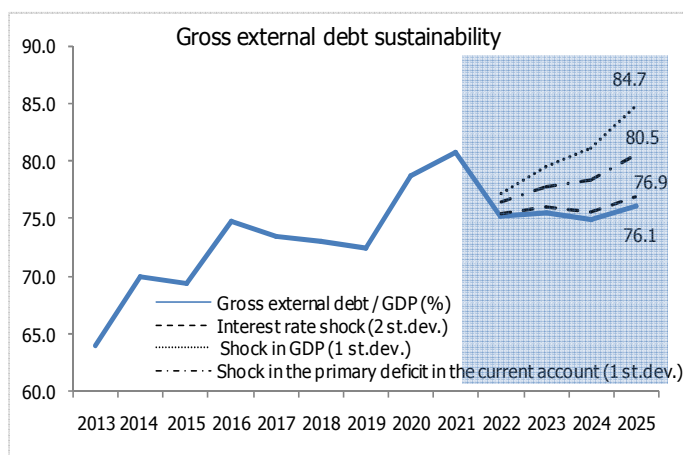
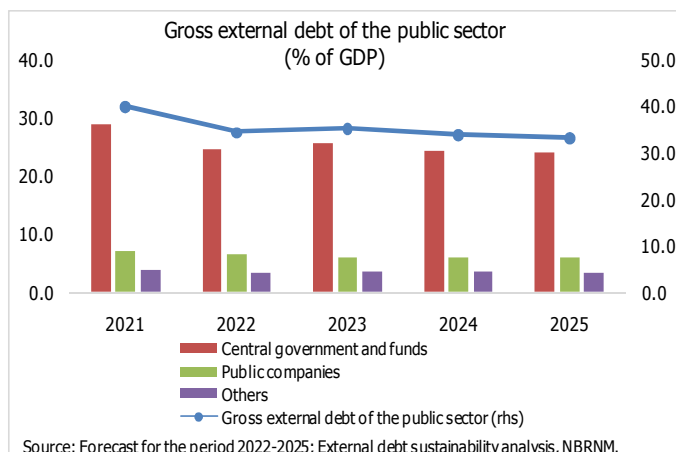


⁹⁶Source: Calculations and analysis of NBRNM, based on the IMF approach. The basic scenario assumes average GDP growth in the period 2021-2024 of 3.1% and it is based on NBRNM October 2022 medium term projections for the period 2022-2025, including the presented balance of payments forecast (October, 2022), which are based on the Fiscal Strategy for the period 2023-2025 (with the outlook to 2027) from May 2022, as well as the Budget supplement for 2022 as of July 2022 and the Budget Proposal for 2023. It should be taken into account that balance of payments statistics does not fully correspond to the external debt statistics.

On average within the analysed period, the flow that affects the increase of the external debt is the deficit in the primary current account (current account excluding interest payments). On the other hand, the non-debt creating capital flows and the automatic debt dynamics (which includes the effects of the real GDP growth and the changes in the prices and nominal effective interest rate) act in the opposite direction by reducing the debt on cumulative bases. It should be noted that during the analysed period, 2022-2025, an increase in the foreign exchange reserves is expected as well as their maintenance at the adequate level.

Within the external public debt, in 2025 relative to 2021 the share of debt to GDP is expected to decline in most of the sectors, although most notably in the central government (by 5 p.p.), while the decrease of the external debt of the public enterprises and the public banks is moderate. Within the private sector external debt, the higher share in GDP in 2025 compared to share in GDP at the end of 2021 is predominantly driven by the intercompany debt, with an increase in the share in GDP by 4 p.p., although some increase is also projected in the trade credits as well as the currency and deposits related debt.

The stress tests indicate that the expected debt dynamics on a medium run is sensitive to shocks on the economic growth, and less so to the primary current account shocks. However, the structure of the external debt is in favor of lower vulnerability, considering relatively high share of intercompany debt and trade credits, averaging at 40.5% during the overall forecasting horizon, as more flexible and less risky types of debt.



Annex 7: Laeken Indicators on Poverty and Social Exclusion, 2013-2020

	2013	2014	2015	2016	2017	2018	2019	2020
At-risk-of-poverty rate, % of the population	24.2	22.1	21.5	21.9	22.2	21.9	21.6	21.8
Men	24.6	22.3	21.5	22.1	22.4	21.8	21.1	21.7
Women	23.9	21.9	21.5	21.6	22.0	22.0	22.0	21.9
By age								
0-17	30.9	29.0	28.6	28.6	29.9	29.3	27.8	30.3
18-64	23.6	21.4	20.7	21.3	21.1	21.2	21.2	21.1
65 and over	16.5	14.5	14.5	14.5	16.1	14.6	14.8	13.4
According to the most frequent economic activity status								
Employed	11.1	9.8	8.9	9.0	9.0	8.8	8.5	7.9
Unemployed	43.7	40.5	39.7	41.1	38.7	41.9	41.7	45.1
Retired	10.9	8.4	7.3	7.1	7.7	7.9	7.7	7
Other inactive persons	29.2	26.1	26.7	29.4	32.1	31.1	32.9	32.5
By dependent children in the household								
Household with no dependent children	19.5	16.5	14.1	14.2	12.8	12.7	13.6	13.1
Household with dependent children	26.5	25.0	25.3	26.0	27.5	27.2	26.2	27.2
Number of persons below the at-risk-of-poverty threshold, in thousands	500.4	457.2	445.2	453.2	460.3	455.1	448.1	451.9
At-risk-of-poverty threshold of single-person household - annual equivalent income in denars	70,275	71,925	78,362	82,560	90,120	97,000	100,643	110,000
At-risk-of-poverty threshold of a four-person household (2 adults and 2 children aged less than 14) - annual equivalent income in denars	147,578	151,043	164,560	173,376	189,525	203,700	211,351	231,210
At-risk-of-poverty rate before social transfers and before pensions, % of the population	41.0	41.7	40.5	41.6	40.7	40.8	41.1	42.1
At-risk-of-poverty rate before social transfers with included pensions, % of the population	26.8	24.8	24.8	25.7	25.9	25.7	25.7	25.7
Inequality of income distribution, S80/S20 income quintile share ratio	8.4	7.2	6.6	6.6	6.4	6.2	5.6	5.9
Inequality of income distribution, Gini coefficient, %	37.0	35.2	33.7	33.6	32.5	31.9	30.7	31.4

Source: State Statistical Office

Annex 8: Institutions involved in the preparation of ERP 2023-2025

The Economic Reform Programme 2023-2025 is a joint result of several institutions, and the overall preparation is coordinated by the Ministry of Finance.

Content of the Economic Reform Programme	Participants in the preparation of the Programme	
	Institution	Person in charge
1. Overall Policy Framework and Objectives	Ministry of Finance	Vesna Cvetanova Desanka Zdravkovska Aleksandra Velkova
2. Implementation of the policy guidance	All institutions in charge	
		Andrija Aleksoski, MoF
3. Macroeconomic framework		
3.1. Recent economic developments	Ministry of Finance National Bank	Ana Nikolova Irena Rashovikj Aneta Krstevska
3.2. Medium-term macroeconomic scenario	Ministry of Finance National Bank	Gjoko Gjorgjeski Ana Nikolova Irena Rashovikj Ornela Trajkoska Pendevska Aneta Krstevska
3.3. Alternative scenario and risks	Ministry of Finance National Bank	Alen Kalach Aneta Krstevska
4. Fiscal framework		
4.1. Fiscal strategy and medium-term objectives	Ministry of Finance	Tanja Kostovska Anica Ivanoska Aleksandra Altievska Lidija Gjozinska Aleksandra Petkanovska Ana Nikolova Irena Rashovikj
4.2. Budget execution in 2022	Ministry of Finance	Edmir Kamberi Viktorija Hristovska Ana Nikolova Irena Rashovikj
4.3 Budget plan for 2023	Ministry of Finance	Tanja Kostovska Anica Ivanoska Aleksandra Altievska Lidija Gjozinska Aleksandra Petkanovska
4.4. Medium-term budgetary outlook	Ministry of Finance	Tanja Kostovska Anica Ivanoska Aleksandra Altievska Lidija Gjozinska Aleksandra Petkanovska
4.5. Structural deficit	Ministry of Finance	Gjoko Gjorgjeski Ana Nikolova Irena Rashovikj Alen Kalach
4.6. Public debt management, stock and projections of public debt trends	Ministry of Finance	Sanja M. Mancheva Alev Sulejman
4.7. Sensitivity analysis and comparison with the previous programme	Ministry of Finance	Gjoko Gjorgjeski Ana Nikolova Irena Rashovikj Sanja M. Mancheva
4.8 Quality of public finances	Ministry of Finance	Tanja Kostovska Anica Ivanoska Aleksandra Altievska Lidija Gjozinska Aleksandra Petkanovska
4.9. Fiscal governance and budgetary frameworks	Ministry of Finance	Tanja Kostovska Anica Ivanoska

		Aleksandra Altievska Lidija Gjozinska Aleksandra Petkanovska
4.10. Sustainability of public finances	Ministry of Finance	Gjoko Gjorgjeski Ana Nikolova Irena Rashovikj
5. Structural reform priorities in 2023-2025		
5.1. Update on the three main obstacles to competitiveness and inclusive growth and related reform measures	Ministry of Finance	Vesna Cvetanova Desanka Zdravkovska
5.1.1 Green transition	Ministry of Economy Ministry of Environment and Physical Planning	Magdalena Daskalova Katerina Bilboska Jasmina Trajanoska Filoreta Kamberi Vjolca Ejupi Ljupka Dimoska Zajkov Ana Karanfilova Maznevskva Sashka Brblikj Vesna Indova Tochko
		Vesna Cvetanova, MoF Desanka Zdravkovska, MoF
5.1.2 Digital transformation	Ministry of Transport and Communication Ministry for Information Society and Administration	Biljana Zdraveva Jasminka Kirkova Mevludin Shabani Goran Temovski Zlatko Stojanovski Nadica Josifovski
		Vesna Cvetanova, MoF Aleksandra Velkova, MoF Desanka Zdravkovska, MoF
5.1.3 Business environment and reduction of the informal economy	Ministry of Economy Cabinet of the DPM in charge of economic affairs Fund for Innovation and Technology Development Office of the President of the Government Ministry of Labour and Social Policy	Marina Arsovska Jasmina Trajanoska Filoreta Kamberi Vjolca Ejupi Aleksandar Talimdzioski Ivan Andrevski Visar Ramadani Branislav Markovski Mladen Frchkovski Aleksandra Slavkovska
		Vesna Cvetanova, MoF Aleksandra Velkova, MoF Desanka Zdravkovska, MoF
5.1.4 Research, development and innovation	Fund for Innovation and Technology Development Ministry of Economy	Visar Ramadani Branislav Markovski Jasmina Majstoroska
		Vesna Cvetanova, MoF Desanka Zdravkovska, MoF
5.1.5 Economic integration reforms	Ministry of Economy	Ardiana Abazi Ramadani Jasmina Trajanoska Filoreta Kamberi Vjolca Ejupi
		Vesna Cvetanova, MoF
5.1.6 Energy market reforms	Ministry of Economy	Elena Markova Velinova
		Vesna Cvetanova, MoF
5.1.7 Transport market reforms	Ministry of Transport and Communication	Biljana Zdraveva Jasmina Kirkova Goran Temovski Mevludin Shabani

		Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.1.8 Agriculture, industry and services	Ministry of Agriculture, Forestry and Water Economy	Malisha Stankovikj Larisa Kitanov Acevska Tatjana Simovska Novkovska
		Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.1.9 Education and skills	Ministry of Education and Science	Nadica Kostovska Natalija Kizhevska Jasmina Vukichevikj
		Vesna Cvetanova, MoF Viktor Lazaroski, MoF
5.1.10 Employment and labour markets	Ministry of Labour and Social Policy	Aleksandra Slavkovska Dushan Tomshic Mladen Frchkovski
		Vesna Cvetanova, MoF Viktor Lazaroski, MoF
5.1.11 Social protection and inclusion	Ministry of Labour and Social Policy	Aleksandra Slavkovska Dushan Tomshic Mladen Frchkovski
		Vesna Cvetanova, MoF Viktor Lazaroski, MoF
5.1.12 Healthcare	Ministry of Health	Nikola Grpchevski Zlate Mehmedovikj Jasminka Smilevska Mile Sugarev
		Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.2 Analysis of obstacles in other areas (not covered in section 5.1) and related structural reform measures	Ministry of Finance	Vesna Cvetanova
5.2.1 Public Finance Management	Public Revenue Office	Marjan Mihajlovski Ana Kirovska Gjorgjeska Marina Joleska
		Vesna Cvetanova, MoF
5.3. Summary of reform priorities	Ministry of Finance	Aleksandra Velkova
6. The cost and financing of structural reforms	Ministry of Finance	Aleksandra Velkova
7. Institutional issues and stakeholder involvement	Ministry of Finance	Aleksandra Velkova