



Republic of North Macedonia

Ministry of Finance

ECONOMIC REFORM PROGRAMME

2022-2024

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ABBREVIATIONS

AEC	Agency for Electronic Communications
AD MEPSO	Macedonian Electricity Transmission System Operator
BERD	Business enterprise expenditure on R&D
BSO	Business support organisations
CACM	Capacity Allocation and Congestion Management
CIT	corporate income tax
CMO	Common market organisation policy
CPH	Centre for Public Health
CRM	Client relations management
CRPM	Center for Research and Policy Making
C&DW	Construction and demolition waste
DBNM	Development Bank of North Macedonia
DMS	dynamic message signs
DMO	Destination Management Organisation
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EE	energy efficiency
EEI	energy efficiency improvement
EEF	Energy efficiency Fund
EIB	European Investment Bank
EIRR	economic internal rate of return
ERC	Energy Regulatory Commission
ERI	Economic Resilience Initiative
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
FTE	full time equivalent
GDP	gross domestic product
GHG	greenhouse gas
GMA	guaranteed minimal assistance
HLMD	High level market design
HEI	higher education institutions
ICT	information and communication technology
IFMIS	Integrated Financial Management Information System
IFS	International Finance Corporation
IPA	Instrument for Pre-Accession Assistance
IPH	Institute of Public Health
ITIS	Integrated Tax Information System
ILO	International Labour Organisation
ITS	Intelligent Transport System

IMF	International Monetary Fund
JRBS/JBS	joint railway border station
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
MSME	micro, small and medium enterprises
NDC	Nationally Determined Contributions on Climate Change
NECP	National Energy and Climate Plan
NEMO	Nominated Electricity Operator
NGO	non-governmental organisations
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
PFM	Public Finance Management
PHC	primary health care
PISA	programme for International Student Assessment
PIT	personal income tax
PRO	Public Revenue Office
RBMPs	River Basing Management Plans
REDI	Roma Entrepreneurship Development Initiative
RES	renewable energy sources
RWIS	Road Weather Information System
SA	State Aid
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
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
VPN	virtual private networks

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

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i. Introduction

The Economic Reform Programme (ERP) 2022 – 2024 presents the medium-term macroeconomic and fiscal framework, as well as the sectoral structural reforms for promoting both competitiveness and growth.

The programme is prepared in line with the Government Programme 2020 – 2024, the Revised Fiscal Strategy for the period 2022 – 2024 (with outlook to 2026), and the 2022 Budget of the Republic of North Macedonia, Tax System Reform Strategy 2021 – 2025, Fiscal Sustainability and Economic Growth Support Plan: Policies, Recommendations, Measures and Indicators, Economic Growth Acceleration Plan 2022 – 2026, as well as other national strategic documents, such as the National Programme for Adoption of the Acquis Communautaire, the Stabilisation and Association Agreement and the national sectoral strategies: Public Finance Management Reform Programme 2018 – 2021, Strategy for formalisation of the informal economy 2018 – 2022, Health Strategy 2021 – 2030, Strategy for Energy Development, Water Strategy for the Republic of Macedonia 2012 – 2042, National Strategy for Sustainable Development for the Republic of Macedonia, Small and Medium-sized Enterprises Strategy, Education Strategy 2018 – 2025 and Action Plan, Industrial Strategy 2018 – 2027, National Employment Strategy 2021 – 2027 etc.

In addition, ERP is in line with the United Nation's Sustainable Development Goals, South East Europe – SEE2030 Strategy, Multi-annual Action Plan for a Regional Economic Area in the Western Balkans Six, European Green Deal, Digital Agenda for Europe, and Economic and Investment Plan for the Western Balkans.

European Commission's annual assessment of the Economic Reform Programme 2021 – 2023, the recommendations from the joint conclusions of the Economic and Financial dialogue on 12 July 2021, as well as the recommendation indicated in the 2021 Progress Report on the Republic of North Macedonia were taken into consideration during the preparation of the Programme.

ERP is a joint product of multiple institutions, with its overall preparation being coordinated by the Ministry of Finance (MF). In the selection of the key sectoral structural reforms, institutions took into account the challenges and problems in the corresponding areas, whose overcoming would impact to increase country's competitiveness and economic growth, as well as create new jobs.

1. Overall policy framework and objectives

The world in 2021 entered in the second year of the COVID-19 pandemic. Global economy, albeit in a recovery phase, is still greatly impacted by the uncertainties related to the development path of the pandemic. Governments around the world continued to overtake measures aimed at containing the spread of the pandemic, yet the implementation of economic policies is impeded because of the slower employment growth, challenges related to the human capital accumulation, inflation growth and climate changes. Under these conditions, the global economy in 2021 is expected to grow by 5.9 per cent, and the EU by 5.1 per cent.

Macedonian economy is recovering following the pattern of the other European countries. In the first nine months of 2021, economic activity increased by 4.6 per cent, with the highest growth rate of 13.4 per cent being recorded in the second quarter. The recovery has been most pronounced in the service sector, while the movements in the industrial and construction sectors are still unfavourable. Nevertheless, the mass immunization in the country is expected to positively affect the expectations and confidence of the domestic companies, as well as the propensity towards investment and consumption.

In its annual assessment of the previous Economic Reform Programme 2021 – 2023, the European Commission (EC) points out that the country still faces challenges with regards to fiscal policy's transparency and targets under increased uncertainty, quality of public finance management under low realisation of capital expenditures, low productivity and limited competitiveness of the domestic companies to integrate with the global supply chains, as well as the size of the informal economy. In this regard, the following are identified as key challenges entailing necessary reforms in order to support an inclusive and sustainable mid-term economic growth: 1) strengthening of 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 formalization of the economy.

The first challenge relates to the quality of the educational system which, as one of the corner-stones in the development of human capital, should adapt to the needs on the labour market. This includes the need for reforms not only in the primary education, vocational education and training (VET), and higher education, but also in the legal framework concerned with the school-to-work transition. The COVID-19 pandemic imposed the necessity to implement reforms in the educational

system, such as the introduction of remote learning, which directs the future reforms to take into account the newly introduced innovative teaching methods.

The second challenge deals with the efforts made to reach inclusive and sustainable economic growth under lower CO2 emissions and limited effects of the global warming. Concepts which occupy an important place in this regard are the development of a circular economy, more efficient waste management, lower air pollution, and improvements of the water supply and sanitation system. The progress in this area has been severely hindered by the COVID-19 pandemic, which delayed the construction of wastewater treatment plants as a result of the concerns regarding the increased vulnerability to COVID-19 due to the poor water management and sanitation.

The third challenge is related to the productivity growth of domestic companies aimed at increasing their competitiveness and thence facilitate their integration with the global value chains, as well as to tackle the large informal sector in order to cope with the unfair competition and increase the collection of public revenues. Domestic companies' productivity was significantly affected by the COVID-19 pandemic, which caused a decline in demand for products and services, weaker confidence in supply chain partners and disruptions in the sourcing of raw materials.

In order to overcome these challenges, ERP 2022-2024 includes 20 measures which, among other things, in the upcoming period aim to carry on the activities on the implementation of regional centres for VET, harmonize the legislation and accreditation rules and evaluation with the European standards for higher education, improve the flexibility on the labour market through legislative actions in the area of labour law, increase the energy efficiency and the exploitation of renewable energy sources, and improve the primary healthcare.

The economic policies and measures included in the Fiscal Sustainability and Economic Growth Support Plan, Public Investment Plan and Economic Growth Acceleration Plan as a general framework are aimed at addressing the foregoing challenges but also at increasing the growth potential of the domestic economy.

2. Implementation of the policy guidance

Joint conclusions - Policy guidance with recommendations	Activity and stage of implementation
	<p>Policy Guidance 1: <i>Provide well-targeted and temporary pandemic-related fiscal support to vulnerable households and businesses; provided the economic recovery is well entrenched, foresee in the 2022 budget and the medium-term fiscal plan a gradual return to the pre-crisis primary deficit to GDP ratio. Also with a view to improving the realisation of capital expenditure, reinforce the management of public investment, in line with measures outlined in the related Action Plan. Improve revenue collection and broaden the tax base in line with the Tax System Reform Strategy, including by drafting annual action plans to streamline tax exemptions.</i></p>
<p>P 1: To provide a well-targeted temporary fiscal support regarding the COVID-19 pandemic for vulnerable households and legal entities in case the economic recovery is on a firm basis, as well as to foresee a gradual reversal of the primary deficit relative to GDP to the level before the crisis in the 2022 Budget and the mid-term fiscal plan.</p>	<p>In the context of the COVID-19 pandemic and the temporary fiscal support for vulnerable households and legal entities, part of the measures from the third and fourth packages, which were adopted in 2020, continued with its activities in 2021, while fifth and sixth packages were additionally introduced in order to revitalise the economy hit by the crisis. The last two packages foresee an additional support for the businesses and vulnerable households in the amount of 185 million euros. The implementation of different measures provided financial support for salaries of the most vulnerable households, non-interest loans, financial support for liquidity, support of the import activity, as well as targeted support for the most severely affected sectors.</p> <p>An additional challenge which the Macedonian economy faced was the energy crisis. The high jump in the energy prices increased the concerns of companies regarding the higher production costs, especially among the vulnerable households due to the higher risk of energy poverty, as well as because of the worsening of the living standard and the rising poverty level. In order to reduce the consequences of the energy crisis, state-owned ESM provided support in the amount of around 100 million, which contributed to mitigation of the price shock. Additionally, in order to support the living standard, a reduced VAT rate on electricity for households of 5% was introduced in July 2021, which was reduced from the previous rate of 18% (it is expected to reverse the rate to that level in July 2023). Also, financial support in the amount of 1,000 denars monthly for heating of the socially vulnerable households was provided to 35,000 households and 9,000 low-income pensioners.</p> <p>Considering that there are still risks from the pandemic and the energy crisis, an amount of 90 million as targeted support to the economy and the vulnerable households was included in the 2022 budget.</p> <p>The health crisis caused an increased public consumption, which moved the mid-term framework of the planned fiscal targets aimed at fiscal consolidation. This imposed the necessity to increase the dynamics of the fiscal consolidation process by a wider scope of measures and activities in order to achieve long-term public finance sustainability.</p> <p>According to the Revised Fiscal Strategy for the period 2022 – 2026, the mid-term priorities are aimed at coping with the consequences from the health and energy crises. At the same time, in order to support economic recovery and accelerate growth, the strategy foresees a substantial amount of public investment. In order to secure fiscal consolidation and fiscal sustainability, the Fiscal Strategy takes into account the measures from the Fiscal Sustainability and Economic Growth Support Plan 2022 – 2026, which includes measures for rationalisation of specific expenditure categories, measures for improvement of the revenue collection, as well as improvement of the performance-based budgeting. From here, the Fiscal Strategy anticipates that the primary budget deficit will fall down from 3% of GDP in 2022 to the level of 1.2% of GDP in 2026.</p>

<p>P2: Regarding the improvement of the realisation of capital expenditures, to enhance the public investment management in line with the measures foreseen in the corresponding Action Plan.</p>	<p>On 5 May 2021, the Minister of Finance made two decisions to create a Working group for the implementation of the Activity plan for public investment management and a Working group for undertaking preparational activities for the implementation of an organisational unit which will carry out activities related to the public investment management.</p> <p>The Ministry of Finance provided technical support from the IMF to enhance its capacities for public investment management (development of institutional structure and designing the main operational processes for public investment management and enhancing MF's PIM functions as follow-up activities to the Public Investment Management Assessment). The technical support will be implemented through multiple expert missions in the period from July 2021 to December 2022.</p> <p>In July 2021, the first mission as part of IMF's technical support for defining the organisational structure, responsibilities, working tasks and processes of the new organisational unit for public investment management in the Ministry of Finance. The report from the expert mission with recommendations by the IMF was submitted to MF on 24 November 2021. According to the recommendations, the Ministry of Finance's responsibilities regarding public investment management would include independent assessment of the public infrastructure projects in the pre-investment phase, that is, before the Government makes the decision to start a project or provide financing for it. Also, the Ministry of Finance will have to follow these projects from the aspect of their fiscal implications and risks. For that purpose, it is necessary to create a new Public Investment Management Department in the MF, which should consist of two units: Public Investment Management Assessment Unit and Monitoring of Public Investment Implementation Unit. As a result of these recommendations, a procedure for amending organisational and systematisation acts was initiated in the Ministry of Finance.</p>
<p>P3: To improve the collection of revenues and expand the tax base in line with the Tax System Reform Strategy, including the preparation of an annual draft plans aimed at rationalising tax reliefs</p>	<p>An analysis with comparison of the list of goods and services subject to the reduced VAT rate in line with the domestic jurisdiction was conducted and minor deviations were noted, which are generally related to the goods and services for strategic products (e.g. agricultural mechanisation) and necessary products for the citizens (e.g. medical services, computers). The activities on creating a Business Intelligence Unit continue as part of the twinning project "Improving Revenue Collection and Tax and Customs Policy" and their implementation will carry on in the new PFM programme, as well as to introduce a data management system (data governance). These activities are included in the draft version of the new Public Financial Management Reform Program 2022-2025.</p> <p>The share of tax inspectors relative to the total number of employees in the public administration is larger compared to 2019.</p> <p>In order to optimise the tax base for most taxes, the Ministry of Finance prepared a tax-based analysis for the Personal Income Tax, Profit Tax and the Value Added Tax. There are certain deviations compared to some EU directives, which would be targeted by the analyses as part of future legal changes. Moreover, the Ministry of Finance's Tax and Customs Department prepared a report on the tax deductions, which are calculated as a percentage of GDP.</p>
<p>Policy Guidance 2: Adopt the new PPP law and ensure its efficient implementation, including the development and functioning of the PPP registry. Take the necessary legislative steps for the establishment of the Fiscal Council. Improve transparency and evaluation of firm-level subsidies by setting up a state aid registry.</p>	
<p>P4: To adopt the new Public-Private Partnerships Law and secure its efficient implementation, including development and operationalisation of a Public-Private Partnerships Registry</p>	<p>With regards to the Public-Private Partnerships Law, a proposal of law with corresponding tables, a declaration of compliance and a regulatory impact assessment report were submitted for comment to 14 institutions. The law was adopted by the Government and submitted to the Assembly.</p> <p>Regarding the Public-Private Partnerships Registry, the next steps include:</p> <ul style="list-style-type: none"> - finalising the technical specification of the Registry; and - establishing the Registry.
<p>P5: To undertake the necessary legal changes for the establishment of a Fiscal Council</p>	<p>The establishment of the Fiscal Council is foreseen in the proposal of Budget Law, which is currently in parliamentary procedure for its adoption.</p>

<p>P6: To improve transparency and assessment of the subsidies extended to companies through the establishment of a State Aid Registry</p> <p><i>(Related to Measure 15: Establishment of Management Information System on State Aid)</i></p>	<p>With regards to this recommendation, the Government decided to increase transparency, accountability, as well as capacity for assessing state aid. To that end, a State Aid Management Information System (SAMIS) will be established, which will be used by all state aid providers, the ex-ante control subject (Commission for Protection of Competition), as well as other interested parties (media, civic organisations, academia, citizens and private sector). SAMIS will contain information about all state aid providers, users, programmes, financing, classification, as well as expected and real results from the state aid. It will have to generate reports according to programme, institution of implementation, geographic region, sector, user size and individual users. The system will be interoperable with other government systems, including the planned Integrated Financial Management Information System (IFMIS).</p> <p>The planned activities for this recommendation are detailed in the Measure 15: Establishment of Management Information System on State Aid:</p> <p>a. Activities planned in 2022</p> <ul style="list-style-type: none"> - Develop the MIS system framework (institutional, ICT requirements in both hardware and software); and - Develop inventory of the State Aid alike programs and schemes (of all types as per the regulatory framework on State Aid). <p>b. Activities planned in 2023</p> <ul style="list-style-type: none"> - Establish the State Aid Register as part of the MIS SA. <p>c. Activities planned in 2024</p> <ul style="list-style-type: none"> - Further development of the State Aid Register as part of the MIS SA in its full capacity. <p>The technical requirements of the State Aid Management Information System have already been prepared, and a loan for its implementation was requested from the World Bank on 31 December 2021.</p>
<p>Policy Guidance 3: <i>Maintain a strong financial sector regulatory framework in line with international and EU best practises, ensure sound credit risk management, a transparent display of asset quality and adequate provisioning. Further reduce institutional and legal obstacles to swift and effective NPL resolution, including by facilitating out-of-court settlement and modernising the insolvency regime. Safeguard the NBRM's independence in its key statutory tasks, including in staffing issues, in line with the law on the national bank, and to this end exclude the NBRM from the scope of the new law on administrative servants.</i></p>	

<p>P7: To maintain a regulatory framework for a stable financial sector in line with EU's best international practises; to provide stable credit risk management, transparent display of asset quality and their provision.</p>	<p>The National Bank is constantly working on improving the regulatory framework and adopting international and EU best practices for securing a stable banking system. In this regard, the following activities were taken so far:</p> <ul style="list-style-type: none"> - In May 2020, a new Decision on the methodology for liquidity risk management was adopted, which further harmonized the domestic regulations with the Basel standards (Basel III) and the provisions of the relevant EU regulations, in this area and the introduction of the liquidity standard - Liquidity Coverage Ratio (LCR). The new decision has been in force since the beginning of 2021; - Amendments to the regulations for managing credit risk made at the beginning of the pandemic enabled postponement of the loan payments, which ended during the first half of 2021; - Amendments to the credit risk management regulations have been made in order to more precisely determine the procedure and rules for the sale of credit agreement claims. The decision has been discussed with the banks, but in order to resolve certain issues and dilemmas that arose from the public discussion, these regulations will be subjected to second review with the banks; - A Draft Bank Resolution Law was prepared, which was discussed with the Ministry of Finance, followed by a process of review and discussions within the National Bank; - Activities on analyzing the possibility of introducing new EU requirements for the manner of determining non-performing credit exposures (taking into account the requirements of Article 178 of the Capital Requirements Regulation 575/2013 and the relevant acts of the European Commission and the European Banking Authority). Information and data on the effects of the new definition of non-performing loans were collected from banks. An analysis of the obtained results for the effects is in progress. <p>Decision of the European Commission on assessing the equivalence of the supervisory and regulatory framework for banks. On 1 October 2021, the European Commission adopted a Decision, according to which the Republic of North Macedonia has established a supervisory and regulatory framework for the founding and operating of banks, which is in accordance with the standards prescribed in the European Union by Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions.</p> <p>It is an assessment performed by the European Banking Authority and adopted by the European Commission, which assesses the ability of banking regulation and supervision of non-EU countries to achieve the same objectives established by European Union regulations and standards. These objectives relate in particular to the stability and integrity of both the domestic and global financial systems, the effectiveness and adequacy of the protection of depositors and other users of financial services, cooperation between different financial market participants, including regulatory and supervisory authorities, independence and the effectiveness of supervision and the effective implementation of relevant international standards. Obtaining a positive assessment of the compliance of banking regulations and supervision with that in the European Union (so-called equivalent treatment), means that the domestic banking regulations and supervision attain the same goals as those established in the Union.</p>
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<p>P8: Further reduction of the institutional and legal obstacles in order to accelerate and effectively resolve non-performing loans, including the support of an extrajudicial agreement and modernisation of the bankruptcy regime.</p>	<p>In this regard, the process of implementation of the Strategy for encouraging the management and improvement of the management of non-performing loans continued, which was prepared by the National Bank and adopted by the Government at the end of 2018 and has been implemented for several years through coordinated action of several institutions in the country. In December 2018, amendments to the Law on Enforcement and the Notary Law were adopted, which were done at the beginning of the implementation of the Strategy. Three Strategy measures were foreseen for 2019, which were fully implemented.</p> <p>In 2020, three activities were in the focus, some of which continued in the following year. Thus, in 2021, the activities continued in the part of: further improvement of the quality of financial reporting and corporate governance of companies through the development of a new Code of Corporate Governance of companies, as well as other accompanying acts in this domain; draft-amendments to the credit risk management regulations for more precise determination of the procedure and rules for sale of claims based on a credit agreement and for reporting on the sale of claims; regular supervising of the non-performing loans of the banks. Additionally, in accordance with the Strategy, the Draft Law on Insolvency was published on ENER in February 2021 and is in the process of consultation. At the same time, a new Law on Valuation is being worked on (the announcement for the drafting of the law was published on ENER in July 2021 by the Ministry of Justice). In the last few years, the share of non-performing loans in total loans has decreased and at the end of the third quarter of 2021 was 3.6%. The decrease is due to the collection of non-performing loans, primarily from companies, as well as the mandatory write-offs. The payments based on sold claims are also recorded.</p>
<p>P9: To keep the independence of NBRM 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 Public Sector Employees.</p>	<p>In September 2021, the Ministry of Information Society and Administration published on ENER the Draft Law on Administrative Servants and the Draft Law on Public Sector Employees. The National Bank employees are encompassed in the new draft laws, contrary to the conclusions of the Economic and Financial Dialogue of July 2021 between the EU and the Western Balkans and Turkey. It is expected that further discussion with the relevant institutions will result in an agreement to exclude the employees of the National Bank from both laws, in accordance with the given recommendation to protect the financial and personal independence of the National Bank.</p>
<p>Policy Guidance 4: Improve transparency in the adoption and implementation of legislation, particularly by ensuring a timely formal consultation of businesses and social partners on new legislation affecting their operations. Use the list of mapped para-fiscal charges to clarify the public services provided through the proceeds of individual charges and identify those that need to be eliminated, remodelled or streamlined. Continue the digitalisation of public services for businesses and citizens.</p>	
<p>P10: To improve transparency in the adoption and implementation of laws, especially through the provision of timely official consultations with the business sector and the social partners about the new laws which affect their work.</p>	<p>With regards to this recommendation, it is mandatory to publish the proposals of laws on ENER, accompanied by a Regulatory Impact Assessment report after previously conducting control of the completeness of the attachments to the submitted proposal of law to the Government (Regulatory Impact Assessment report, corresponding tables, declaration of compliance).</p>

<p>P11: To use the list of mapped parafiscal charges to explain which public services are provided through the revenues of charges paid by individuals and to identify those which have to be removed, re-modelled or simplified.</p> <p><i>(Related to Measure 12: Streamline the use of parafiscal charges)</i></p>	<p>Activities for the implementation of this recommendation are related to Measure 12, for the implementation of which technical assistance financed through IPA funds is provided. At the end of 2021, a consulting company was selected.</p> <p>With the aid from the consultants, an additional evaluation, annulling, optimising and rationalising of the charges from the list of parafiscal charges will follow.</p>
<p>P12: To continue the digitalisation of public services for businesses and citizens.</p> <p><i>(Related to Measure 11: Broadening the scope of digital services provided on National E-service Portal)</i></p>	<p>The digitalization of public services continued with the following activities.</p> <ul style="list-style-type: none"> - Upgrade of the portal uslugi.gov.mk with profiles for legal entities. - Upgrade of the portal with a functionality for intermediaries (proxy agents) who could apply for e-services in the name of a user. - Development of additional e-services for the needs of the Ministry of Education and Science. - Development of new e-services for the needs of the Ministry of Culture, the Ministry of Justice and the Ministry of Foreign Affairs, as well as submitting of pre-requirements, card payments and scheduling time slots for the Ministry of Internal Affairs' three most frequent services, that is, passport, identity card and driving licence. - Working on proposals for necessary legal changes to enable digitalizati. - Development of human and technical capacities for delivering e-services within the public administration.
<p>Policy Guidance 5: Ensure high-level political commitment by all institutions relevant for the coordination and implementation of the Strategy and the Action Plan for formalisation of the informal economy. Assess the implementation of the 2018-2020 Action Plan and identify gaps, in particular related to tax policy and administration. Develop and implement the new 2021-2022 Action Plan.</p> <p><i>The conclusion is related to Measure 16: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities.e</i></p>	
<p>P13: To provide high-level political dedication of all relevant institutions for coordination and implementation of the Strategy and Action Plan for formalisation of the informal economy.</p>	<p>The change regarding the coordination of the Strategy for formalisation of the informal economy, will be realised by adoption of a Decision of the Government of the Republic of North Macedonia. This decision to transfer the chairmanship of the coordinating body to the Deputy Prime Minister will ensure a high level of political commitment to the implementation of these policies and activities, as well as improved and more efficient coordination of all relevant institutions and other entities (stakeholders) in the implementation of the planned measures and activities.</p>
<p>P14: To assess the implementation of the Action Plan 2018 - 2020 and identify the gaps, especially those related to the tax policy and administration.</p>	<p>The report on the implementation of the planned activities in the Action Plan for formalisation of the informal economy for 2018-2020 was adopted by the Government of RSM in October 2021. It was also reviewed by the Economic and Social Council.</p>

<p>P15:. To develop and implement the new Action Plan 2021 - 2022.</p>	<p>The Action Plan for formalisation of the informal economy 2021-2022 was adopted by the Government in October 2021. All relevant bodies and institutions participated in its preparation. It was also reviewed by the Economic and Social Council.</p>
<p>Policy Guidance 6: <i>Develop a new formula for the financing of the VET system and of higher education with a focus on the functioning of the Regional VET Centres. Strengthen access to active labour market policies, particularly for low-skilled unemployed and people in vulnerable situations. Increase the capacity of and cooperation between the employment agencies and centres for social work to provide integrated services and measures for improvement of inclusion in the labour market.</i></p>	

<p>P16: To develop a new formula for financing the VET system, emphasising the functioning of the regional VET centres.</p>	<p>The development of a formula for block grants for secondary education is based on three components: A - Basic amount, B - Standard component and C - Development component.</p> <ul style="list-style-type: none"> - A - The basic amount is calculated as a necessary amount for normal functioning of the standard educational unit/school, i.e. virtual school with 8 classes (two classes per year each), with 24 pupils in each class (a total of 192 pupils). - The basic amount enables financing of municipalities which have lower number of pupils than the effective number of pupils in the country's secondary school (Effective number of pupils is a sum of the number of pupils who attend gymnasium, the number of pupils who attend the VET schools multiplied by the coefficient 1.3 and the number of students with special educational needs.) - B - The standard component comprises the standard cost per pupil in secondary education in the amount of 79,168 denars annually per pupil, and it includes the costs for salaries and contributions, utilities, heating, materials, repairs and maintenance, contracted services, and other expenditures. - The standard component is calculated every other year such that the costs for salaries of the educational and non-educational staff will be increased by 0.5% on the basis of past efforts, by appropriate percentage when there is an increase of salaries and an increase for career promotion, while the other costs are adjusted according to the projected inflation rate. - C - The development component will provide support in the process of collecting additional funds and tools for mobilisation of resources for development of secondary education. Every municipality will have the opportunity to get an appropriate amount of funds depending on the performance of schools which are located on its territory but not more than 1% of the grant. - The development component is planned to be introduced in 2023. The introduction of standards-based financing of secondary education, among other, means projection of an adjustment period, rationalisation and optimisation of the school network. That said, the use of the formula foresees mechanisms which have to be implemented simultaneously in the next 5 years in order to provide financing only on the basis of the standard cost per pupil. - The formula will be introduced in different phases in the period 2022 - 2024. - A review and discussion of the dual model and learning through work in the VET schools where pupils have mandatory practical education in a company, which, from the aspect of financing, means lower cost for schools (public funds) for providing practical training in the classrooms and higher share of resources by the employers who hire the pupils. - A review of the specification of the functioning of regional centres for vocational education and training, whose financing is done through the central government budget, and the plan to secure the formal education in the same way as for the other VET schools. <p>In June 2021, the National council for higher education and scientific research was established. The Council adopted the Rules of procedure, Code of ethics, as well as the necessary acts related to its financing activities. Furthermore, upon the proposal by the Accreditation committee and the Evaluation committee, it adopted the Guidelines for methodology, standards and accreditation procedure in the higher educational institutions, and accreditation of student programmes, as well as the Guidelines for standards and procedure for external assessment and self-assessment. The Council established a commission which will be responsible for the preparation of 4-year programmes for work. Regarding the new financing model, whose development is Council's responsibility, the Ministry of Education and Science in coordination with the Council's president confirmed that it is firstly necessary to implement the activities from the new 4-year programme for work, so the new financing model for the higher education is planned for 2024.</p>
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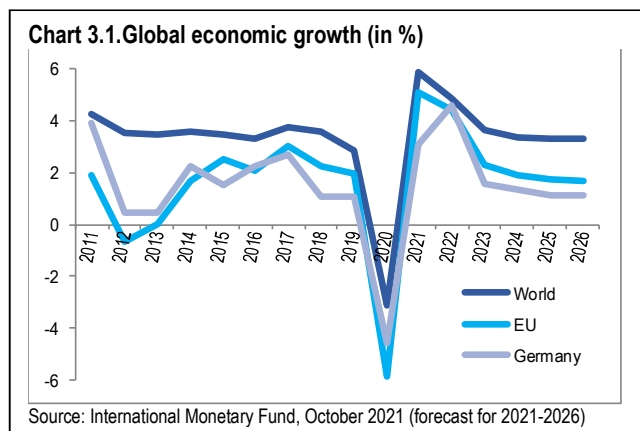
<p>P 17: To enhance the access to active policies on the labour market, especially for low-qualified unemployed persons and persons from vulnerable households.</p>	<p>At the end of July, the Operational Plan was revised, which earmarked 1,000,000 dinars for salary subsidies targetted at difficult-to-employ and low qualified persons.</p> <p>In November, a revision of the Operational Plan was made, which earmarked additional 284,960,000 denars, provided with the State Budget Rebalance. It increased the coverage of 1,216 additional unemployed persons with the measures Support for self-employment, Subsidising salaries and Employment and growth of legal entities. In addition, a special measure will be piloted to subsidise jobs of the labour force from the textile industry who lost their jobs due to COVID-19.</p>
<p>P 18: To enhance the capacity and collaboration between the employment agencies and social work centres in order to provide integrated services and measures for improving the inclusion on the labour market.</p>	<p>An automated preparation of an individual user plan of Guaranteed minimum income using the data from the social work centres and the employment agencies was established. These centres started to intensify their collaboration with the goal of activating the users of the Guaranteed minimum income on the labour market. Individual activation plans of the persons selected as easily employable in the household and as potential candidates to join the labour market are prepared through joint work. From June 2021, electronic exchange of information between the two services was enabled to facilitate the mutual communication during the preparation of the individual activation plans. So far, activation plans have been made for more than 3,000 people.</p> <p>Guidelines / instructions for preparation and implementation of an individual activation plan have been prepared. There is a User guide for working with an activation plan for GMP users. An analysis has been prepared with recommendations for overcoming the challenges in the process of activation, including those linked to the structure and content of the activation plan, which will serve as a basis for preparing a guide.</p> <p>In October 2021, a webinar was held for professionals from the employment agencies and social work centres about the challenges in the process of activation of GMA users for the purpose of preparing an analysis and recommendations for overcoming the challenges in the activation process.</p>

3. Macroeconomic framework

3.1. *Recent economic developments*

International economic environment¹. Global recovery continued in 2021, hobbled by the protracted pandemic. The emergence of new coronavirus variants has increased global economy uncertainty, holding back a full return to normalcy. Policy choices have become more difficult, amid subdued employment growth, rising inflation, the setback to human capital accumulation and climate change. Uncertainty on the energy markets brings about additional risks. Inflation rate recorded more intensive growth, reflecting the gap between supply and demand, as well as the higher prices of primary commodities. However, price pressures are expected to subside globally in 2022.

Global economic activity is projected to grow by 4.9% in 2022. In the medium term, global economic growth is projected to additionally slow down, reaching 3.4% average annual growth in the period 2023-2026. Economy in the EU in 2022 is expected to pick up by 4.4%, upon

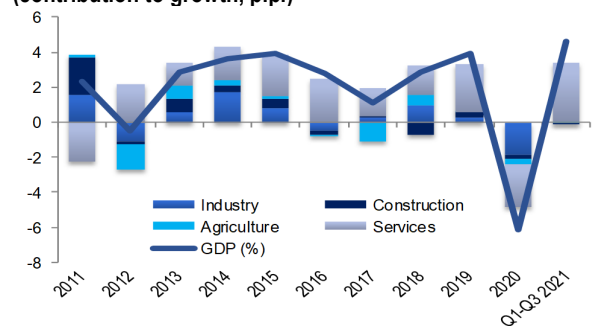


¹International Monetary Fund "Global Economic Outlook", October 2021.

the expected 5.1% growth in 2021, with the average economic growth in the EU projected at 1.9% annually in the period 2023-2026. In Germany, as the largest economy within the EU and our major trading partner, the economic activity is projected to surge by 4.6% in 2022, while forecasted to record average annual growth of 1.3% in the 2023-2026 period in the medium term (Chart 3.1). *Most recent economic trends in the Republic of North Macedonia*

Gross domestic product. In 2021, despite the protracted pandemic effects, the domestic economy is recovering in line with the expected dynamics. Upon the 1.8% drop in the first quarter, economic activity significantly increased by 13.4% in the second quarter, followed by the 3% growth in the third quarter, by which economic growth accounted for 4.6% in the first nine months. Growth of the domestic economy in this period is a result of the favourable epidemiologic picture, coupled by intensive immunisation, both in the country and abroad, the government measures aimed at supporting the economy, the more favourable international environment and less consumption restraint.

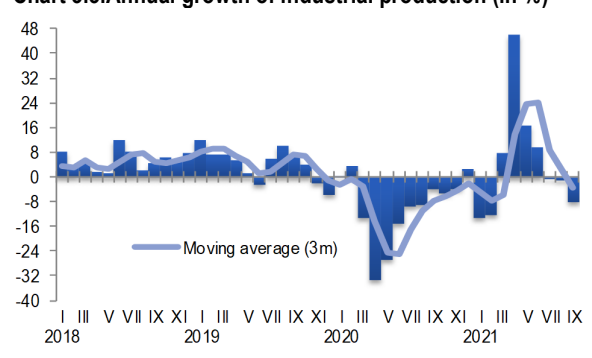
Chart 3.2. Economic growth structure by production approach (contribution to growth, p.p.)



Source: SSO and calculations by MoF

Economic growth in the first nine months of 2021 is mostly a result of the favourable trends in the services sector, where activity, according to the estimated data, picked up by 5.4%. Growth in the services sector is broad based, driven by the activities trade, transport and hospitality industry, being most affected by the pandemic, growing by approximately 16% during this period as well, followed by the growth in the information and communication activity. Agriculture sector registered 0.4% growth in real terms during this period. Construction sector registered a 0.4% decline in real terms which, in line with the high-frequency data, is due to the unfavourable trends as regards both buildings and civil engineering structures.

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



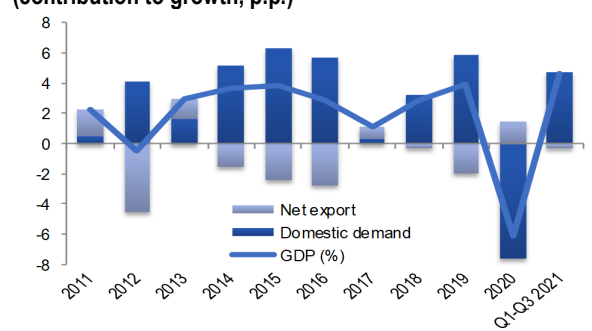
Source: SSO

In the first nine months, activity in the industrial sector also decreased by 0.4% as a result of the reduced activity in the first and the third quarter. Monthly data show continuous increase in the industrial production in the period March - June, when it picked up by almost 20%, after which production was decreasing on an annual basis, i.e. they dropped by 3.3% in the period July - September (Chart 3.3). As regards Manufacturing, the Manufacture of machinery, equipment, electrical equipment and chemical products had more significant positive impact thereon, while Manufacture of clothing, fabricated metal products and pharmaceutical products and preparations had the highest negative contribution.

Analysed by the expenditure side of GDP, growth of economic activity in the first nine months was a result of the greater domestic demand, amid recovered private consumption and investments, while net export had a slight negative contribution to growth (Chart 3.4).

Consumption picked up by 4.5% in real terms, being primarily driven by private consumption, growing by 4.8%. Consumption growth reflected the favourable trends at the remittances from abroad, the solid wage growth, the state aid and the credit support, as well as the greater propensity to procuring non-food products. Public consumption grew by 3.3% in real terms, upon having a significant positive contribution to the economic activity during 2020, resulting from the expenditures

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



Source: SSO and calculations by MoF

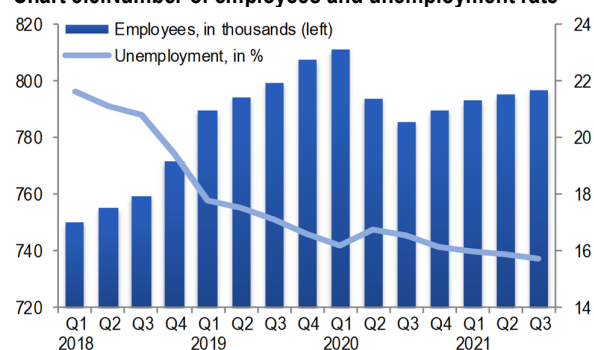
aimed at coping with the pandemic. Gross investments grew by 3.4% in real terms in the first nine months, as a result of the significant increase in the second quarter.

Export of goods and services swiftly recovered during the first half of the year, continuing with moderate pace in the third quarter, by which export activity in the period January - September increased by 16.6% in real terms, amid more favourable international environment, i.e. foreign demand growth, reflected through stronger export, primarily of chemical products, machinery and transport equipment. Import of goods and services grew by 14.1% in real terms, driven mostly by the stronger import of intermediary goods.

2021 Assessment. Developments in the first nine months of the year are the real basis for attaining the projected economic growth of 4.1% for the whole 2021, by retaining the same growth structure, more precisely somewhat deterioration of the net export contribution and stronger domestic demand compared to the first nine months.

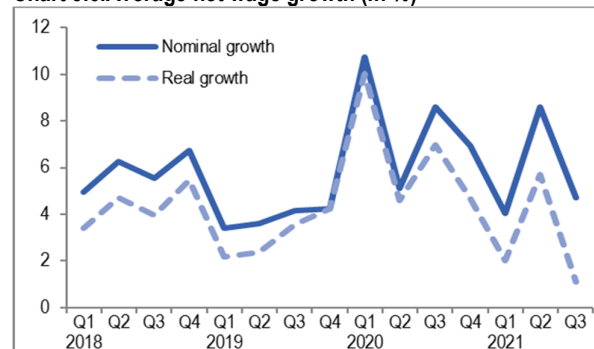
Labour market. Upon the drop in the first quarter of 2021, the number of employed people recorded a minimum increase in the second quarter, prior to reaching 1.4% growth in the third quarter on an annual basis, in line with the Labour Force Survey. During the first nine months, employment growth was highest at the services sector, the trade activity, the information and communication activity and the public sector, above all the health sector and the social protection. On the other hand, employment was mostly reduced at the hospitality industry sector, and to a lesser extent, at transportation and financial activity, as well as arts, entertainment and recreation activities, within the services sector. Employment was also reduced in the industrial and agriculture sector, recording stagnation in the construction. Average employment rate in the first nine months accounted for 47.2%, remaining almost unchanged in relation to the same period in the previous year. During this period, the unemployment rate registered a downward trend, reducing to 15.7% in the third quarter, thus being lower by 0.8 percentage points compared to the same quarter in the previous year (Chart 3.5). During the analysed period, the active population accounted for 56.1% of the working able population.

Chart 3.5. Number of employees and unemployment rate



Source: SSO

Chart 3.6. Average net wage growth (in %)



Source: SSO

In the period January - September 2021, average net wage grew by 5.8% in nominal terms and by 2.9% in real terms. Wage growth is broad based, whereby wages in the services sector increased by 6.7%, while surging by 4.7% in nominal terms in the industrial sector. Chart 3.6 shows the growth wage dynamics by quarters.

External sector. In the first three quarters of 2021, the **current account** of the balance of payments registered a low deficit of 0.7% of GDP. Compared to the same period last year, the current account deficit registered a significant narrowing of nearly 73%. Observed by individual components, the narrowing is due to the increased net inflows in the secondary income and services, which offset the increased deficit in the trade in goods and in the primary income. Within the secondary income, net income from purchased cash foreign currency on the currency exchange market (used as an indicator of the private transfers) was higher

Table 3.1. Balance of Payments

(% of GDP)	2015	2016	2017	2018	2019	2020 I-IX.2021	
Current account deficit	-2	-2.9	-1	-0.1	-3.3	-3.4	-0.7
Goods, net	-20.1	-18.9	-17.8	-16.2	-17.4	-16.8	-13.3
Services, net	3.8	3.5	3.7	3.5	3	4	3.9
Primary income, net	-3.2	-4	-4	-4.2	-4.6	-3.8	-3.3
Secondary income, net	17.4	16.4	17	16.8	15.7	13.2	12.0
Financial account, net							
(without foreign reserves)	-0.1	6.3	-0.5	5.0	6.1	4.1	2.9
FDI, net	2.2	3.3	1.8	5.6	3.2	1.4	1.8
Portfolio investments, net	0.7	4.4	-0.2	3	-1.3	2.6	1.3

Source: NBRNM, SSO; NBRNM forecast for GDP in 2021.

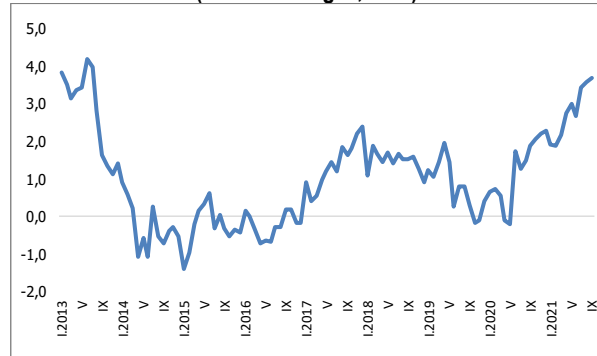
by about 72% compared to the same period last year, amid a lower base effect from the second quarter of the previous year when under the hit of the pandemic, it registered a decline. Although at a slower pace, the growth of transfers through the official channels, which were higher by nearly 5% annually, also continued. The current account deficit in 2021 is expected to expand to 3.8% of GDP.

The **financial account** in the first three quarters of 2021 registered net inflows, amid net inflows in foreign direct investments, in long-term loans (external government borrowing) and portfolio investments (new government Eurobond). The foreign direct investments in the first three quarters of the year registered net inflows of Euro 209 million, or 1.8% of GDP.

At the end of September 2021, gross foreign reserves were Euro 3,690.7 million, up 9.8% compared to the end of 2020, mainly due to the government external borrowing, allocation of SDRs from the IMF (Euro 163 million in August) and the moderate net purchase by the National Bank on the foreign exchange market. Foreign reserves are maintained at an adequate level, providing an average import coverage of nearly five months in the next year.

Inflation. In the period January - September 2021, the average annual inflation equaled 2.8%. The movement of inflation is mainly conditioned by the prices of food and energy, with a positive contribution of the prices of tobacco products (according to the gradual increase in excise duties) and the prices in the category restaurants and hotels. Structurally, within the headline inflation index, food contributed 0.9 percentage points, energy with 0.8 percentage points, and core inflation with 1.1 percentage points. The average core inflation, excluding variable categories (food and energy), equaled 2.2% per annum (NBRNM calculations). The main contribution to core inflation results from the prices of tobacco where effects of one-time non-market price changes (higher excise duties on tobacco) are largely present, and additionally from the higher prices of the services related to restaurants and hotels, as a reflection of specific factors related to the pandemic. The average core inflation, excluding categories of unprocessed food, energy, liquid fuels and lubricants, and tobacco and alcoholic beverages was 2.1% (SSO calculations).

Chart 3.7. Inflation (annual changes, in %)

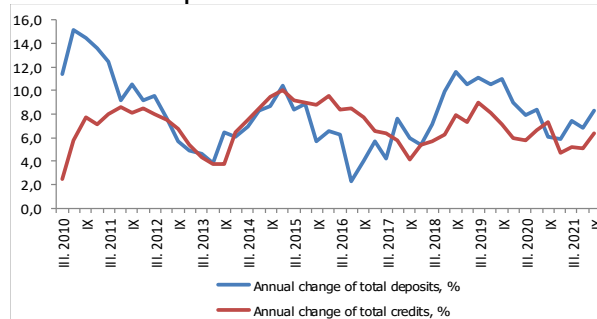


Source: SSO

Monetary developments and exchange rate. As a continuation of the relaxation in 2020, in the period January - September 2021, the monetary policy was further relaxed by reducing the key interest rate to 1.25% (in March), which is the historically lowest level. This relaxation is made in conditions of stable movements on the foreign exchange market, moderate inflation and further uncertainty with respect to the health crisis and its impact on the economy.

In August 2020, the ECB announced that it approved to the National Bank of the Republic of North Macedonia for the first time a repo line in euros, with a possibility for use initially until June 2021, and then the use was prolonged until March 2022. 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 (no funds from this line have been used so far).

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.

It is important to emphasise that the monetary and credit aggregates continued to grow also in the pandemic period. The annual growth of broad money M4 at the end of September 2021 was 8.2% (increase of 6.9% at the end of 2020). In September 2021, total private sector deposits were higher by 8.3% on an annual basis (5.9% at the end of 2020). Analysing by sector, household deposits increased by 6.9% (by 4.6% at the end of 2020), with simultaneous growth in corporate deposits of 15.6% (by 10.1% at the end of 2020). The accelerated growth of corporate deposits, which is not unusual in crisis episodes, can be explained by the uncertainty (restraint from investments), as well as the effect of the payment of

subsidies and other anti-crisis government measures. However, in September, about 55% of the annual growth of total deposits resulted from the growth of household deposits. From a structural point of view, the annual growth of total deposits mostly results from the growth of the most liquid component i.e. demand deposits which partially points to the consumption limitations imposed by the pandemic, amid an increased positive contribution of short-term deposits.

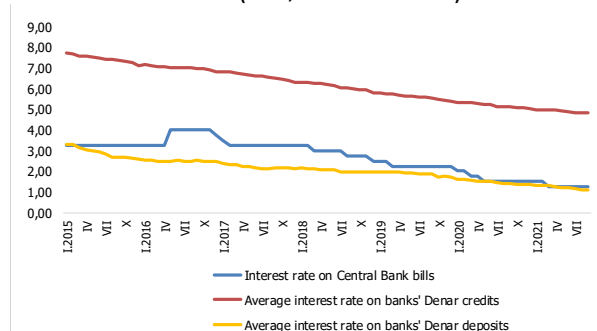
Observing by currency, at the end of September 2021, the annual growth of denar deposits, including demand deposits, amounted to 5.3%, and the growth in foreign currency deposits, including deposits with FX clause, was 12.9%, which points to change preferences of economic agents in the pandemic period, which is usual in periods of uncertainty. In the period January-September 2021, on average the growth in denar deposits, including demand deposits, constituted 45% of the annual growth of total deposits. Consequently, the share of deposits with currency component (FX and FX clause) in total deposits at the end of the third quarter of 2021 was 41.7%, which is moderately above the level at the end of 2020 (39.8%), significantly lower though than the level at the onset of the global financial crisis (of about 60%). It is important to mention that the growth of the share of foreign currency deposits in the first nine months of 2021 is more pronounced in the corporate sector (by 2.9 percentage points), and less in the households (by 1.1 percentage points, on an annual level).

Bank loans to the private sector continued to grow in the first three quarters of 2021, whereby the banking sector supported the economy to overcome the consequences of the pandemic. At the end of September 2021, their growth rate was 6.3% (4.7% growth at the end of 2020). The growth of household lending (7.5%) was more pronounced, compared to the corporate lending (4.8%). In September, about 61% of the annual growth of total loans stemmed from the growth of household loans, while the contribution of corporate loans is lower, higher though compared to the end of 2020. 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 loans in both sectors (in the companies from the second quarter onwards).

Interest rates in the banking sector slightly decreased. The average weighted interest rates on denar loans and denar deposits equaled 4.8% and 1.1% per annum in September 2021, and compared to the end of 2020, both decreased by 0.2 percentage points, respectively. Consequently, interest rate spread remained unchanged (3.7 percentage points) compared to the end of 2020. In September 2021, the average interest rates on foreign currency loans and deposits equaled 4.1% and 0.5%, respectively, and compared to the end of 2020 both interest rates were cut by about 0.1 percentage points, thus keeping the interest rate spread unchanged to about 3.6 percentage points. Interest rate differential between denar and foreign currency deposit interest rate narrowed by 0.2 percentage points compared to the end of 2020, and equaled 0.6 percentage points in September 2021.

Bankingsystem. The banking sector 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 link for the overall financial stability. The share of the banking system in the assets of the financial system, although it gradually decreases over the years, is still quite high and amounts to 80.7% as of 31.12.2020. As of 30.9.2021, the number of banks in the Republic of North Macedonia is thirteen, which is a decrease by one bank, due to the acquisition of Ohridska Bank AD Skopje and Sparkasse Bank Macedonia AD Skopje. 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.

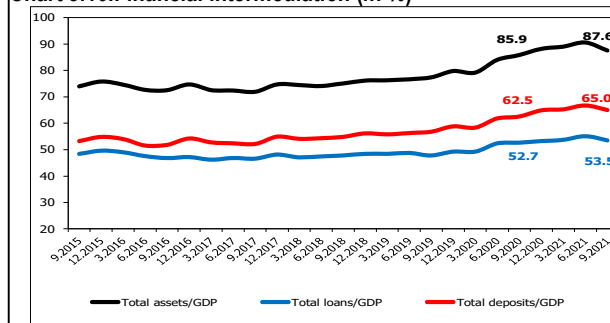
Chart 3.9. Interest rates (in %, on annual basis)



Source: NBRNM

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

Chart 3.10. Financial intermediation (in %)



Source: NBRNM

Note: Data for September 2021 are calculated using the latest available GDP data for Q2 2021.

Bank activities. In the first three quarters of 2021, the banking system continued to operate in conditions of a pandemic, and in addition to the uncertain health situation, in this period the risks associated with the disruptions of the value chains and the volatility of the primary commodities markets were also pronounced. As of 30.9.2021, the shares of total assets of the banking system, loans and deposits in GDP increased compared to the same period of 2020, reaching 87.6%, 53.5% and 65% , respectively. The pace of growth of the economic activity and the activities of the banking system in the next period is largely conditioned by the further developments related to the health crisis, but also by the global value chain disruptions, as well as by the current energy crisis.

Credit risk. The uncertainty related to the development of the pandemic and the process of immunisation is an important factor which affects the credit risk that banks are exposed to. Also, the temporary delay in the collection of the loans which were under so-called covid-measures, i.e. with repayment moratorium, ended with almost all clients as of September 2021. In such circumstances, in the third quarter of 2021 there was certain materialisation of the credit risk, which is evident from the higher level of non-performing loans, which increased by 2.4%, and growth was also registered in restructured loans . The ratio of non-performing loans equaled 3.6%. Observed by sector, the growth of non-performing loans was mainly concentrated in household loans (quarterly growth of non-performing loans of 9.7%), while non-performing corporate loans minimally decreased (-0.2%), mainly due to collection, but also due to the mandatory write-offs. Non-performing to total loan ratio remained at the historically lowest level of 5.1% in the corporate loan portfolio, while in the loan portfolio composed of households it deteriorated by 0.2 percentage points and reached 2.2% as of 30.9.2021. Coverage of non-performing loans with impairment for them is maintained at a relatively high level, despite the small decrease in the third quarter of 2021, 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.

In conditions of more pronounced risks caused by the COVID-19 pandemic, the growth of **consumer loans** is moderate. Thus, as of 30.9.2021, the annual growth of consumer loans was 5.7%. On the other hand, the rate of non-performing consumer loans remained above the average for the total portfolio of the households and equaled 2.7% as of 30.9.2021. The growth of non-performing loans to households is almost entirely attributed to non-performing consumer loans, which increased by 14.2%. In order to limit the growth and the risks of the rapid growth of long-term consumer loans, at the end of 2015, the National Bank prescribed a higher capital requirement (risk weight of 150%) for long-term consumer loans (with maturity over 8 years), which is still applied. The National Bank closely monitors the consumer loan movements and is ready to take further action, as necessary. Also, housing loans are monitored with appropriate attention, as they register a constant annual growth which is around 14%. Unlike consumer loans which are mainly uncollateralized, housing loans are a credit product with rather prudent standards for approval, with good collateral and prudent rates of the loan/value and debt/income ratio. Also, housing loans have a low rate of non-performing loans, which equaled 0.7% as of 30 September 2021.

Profitability. In the first nine months of 2021, the domestic banking system made profit, which is higher by 22.1% compared to the same period last year. Banks strengthened their activities for collection of non-performing and previously written-off claims which had a significant positive impact for the higher profit, and the increased net income from commissions and the net interest income also had a certain impact on the growth of the profit. The rates of return on assets and equity as of 30 September 2021 equaled 1.6% and 13.4%, respectively, and compared to September 2020, the operational efficiency indicators have also improved.

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. In the third quarter of 2021, liquidity ratios continue to point to proper liquidity risk management of banks, which is confirmed by the relatively stable share of liquid assets in the total bank assets (which remained almost unchanged at the level of around one third) and the coverage of short-term liabilities and household deposits with liquid assets, which also remained stable (over 50% and 60%, respectively). The loan to deposit ratio at a level of the banking system is also stable and is around 80, while the liquidity coverage ratio of the banking system equals 277.7%, which is by almost three times higher level than the regulatory minimum (100%) and confirms the sufficient amount of liquidity available to the Macedonian banking system.

Table3.2.Main banking system ratios (in %)

	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3
Capital adequacy									
Capital adequacy ratio	16.9	16.3	16.5	17.0	16.9	16.7	16.8	17.3	17.3
Asset quality									
NPLs / gross loans (nonfinancial sector)	5.0	4.8	5.0	4.7	3.4	3.4	3.5	3.5	3.6
Total provisions to Non-Performing Loans (nonfinancial sector)	108.8	109.6	108.9	118.2	136.7	141.1	134.5	134.7	127.4
Profitability									
POAA	1.5	1.3	0.8	1.0	1.4	1.3	1.3	1.5	1.6
POAE	13.5	11.7	7.5	8.6	12.3	11.3	11.3	12.6	13.4
Cost-to-income ratio	50.0	50.1	51.9	48.9	47.9	48.2	49.8	46.5	46.9
Liquidity									
Liquid assets/total assets	32.4	31.9	29.7	29.5	29.9	32.5	32.5	31.9	31.6
Liquid assets to total short-term liabilities (contractual maturity)	56.4	54.8	51.0	49.8	50.3	53.8	53.6	52.3	51.7
Sensitivity to market risk									
Net open foreign exchange position / own funds	5.1	6.0	-0.6	3.8	3.4	10.1	6.9	9.4	4.6

Source: NBRNM

Insolvency risk. The banking system is stable and well capitalised. As of 30.9.2021, the capital adequacy ratio was 17.3%. The structure of own funds is predominated by the Common Equity Tier I capital, with over 90%, and is composed of capital positions of the highest quality. Own funds above the capital requirement for covering risks make up almost half of the total own funds of the banking system. All banks dispose of high-quality own funds and have a certain level of “free” own funds above the necessary regulatory and supervisory minimum.

Stress testing. The resilience of the banking sector to shocks is also confirmed by the conducted stress-tests, which show generally 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 September stress-test simulations, as measured by the level of the capital adequacy ratio, are very similar to those from 30.6.2021, which corresponds to the unchanged start level of the capital adequacy ratio before the conduct of the shocks (17.3%, as of 30.9.2021 and as of 30.6.2021). The capital adequacy ratio of the banking system does not go below 8% in individual hypothetical simulations (although, analysed by banks, in some cases there is need of recapitalization). 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 16.6% of the regular credit exposure to the non-financial sector to receive a non-performing status or the non-performing loans to increase by over 450%, for the capital adequacy of the banking system to reduce to 8%, which is a very similar result compared to the previous quarter.

The results of the macro stress-test for 2020 showed that in case of an adverse macroeconomic scenario, non-performing loans to the banking system would increase by 64.7% in 2021, whereby the rate of non-performing loans would reach 5.5% (growth of 2.1 percentage points relative to before the simulated shocks). This would cause operating loss of the banking sector of 1.9% of the average assets. However, the capital adequacy ratio would remain well above the legal minimum, i.e. in 2021 it would reduce to a level of 14.1% (from 16.7%, before shocks). For 2022, according to the assumptions for economic recovery, the growth of non-performing loans would be moderate of 2.2% with a slight improvement of the rate of non-performing loans to 5.3% and operating profit of the banking sector, whereby the capital adequacy ratio would drop to 13.1%. Analysed by individual banks, in the adverse macroeconomic scenario, the capital adequacy ratio drops up to 10.2%, with an individual bank in 2022.

In order to assess the risks more comprehensively, in addition to the regular macro stress-test, the National Bank this year also conducted individual stress-testing (bottom-up), which was conducted by banks themselves, applying the same hypothetical scenario. All banks successfully responded to the stress-tests, whereby the capital adequacy ratio remains above the legal minimum of 8% with all banks. This confirmed the conclusions drawn on the basis of the macro stress-test that all banks are stable and resistant to shocks and have the capacity to successfully respond to the challenges.

The assessments of the fundamental factors that define the economic trajectory remain almost unchanged. According to the current flow of the developments at domestic and global level, the materialisation of the hypothetical adverse scenario in 2021 is hardly plausible. After the fall in the domestic economy, in four consecutive quarters, the currently available high-frequency indicators of the economic activity in the third quarter of 2021 point to a more significant annual GDP growth, after which further growth with unchanged dynamics also in the next 2022 is expected. In this context, the credit and deposit activity of the banking system registered an increase, which is expected to continue.

Macro-prudential framework. During Q1 2022, the draft Law on Financial Stability is expected to come into parliamentary procedure. This Law will explicitly determine the Financial Stability Committee as a macro-prudential body in the Republic of North Macedonia (currently, the Committee operates on the basis of a Memorandum of Cooperation for financial stability maintenance signed between the National Bank, the Ministry of Finance, the Securities and Exchange Commission, the Insurance Supervision Agency, the Agency for Supervision of Fully Funded Pension Insurance and the Deposit Insurance Fund). With the adoption of the Law, the Committee will adopt a strategy for implementation of the macro-prudential policy.

Macro-prudential instruments. The Banking Law regulates four capital buffers, as follows:

- the capital conservation buffer, in the amount of 2.5% of the risk-weighted assets, which is applied from 2017 and refers to all banks,
- the capital buffer for systemically important banks, which can be between 1% and 3.5% of the risk-weighted assets. According to the latest calculations (which are performed once a year) on the basis of the data for 2020, 7 systemically important banks have been determined. These systemically important banks should, by 31 March 2022, reach and maintain a rate of the capital buffer for systemic importance, in the amount between 1% and 2.5% of the risk-weighted assets,
- systemic risk capital buffer, which can be between 1% and 3% of the risk-weighted assets, and is introduced for one or several banks, if necessary, in order to limit the risk of disturbances in the financial system or the domestic economy due to the activities performed by one or several banks or the risks they are exposed to,
- countercyclical capital buffer, which can be up to 2.5% of the risk-weighted assets, and is introduced for all banks taking into account the credit cycle indicators, the risks associated with the credit growth and the characteristics of the domestic economy.

According to the assessments of the National Bank, which are based on regular monitoring of the banks and the banking system, currently, the systemic risk capital buffer and the countercyclical capital buffer are equal to zero. The National Bank constantly monitors the changes in the economy and the activities of the banking system, and if existence or accumulation of systemic risks is noticed, it will take appropriate macro-prudential measures to maintain the financial stability.

Corporate and household debt². The total debt of the corporate sector in 2020 remained almost unchanged compared to 2019 (growth of 0.1%). However, amid a decline in GDP, the leverage ratio of the corporate sector increased and amounted to 68.7% of GDP (compared to 66.1% in 2019). In 2020, the main driver of the growth of the total indebtedness of the corporate sector was the debt to domestic banks, while the external debt decreased for the first time in the last ten years. Non-bank financial institutions continue to have a modest role in the financing of the domestic corporate sector, and the debt financing through the domestic capital market is also absent. The regulatory and monetary measures of the National Bank, together with the adopted anti-crisis fiscal packages³, contributed to easier overcoming of the initial liquidity shock due to the pandemic and limitation on the risks for the solvency of the corporate sector, thereby reducing the possibility for materialisation of the credit risk in the balance sheets of domestic creditors (mainly banks). However, delayed effects are possible, especially if one takes into account the prolonged duration of the pandemic which would affect the dynamics of the economic recovery, but also the expiration of the anti-crisis measures that contributed to the financial sustainability of the sector in the previous period, which underlines the vulnerability of the corporate sector for the coming period and the possible increase in the risks for the financial stability.

In 2020, the risks associated with the household sector remained under control. Solvency and liquidity ratios, despite the minimal deterioration in 2020, continue to point to limited sensitivity of the household sector to shocks. Disposable income, which is the basis for the sustainability of the level of the debt of the household sector as a whole, but also for the formation of savings, taking financial risks through investments and subsequent accumulation of financial funds, continued to grow also in 2020, but at a slower pace. The level of household debt relative to GDP, despite the growth in recent years, is not high and amounts to 30.4% of GDP at the end of 2020. Most of the household debt is still concentrated in domestic banks. The quality of debt to banks is good, but there is uncertainty about potential materialisation of the credit risk and growth of the banks non-performing loans due to the prolonged duration of the pandemic.

²Source: NBRNM, Financial Stability Report for the Republic of North Macedonia in 2020.

³For more information about the adopted fiscal measures visit: <https://vlada.mk/ekonomski-merki-covid19>

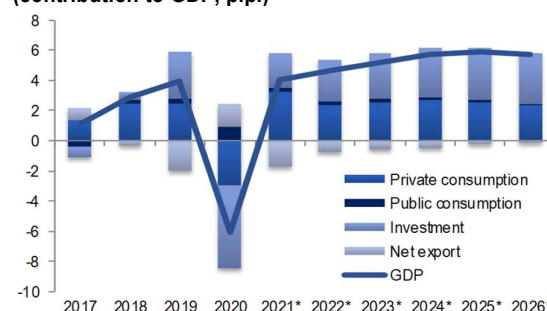
3.2. Medium-term macroeconomic scenario

for accelerated economic growth in the longer term, increasing the growth potential of the economy and ensuring sustainable and inclusive growth, implementing capital infrastructure projects, supporting the investment and the export activity of the companies, increasing the employment through active employment measures and raising the living standard of citizens.

Gross domestic product. Upon the economic recovery in 2021, economic growth intensification is projected in the upcoming years, i.e. getting back to the pre-crisis growth trajectory throughout 2022 and its further acceleration.

With respect to the external environment, gradual stabilisation of the global supply chains is expected next year, growth of economic activity at our major trading partners, and thus, increase of the foreign demand, which, will have positive effects on the domestic economic developments in the coming period, both the export activity and the investments.

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



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

Processes of intensive immunisation in the country are expected to have positive effects on the expectations and the confidence of domestic economic entities, as well as the propensity to invest and consume. Fiscal policy and redesigned public expenditures, with an emphasis on the public investment cycle, as well as the measures geared towards accelerated, inclusive and sustainable economic growth, will have significant impact on both investment demand and potential growth.

Economic policies and measures contained in the Fiscal Sustainability and Economic Growth Plan, Public Investment Plan and Growth Acceleration Plan as a general framework, are solid basis for increasing the growth potential and attaining higher growth rates in the medium term, i.e. doubling the economic growth compared to the one achieved last decade. In line with the baseline scenario, average economic activity growth in the period 2022-2026 is expected to account for 5.4%, driven by domestic demand, while net export is projected to have a negative contribution to the economic growth, which will be gradually narrowed, amid projected growth of both import and export activity.

Economic growth decomposition shows that investments will play a crucial role in growth gradual intensification (Chart 3.11). In the period 2022-2026, investments are expected to record average annual growth of 9%, based upon expected scaled-up private investments, amid gradual restoring of business entities' confidence and more intensive inflows of FDIs, as well as the expected fiscal impulse, to be channelled via increased capital expenditures, as well as greater support for private sector development and boosted competitiveness, support to innovations and technological development of enterprises, with the structural reform measures being also focused thereon. Support start-ups and SMEs in selected less-developed regions (Measure 9), Hybrid Fund for Green and Digital Start-Ups and Innovative SMEs (Measure 10) and Enhancing cooperation between the academy and the industry (Measure 14).

Consumption is also envisaged to support domestic demand growth. Favourable trends at private consumption are expected to continue in the period 2022-2026, when 3.9% average annual growth is projected. Consumption growth arises from the expectations for further improvement of labour market conditions, strengthening of the social protection system, growth of foreign remittances, and thus growth of household disposable income. Positive effects on private consumption are also expected by the credit support of banks. Consumption during this period is expected to be also underpinned by strengthening the system for social inclusion of vulnerable groups of citizens (Measure 23).

In the coming years, public consumption is expected to grow with a slower pace, i.e. 1.4% average annual growth is projected in the period 2022-2026, as a result of the efforts to reduce the non-essential expenditures and their rationalisation, as well as implementation of the fiscal consolidation process.

Export of goods and services in the period 2022-2026 is expected to have solid contribution to the economic growth, i.e. it is envisaged to record average annual growth of 8.7% in real terms, amid expected stabilisation of the growth of foreign demand and increase of the export potential in the country via inflow of foreign investments. Growth of export activity and domestic demand in the upcoming period provide for increased import of intermediary, capital and consumer goods, with real growth of import of goods and services being projected at 7.8% in average annually in the period 2022-2026, thus forecasting gradual narrowing of the negative contribution of net export to the economic growth (Chart 3.11). The following

structural reform measures (Chapter 5) are aimed at supporting the export of goods and services on longer run and in general the overall volume of foreign trade of goods and services): Implementation of an Intelligent Transport System (ITS) along Corridor X (Measure 6), Facilitating North Macedonia - Serbia cross-border crossing (Measure 15) and Strengthening the market rules in the Republic of North Macedonia (Measure 16).

Labour market. By reducing the pressures from the health crisis, the gradual restoring of investors' confidence and improvement of the expectations of business entities, labour demand is projected to grow in the upcoming period, being also boosted by the active employment measures and programmes and the support for domestic and foreign enterprises geared towards job creation.

According to the baseline macroeconomic scenario, employment growth is expected to speed up in the period 2022-2026, i.e. average annual increase of 3.6% is projected (Chart 3.12). Employment growth in this period is expected to also reflect on the labour supply, projected to increase by 1.9% on average on an annual basis. Such trends on the labour market will contribute for the average unemployment rate in 2026 to drop to 8.6% and the average employment rate to surge to 54.1%. Increase of the average net-wage in this period is expected to be 4.6% annually in nominal terms.

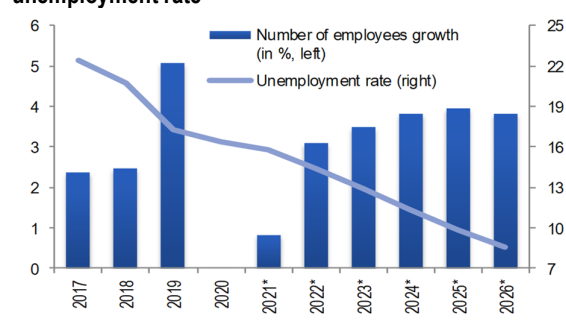
Sources of growth. In 2021, growth of economic activity is accompanied by scaled-up investments in fixed assets and positive contribution to total factor productivity (TFP)⁴ to economic growth, amid slight employment growth. Chart 3.13 shows projections on both labour productivity and TFP by 2026. In the period 2022-2026, 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% on average on an annual basis, contributing with one third to total economic growth. Labour is expected to contribute to economic growth with around 42%.

Potential growth and production gap. Calculation of potential output is the basis for estimating the cyclical position of the economy. Two 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), which is used by the EC⁵. 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 in the negative zone in 2021. In 2022, the negative production gap is estimated to be significantly narrow, before shifting to the positive zone in 2023 according to the calculations based on the production function method. According to the group of statistical methods, i.e. CF- filter, negative production gap is estimated to be closed in 2022, followed by its gradual shift to the positive zone (Chart 3.14).

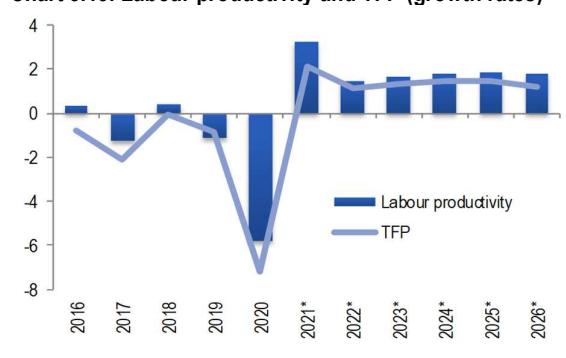
Potential growth, following the slowed down dynamics in 2020, is estimated to gradually intensify in the coming period, underpinned by measures and policies for accelerated, inclusive and sustainable economic growth, boosted

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)



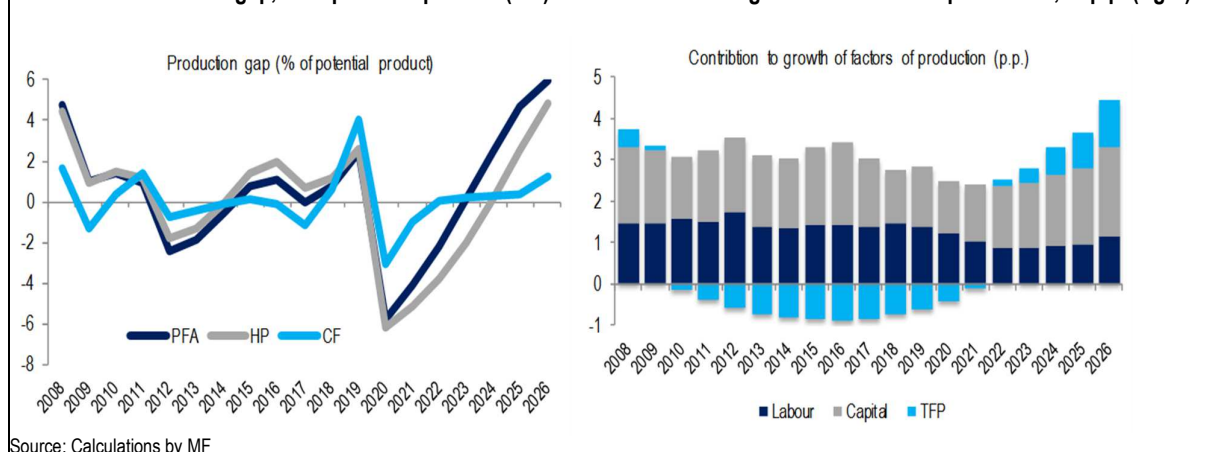
Source: Calculations by MoF (* - forecast)

⁴TFP 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 Berlemann 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.

⁵Based on Havik et al, The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps, 2014

competitiveness of the private sector and investments in physical and human capital, to be implemented within the Growth Acceleration Plan and the Public Investments Plan, which will provide for positive and more substantial impact by the productivity of production factors, retained solid level of the labour contribution, as well as more significant impact by physical capital on the growth potential of the domestic economy (Chart 3.14).

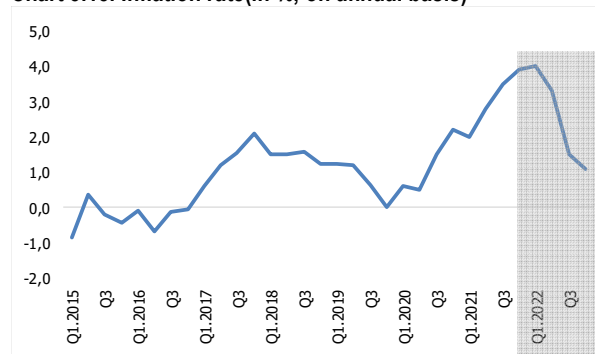
Chart 3.14. Production gap, % of potential product (left) and contribution to growth of factors of production, in p.p. (right)



Inflation. Global and domestic inflation factors point to a moderate acceleration of inflation in 2021, while in the medium term it is expected to stabilise. Foreign effective inflation⁶ for 2021 and 2022 has been corrected upward, so now it is expected to be 2.2% and 2%, respectively (0.5% in 2021 and 1.4% in 2022, in last year's scenario). The increase is expected to slow down in 2023, with foreign inflation estimated at 1.7%.

In 2021, the inflation rate in the domestic economy registered temporary moderate acceleration, mainly conditioned by the intensified growth of import prices. In the last quarter of 2021, the average annual inflation rate in the Macedonian economy is expected to remain moderate. Thus, after the price growth of 1.2% in the previous year, it is estimated that inflation will reach 3.1% in 2021, amid upward movements in all of its components. Moreover, the largest contribution to the faster growth of domestic prices is expected to be made by the energy component, which is associated with the substantial increase in the global energy prices in world markets this year, as opposed to their decline last year. Also, an acceleration is expected in both food and core inflation, which is in line with the forecasts for growth of the world food prices, amid continuing disturbances on the supply side, as well as a gradual recovery of the domestic economy from the pandemic crisis. Compared to last year's scenario (inflation of 1.5%), the estimate for inflation in 2021 in this scenario is higher, due to higher performance, amid rising commodities prices, including the price of energy in the world markets.

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



Source: SSO; October forecast by NBRNM for 2021-2022

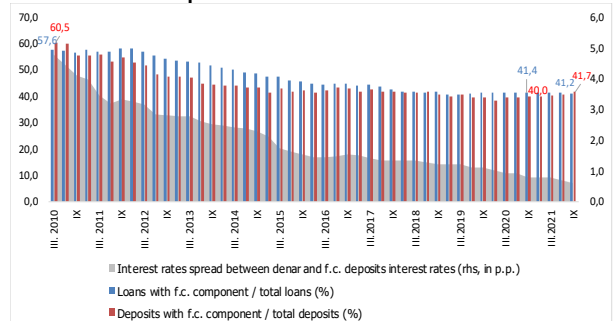
Following the temporary acceleration in 2021, influenced by the global factors on the supply side, in 2022 the prices are expected to start moving downwards, whereby the inflation rate would average 2.4%. This downward movement of the inflation largely results from the expected slowdown in the price growth of the energy component, amid assumptions for a more moderate growth of energy prices in world markets. With the stabilisation of the global markets of primary products and reduced import pressures on domestic prices, it is envisaged that the inflation will decelerate in 2023 and reduce once again to the historical average of 2%, remaining at that level also in 2024. The main risks in terms of the inflation forecast relate to the extremely high volatility of the prices of primary products in world markets, which is associated with the uncertain prospects of the global energy crisis, as well as with the possible further adverse effects of the corona crisis on their supply and demand. Additional risk is seen in the possible more

⁶The 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.

pronounced transmission of the price growth of raw materials and of the costs for energy and transportation 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. Amid moderate inflation, solid external position and pandemic-related risks both globally and nationally, the National Bank continued conducting accommodative monetary policy. Within the first three quarters of 2021, the key interest rate was reduced by 0.25 percentage points in March and dropped to 1.25%, which is the historically lowest level. This is the first crisis where the monetary authority reacted by easing, not tightening of the monetary policy. During the global financial crisis, the lower inflow of capital in the Macedonian economy and the larger preference of the economic agents for the euro, resulted in an increase in the key interest rate in order to stabilise the expectations. The COVID crisis was met with a high and adequate level of foreign reserves, which have consistently been registering high growth in recent years, stronger economic fundamentals and no imbalances, as seen through the solid external position. Given the severity of the shock caused by the pandemic, the experience from the global financial crisis and the availability of the already developed unconventional tools, the National Bank's monetary response was rapid and appropriately targeted. The monetary measures taken contributed to the further reduction of interest rates, with the solid credit support being maintained during the entire pandemic period. In addition, for further dealing with the consequences of the COVID crisis, it is particularly important to emphasise the authorised access of the National Bank to foreign currency liquidity in euros provided by the European Central Bank, initially until June 2021, and then extended until March 2022.

Chart 3.16. Currency structure of bank deposits and credits and interest rate spread



Source: NBRNM

In accordance with the applied strategy for pegging the denar exchange rate, the National Bank constantly monitors the movements of the interest rate differential for denar and foreign currency instruments, as well as the currency structure of deposits and loans. The interest rate differential on domestic and foreign currency deposits has been declining for several years, reflecting the relaxed domestic and global financial conditions. The multiyear denarization trend (within 2009 - 2015 period, the share of deposits with foreign currency component in total deposits decreased by about 18 percentage points, while the share of loans with foreign currency component in total loans decreased by about 11 percentage points), supported through the differentiation of the reserve requirements rates from currency aspect, was shortly interrupted in 2016 due to the increased internal uncertainty, and the next two years were marked with a stabilisation, with the denarization being reinforced again in 2019. The maintenance of the de-euroisation benefits in recent years in turn improves the credibility of the monetary policy that aims towards stability of the exchange rate of the denar against the euro. In the period 2020-21, as a reflection of the uncertainty arising from the pandemic crisis, there was a moderate upward movement of the share of deposits with currency component (by about 3 percentage points), which is still more pronounced in companies and less in households.

In order to support and strengthen the denarization process in the economy, at the end of 2018 the Government adopted the Denarization Strategy, prepared by the National Bank, which includes measures for comprehensive treatment of this issue, with the involvement of several competent institutions. During 2019, the implementation of the Strategy started, and out of the planned nine activities for this year, seven measures were fully implemented, and two were significantly implemented. In 2020, in addition to further implementation of sustainable macroeconomic policies aimed at maintaining macroeconomic stability, the following activities were also in the focus: increase in the spread between the interest rates on government securities in domestic currency and FX clause in the primary market in favour of the domestic currency, in order to increase the attractiveness of the domestic currency instruments; further increase of the issuance of government securities in denars versus government securities with FX clause; activities for further development of financial education. The activities continued in 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 financial regulators.

From the viewpoint of the monetary policy instruments, in March 2020 the measure for exempting the banks from the reserve requirement allocation was re-introduced, this time for loans extended to the most affected sectors of the pandemic (by the

end of 2019 this measure was aimed at the export and energy sector). During the period of use, the loans covered by this measure were mainly focused on transportation, and hotels and restaurants, as the most affected sectors during the pandemic. In May 2020, the National Bank expanded the range of securities that it can accept from domestic banks as collateral instruments in case of denar liquidity issue in the banking system. These changes enable the National Bank, when purchasing securities on a temporary or permanent basis, to accept domestic government bonds with the longest maturity (15 and 30 years), as well as Government issued Eurobonds on the international financial markets. In order to maintain and increase the foreign exchange liquidity of the banking system in euro, in August 2020 the instrument auctions of foreign currency deposits was reactivated, at which domestic commercial banks can place foreign currency deposits in euro with the central bank once a month with maturities of 1 and 3 months, at fixed interest rates.

Chart 3.17. Foreign reserves adequacy indicators



Source: Calculations by NBRNM; forecast for 2021

The monetary policy will preserve the price stability in the next three years, as well, 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 rate as of the last quarter of 2020, did not indicate major deviations from the equilibrium and were maintained within acceptable range of +/-5% in the period 2004-2020⁷. Regarding the monetary policy conduct, one should mention the results of the monetary transmission models that, with the latest update as of 2020, indicate relatively high, although slower transmission of the change in CB bills interest rate with the interest rates on denar loans and denar deposits. This slowdown can be partly explained by the uncertainty and increased risks in the domestic economy due to the pandemic and the negative economic effects of this health crisis. Deferred loan repayments during 2020, with unchanged interest rates, may have a certain impact on the slowdown in the transmission of interest rates.

In general, the macroeconomic indicators point to strong effects of the COVID-19 pandemic on the global and domestic economy, with the pace of the initiated recovery being accompanied by risks. The recovery of the pandemic-stricken domestic economy is expected to continue, while moderate acceleration of inflation in 2021 will be temporary and influenced by supply-side factors, after which it is expected to gradually decrease to 2% in the medium term. The external position remains stable, assuming the maintenance of favourable financial conditions globally and unimpeded access to capital markets. Consequently, foreign reserves will remain in the safe zone throughout the forecast horizon also in the following period. The measures taken by the National Bank are expected to enable further credit support of the banks to the domestic economy. Assessments are accompanied by high uncertainty, where the risks are mostly downward and are primarily related to the further development of the pandemic, especially the vaccination dynamics, consumer and investor confidence, current mismatch between supply and demand, which if maintained for a long time could lead to more pronounced and long-term disruptions in supply and production chains, as well as price pressures.

According to the forecasts of other economic segments, in the next three years, we can expect low and stable inflation and generally favourable movements in the foreign exchange market, yet accompanied by risks. External sector developments, import structure and effects on the foreign exchange market and foreign reserves, will be crucial for the monetary setup in future. In addition, 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 next 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 surroundings in the context of the monetary policy setup.

Bank deposit and loan forecast⁸. In accordance with the estimates for stabilisation of the environment, intensification of the economic activity and further growth of the propensity to save in banks, annual deposit growth of 7.1% is expected by

⁷IMF's analyses also indicate no significant deviation in the real exchange rate (IMF Staff Report 2019 Article IV Consultation, January 2020, p.32). 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.

⁸The forecasts pertaining to the external and monetary sector of the National Bank are based on the 2021 Budget Revision from July 2021 and the Fiscal Strategy 2022-2024 (with outlook until 2026) from May 2021.

the end of 2021 (5.9% in 2020). The solid growth of total deposits will continue also in the coming period, amid a forecasted average rate of annual growth of 7.5% in the period 2022-2023 and 8% in 2024.

The latest credit market forecasts indicate moderate acceleration in the credit activity in 2021 and gradual stabilisation of the growth rates in the next three years. Namely, it is expected that 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 COVID-19 pandemic, will continue until the end of the year. It is estimated that at the end of 2021 the growth rate of loans will reach 7.1% (4.7% at the end of 2020). In the period ahead, gradual stabilisation of the lending activity is expected, at an average growth rate of 6.9% in the period 2022 - 2023 and 7.8% in 2024, in circumstances of growth in the domestic economy, stabilisation of the expectations, increased demand for loans by households and the corporate sector, as well as sound solvent and liquid position of the banks. Credit growth will continue to be supported by solid deposit growth as the main source of financing.

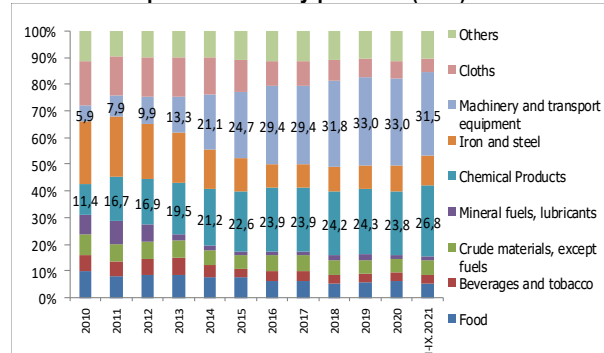
External sector. Structural changes in the economy over the last few years have strengthened the exports and improved the currency account balance. In the period 2010-2020, the current account deficit averaged 2% of GDP (despite the previous multi-year average of about 6%). Stable current account performance 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 2021, the current account deficit for 2021 is estimated at 3.8% of GDP, which is a minor widening compared to the previous year (3.4% of GDP), maintaining a moderate level of deficit in the pandemic. The estimated deficit for 2021 is higher than expected in last year's macroeconomic scenario, shown in last year's ERP (2.6% of GDP), due to the global pandemic crisis, which widened trade deficit and consequently current account deficit, despite the normalisation of inflows from private transfers.

In the period January-September 2021, total trade deficit⁹ widened by 43.6% amid annual export growth of 26.4% and faster import growth of 30.5% (after the fall in both of these items in the previous year caused by the pandemic). The increase in exports is mainly due to the increased exports of chemical products and machinery and transport equipment, which mainly reflects the export of export-based facilities with foreign capital, given their prevalence in total exports, with significant positive contribution of the export of iron and steel at a favourable price environment. The growth of imports is mainly due to the increased import of raw materials and equipment, given the increased economic activity, as well as the higher import of energy, amid rising energy import prices. The highest trade deficit in goods in the period under observation was registered in the trade with Great Britain, whereas the highest surplus was registered in the trade with Germany.

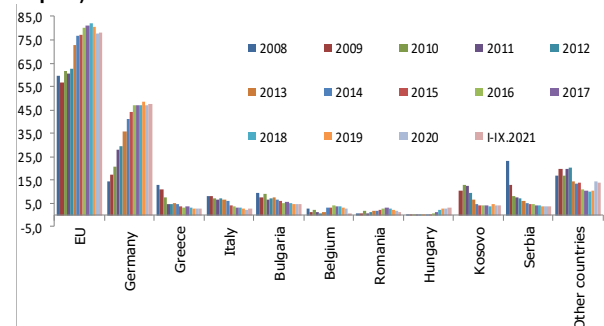
Analysing the structure, as a result of the new capacities in the economy, in recent years, export structure has significantly improved. It is due to the gradual increase in the share of products with higher value added in exports, mainly chemicals, machinery, and transport equipment, which reached 57% at the end of 2020. Changes in export structure correspond with foreign direct investment, which in recent years, were 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

Chart 3.18. Export structure by products (in %)



Source: SSO

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

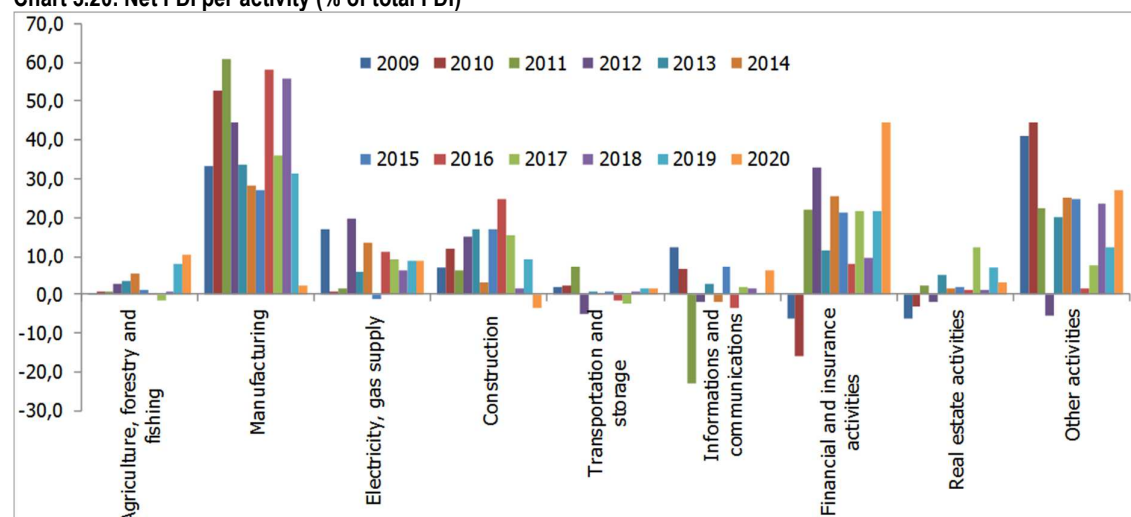


Source: SSO

⁹According to the foreign trade statistics, where the imports are presented on a c.i.f. basis.

from the dominant 40% in 2010 to nearly 16% at the end of 2020, which confirms the larger production dispersion and modernization of the export structure. Regarding the export of iron and steel, it should be borne in mind that despite the decrease in the period of global crisis, given the favourable price movements on the world market and the global recovery, its share in total exports stabilised in 2017, achieved small growth in 2018¹⁰, and accelerated in 2020 and the first three quarters of 2021.

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



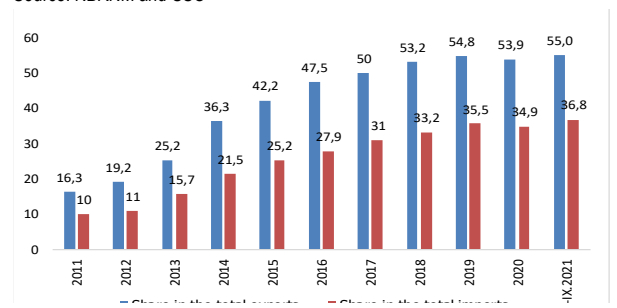
Source: NBRNM

After the slowdown in 2020 due to the pandemic, in 2021, the trade of new companies in foreign ownership intensified again. The share of exports of these companies in total export of goods is relatively high and reached 55% of total exports in the first nine months of 2021. Given that these companies import raw materials and equipment, the share of imports of these facilities in total import of goods also increased, yet sustaining at a lower level than the growth of exports (about 37% share in total imports in the first nine months of 2021).¹¹ 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 next period it intensified and peaked (5.4% of GDP) in 2018, preserving at 4.7% of GDP in 2019. In 2020, in times of pandemic and economic contraction, the positive balance of these companies was reduced to 4.3% of GDP. It is estimated that still there is room for strengthening the links between foreign companies and local suppliers, which would additionally increase the secondary effects of FDI on the economy.

The analysis of geographic distribution of Macedonian exports confirms the EU dominance as a major export destination, which in the period January-September 2021 imported around 78% 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 Belgium, amid low initial shares, and decreased share in exports to Greece, Italy and Bulgaria. In the period January-September 2021, total trade with the EU accounted for about 60% of the total trade of the Republic of North Macedonia, and the faster growth in exports than that in imports resulted in higher surplus (by about 32% compared to the same period last year).

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

Source: NBRNM and SSO



¹⁰At the restart of a large facility.

¹¹Source: NBRNM. According to the foreign trade statistics (customs declarations), where export of goods is presented on f.o.b. basis, while import of goods is on a c.i.f. basis.

In the period January-September 2021, the real effective exchange rate (REER)¹² of the denar deflated by CPI registered a moderate annual appreciation of 2.1%, while excluding primary commodities, the denar REER deflated by the same price index appreciated by 1.8%, 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 fall in relative prices. Nominal unit labour cost registered a growth of 1.8% in the first three quarters of 2021, reflecting productivity growth (given the economic recovery), amid further wage growth.

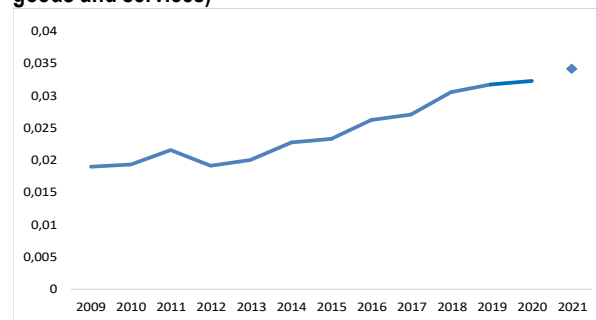
The export market share of the economy in world exports has been growing since 2013, but in 2020, this growth slowed down, reflecting the simultaneous decline in both Macedonian and world exports of goods and services caused by the pandemic. However, the growth of export market share is estimated to accelerate in 2021. The degree of trade openness of the Macedonian economy is generally high, with a marked upward trend in the period 2014 - 2019, which in 2019 reached 133% of GDP. In 2020, total foreign trade slowed down due to the pandemic, with estimates for normalisation in 2021 and expectation for stabilisation in the next three years, at about 140% of GDP.

International investment position and external debt.

At the end of the third quarter of 2021, the net negative international investment position (IIP) increased by 2.9% compared to the end of 2020, amid higher increase in external liabilities compared to the increase in assets. Expanding of the negative IIP is mainly due to the increased negative net position of the government¹³, amid slight expansion of the negative net position in deposit-taking institutions and in other sectors, which was merely partially offset by the increase in the positive IIP of the monetary authority (reflecting the increase in foreign reserves). In September 2021, the negative IIP was 60.1% of the estimated GDP, and compared to the end of 2020, it decreased by 4.8 percentage points of GDP.

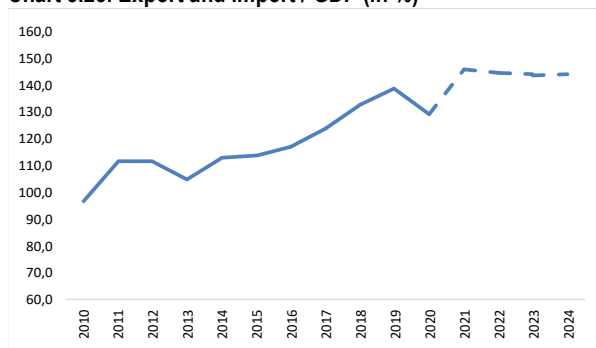
Given the significant share of foreign direct investment as external liabilities (about 50% in recent years), typical for the converging countries, the analysis of external position also needs to consider other variables, such as net external debt, which includes only net debt instruments. At the end of the third quarter of 2021, net external debt accounted for 27.6% of the estimated GDP, down by 3.4 percentage points from the end of 2020, which is due to

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



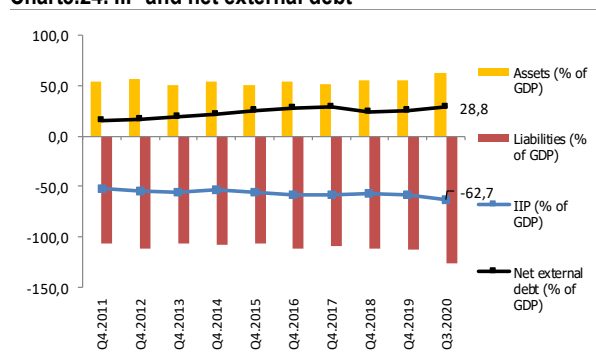
Source: IMF WEO, SSO; NBRNM forecast for 2021

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



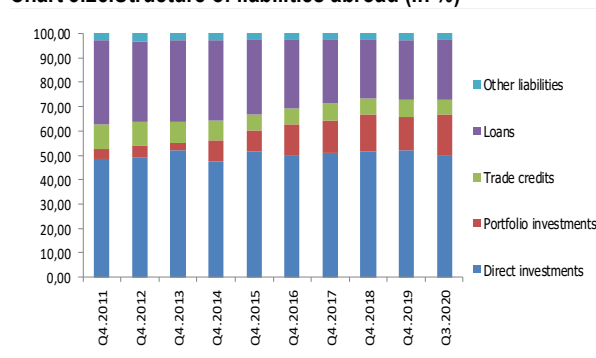
Source: SSO; NBRNM forecast for the period 2021-2024

Chart 3.24. IIP and net external debt



Source: NBRNM and SSO

Chart 3.25. Structure of liabilities abroad (in %)



Source: NBRNM

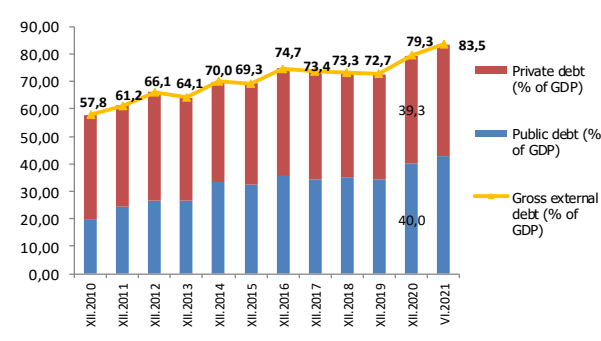
¹²NBRNM calculations. Within the REER, the calculation of the nominal effective exchange rate includes 15 major trade partners of the Republic of North Macedonia by their share in foreign trade in the period 2010-2012 and a base period 2015.

¹³Government sector includes central government, local government and social security funds.

the decreased private and public net debt (of 2.3 percentage points and 1.1 percentage points of GDP, respectively).

At the end of the third quarter of 2021, the gross external debt accounted for 79.3% of GDP (without the NBRNM repo transactions, which appeared in almost the same amount on the side of both liabilities to and the claims on non-residents). Compared to the end of 2020, gross debt decreased by 1 percentage point of GDP. This decrease is mainly due to the decline of the public sector debt, considering almost unchanged private sector debt. The long-term debt, occupying above 70%, still dominates the debt structure.

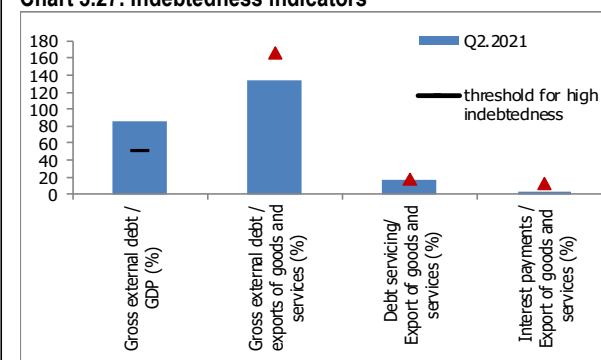
Chart 3.26. Gross external debt



Source: NBRNM

At the end of the third quarter of 2021, the coverage of short-term debt by residual maturity with foreign reserves was slightly above 1, which indicates solid liquidity in terms of external payments amid reduction of short-term debt by residual maturity and increase of the foreign reserves relative to the end-2020. The analysis of foreign indebtedness¹⁴ 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.

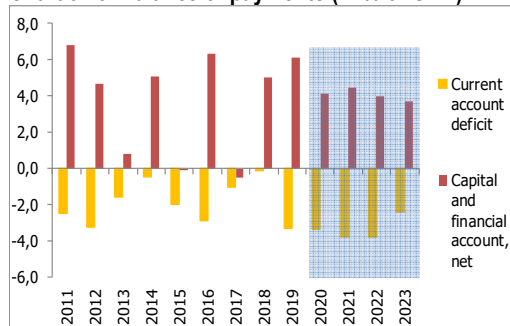
Chart 3.27. Indebtedness indicators



Source: Calculations by NBRNM

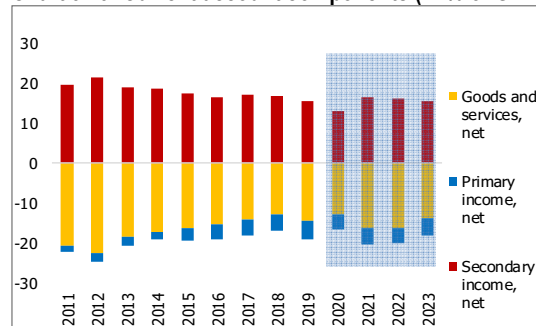
Forecasts of the balance of payments¹⁵. After the fall in 2020 caused by the pandemic, in 2021 and the next few years, the global economy is expected to recover, at dynamics accompanied by risks. According to the latest estimates, the growth of foreign effective demand¹⁶ for the Macedonian economy is expected to be 4.1% and 4.3% in 2021 and 2022, respectively (4.6% and 3%, respectively in last year's scenario). Further positive growth rates are expected for 2023, with estimates for deceleration of the growth of foreign demand to 2.3%.

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



Source: NBRNM; estimate for 2021 and forecasts for 2022-2024

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



Source: NBRNM; estimate for 2021 and forecasts for 2022-2024

Given the consequences of the pandemic, recent external sector estimates indicate that after the moderate current account deficit widening in 2021 and 2022, in the next two years it would stabilise at around 2% of GDP. In the next three years, the

¹⁴Tailored 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.

¹⁵Balance of payments forecasts and monetary and credit aggregates forecasts are based on SSO's GDP estimates for 2020 and the first two quarters of 2021.

¹⁶Foreign 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.

needs for external funding are expected to be covered by external borrowing and foreign direct investments. Capital inflows are expected to help maintain adequate levels of foreign reserves and import coverage for about four months of next year.

After the fall during the pandemic in 2020, in 2021 there will be a significant export recovery given the gradual global relaxation of containment measures, the recovery of foreign demand and further positive effect of companies with foreign capital. Exports of goods and services are expected to continue growing moderately in the next three years. Despite the decline in 2020, in 2021 the import of goods and services will increase significantly, due to the recovery of domestic demand and export activity, additionally driven by price factors (energy price in particular). In the next three years, import growth would be moderate, mainly driven by the increased imports for the purposes of production for export and investment consumption as well as energy imports. For 2021, amid faster increase of imports compared to exports, trade deficit in goods and services is expected to widen to 16.2% of GDP (deficit of 12.8% of GDP in 2020). 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 moderate expansion in non-energy trade balance. The estimated deficit in 2021 is higher than expected in last year's scenario (around 13% of GDP). In 2022, the deficit in trade in goods and services is estimated to remain unchanged (16.2% of GDP), and to gradually narrow in the next two years (13.7% and 12.5% of GDP in 2023 and 2024, respectively). This forecast is based on the expectation that after the shock and the consequences of the pandemic, the foreign trade would get back on track. In this light, in 2022, the energy trade deficit would expand slightly, and in the next two years, it would gradually narrow, while the non-energy deficit would gradually narrow starting from 2022, as a result of the effect of new and traditional export activities. The services surplus in the next three years would grow moderately, given the solid export prospects of the service sector (in particular telecommunications, computer and investment 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 the global contraction and restriction of cross-border movement due to the pandemic, net inflows from private transfers in 2020 slowed down to 12.2% of GDP (15.4% of GDP in 2019). In 2021, net inflows in secondary income have normalised and are estimated to reach the pre-pandemic level, while in the next three years, they would see a slight downward trend (14.8% of GDP in 2024). The primary income deficit for 2021 is estimated to slightly increase to 4% of GDP, to rise mildly in the next three years up to 4.4% of GDP in 2024, in line with the forecasts for growth in the foreign investors' income.

With such a current account forecast, in 2021 the current account deficit is estimated to slightly increase to 3.8% of GDP, mainly due to the widened deficit in goods and services, despite the improvement in secondary income. In the next year, the current account deficit would remain at the same level, while in the next two years, considering the expected trade balance normalisation, there would be a gradual narrowing (to 2.4% in 2023 and up to 1.6% of GDP in 2024). The gradual depletion of pandemic risks and the global stabilisation, both in the supply chains and the temporary price pressures, especially on the energy side, would significantly improve the balance of goods and services. The deficit narrowing 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 modernization of the production structure.

In 2021 and the next three years, capital account inflows will mainly generate from the expected FDI and the expected external public and private borrowing. In 2021, most inflows came from the FDI and the external government borrowing (Eurobond and net government borrowings for the purposes of properly dealing with the implications of the corona crisis). FDI in 2021 is estimated at 3% of GDP, which is an acceleration compared to 2020 (1.4% of GDP), considering the high uncertainty at the onset of the pandemic. The recovery of the domestic economy growth after the pandemic, along with the expected growth of the global economy are expected to create stable perceptions among investors and FDI at about 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 FDIs (including in years of crisis). In addition, such a forecast is supported by the ongoing policies to attract new FDI and further reforms for improving the business environment. Amid FDI net inflows, loans and portfolio investment, there are estimates for net inflows on the financial account of 4.5% of GDP in 2021. In the next three years, total net inflows would have slowed down and in 2024 would amount to 2.6% of 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.

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:

- In the first quarter of 2022, a Law on Financial Stability will be adopted, which will be harmonised with Regulation 1092/2010 on macro-prudential supervision of the financial system and the establishment of a Systemic Risk Board of the European Commission. Under the Law, a body will be established to identify the threats and the risks to financial stability and to undertake, in a synchronous manner, macro-prudential measures for the purpose of maintaining the financial stability in the Republic of North Macedonia. The National Bank of the Republic of North Macedonia will play the leading role in creating and implementing the macro-prudential policy and maintaining the fiscal stability. The Law is pending parliamentary procedure.
- By mid-2022, Law on Payment Services and Payment Systems will be adopted, transposing 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 functions, Regulation 2015/751/EU on replacement fees for card based payment methods transactions, Directive 98/26/EC on final settlement and certain provisions of Regulation 2012/260/EU establishing technical and business requirements for credit transfers and direct borrowing in euros.

Adoption 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;
 - establishment of 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;
 - establishment of harmonised operating rules that will be applied 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 for maintaining the stability of the payment systems;
 - improving the transparency and comparability of fees charged for payment services, and
 - access to payment accounts for a wider range of consumers.
- By the end of 2022, a new Banking Law will be adopted, by which the banking regulations will be harmonised with the Directive 2013/36/EU on the approach to the activities of credit institutions and the prudential supervision of credit institutions and investment firms and the 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.
 - By the end of 2022, a Law on Bank Resolution will be adopted, which will implement Directive 2014/59 / EU on Bank Recovery And Resolution, and will prescribe the instruments that can be taken over by the competent bank resolution body, as well as its rapid reaction powers in case of serious problems in the operations of the banks.
 - At the beginning of 2022, Law on Modifications and Amendments to the Law on Deposit Insurance Fund will be adopted, thus further harmonising it with Directive 2014/49/EC on deposit guarantee schemes, in terms of increasing the amount of deposits that are subject to compensation, as well as compensation of deposits to legal entities, in addition to natural persons.
 - By the end of 2022, two new laws in the field of capital market will be adopted (Law on Financial Instruments and Law on Securities Prospects and Transparency Obligations for Issuers), 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.
 - By the end of 2022, it is planned to implement Directive 2011/61/EU on Managers of Alternative Investment Funds in Domestic Legislation and the Regulation on Venture Capital Funds 345/2013. The implementation of the Directive will strengthen the rules and procedures for the operations of private investment funds and will regulate the procedure for approval of managers of private investment funds. Implementation of the Regulation on European Venture Capital Funds will regulate, in more details, the conditions that this type of fund will have to meet if they want to use the name "venture capital funds" in their name. Therefore, technical assistance was provided and a consultant was

selected to work on the implementation of the Directive and the Regulation. Working meetings have already begun to review the first draft of the law with consultants working on the text of the law and a working group composed of representatives from the Ministry of Finance and the Securities and Exchange Commission.

- By July 2022, a new Insurance Law will be adopted. The new Insurance Law will be harmonised with the Directive 2009/138/EC on the establishment and conduct of business activities for insurance and reinsurance (Solvency II) and will achieve compatibility and competitiveness of the domestic insurance industry with that 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.
- By the end of 2023, new Law on Intermediaries is planned to be adopted, to be harmonised with the Insurance Distribution Directive (IDD) 2016/97. Under the new Law, an equal level of consumer protection will be ensured. The purpose of the Law is to promote equality and competition under equal conditions between intermediaries, regardless of whether they are affiliated with an insurance company or not. 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 in different ways, under similar or same conditions and rules.

Financial companies. As of 1 September 2021, 33 financial companies have been actively operating on the financial market in the Republic of North Macedonia, being an increase by four companies compared to September 2020. Domestic capital has the largest share of 65.8% in the ownership structure of financial companies. Foreign capital participates with 34.2%.

As of 30th June 2021, total assets of financial companies amounted to Denar 5,432 million, increasing by 40.7% compared to 30th Jun 2020, mainly as a result of the increase in the number of financial companies and the increase in financial placements.

The number of newly concluded agreements in the first half of 2021 (mostly loans) is 127,242, being an increase by 81.8% compared to the first half of 2020 due to the recovery of this segment of the financial market after the pandemic-induced crisis. The value of the concluded contracts, in this period, was Denar 3,901 million (EUR 63 million), increasing by 50% compared to the first half of 2020.

In the first six months of 2021, financial companies generated a profit of Denar 339 million (first half of 2020: loss of Denar 68 million).

Financial leasing providers. As of 30 June 2021, 6 leasing companies have been actively operating on the financial leasing market. As for the ownership structure of the leasing sector, domestic capital predominates with 83% thereof. Foreign capital participates with 17% therein.

As of 30 June 2021, the assets of the leasing sector have amounted to Denar 6,427 million (EUR 103.7 million), increasing by 8.5% compared to the same period of the previous year.

The number of newly concluded contracts in the first half of 2021 was 875 or an increase by 39.6% compared to the same period last year. The value of the concluded contracts, in this period, amounted to Denar 1,475 million, being an increase by 41.4%. Legal entities retained the leading position in the structure of newly concluded contracts. Observed by the subject of leasing, most of the value of the newly concluded contracts are contracts for passenger vehicles.

Leasing companies in the first half of 2021 generated a profit amounting to Denar 202.9 million (first half of 2020: profit amounting to Denar 56.2 million).

3.3. Alternative scenarios and risks

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

The first alternative macroeconomic scenario assumes slower growth of foreign demand in the period 2022-2026, especially the economic activity in the EU, as our most important trading partner. Such a scenario implies slower growth of export activity and industrial production as well, especially of the activities that are strongly integrated into the global supply chains and are closely linked to the international trade flows. Hence, the projected real growth of exports would be lower by 2.3 p.p. on average annually compared to the baseline scenario, i.e. an average annual growth of 6.4% is projected in the forecasting period.

Such a 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 construction works, machinery and equipment, also implying lower growth of import of capital goods. As a result, real gross investments would increase by 6.9% on average annually in the forecasting period, compared to the projected growth of 9% 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 are expected to be smaller in relation to the other components. Hence, the average real growth of public consumption is projected at 1.1%, while real growth of private consumption is by 1 p.p. lower, projected at 2.9% on average annually in the forecasting period. Lower growth of both exports and domestic demand implies slower growth of imports which, in the analysed period, is envisaged to surge by 5.8% on average annually, as opposed to the projected growth of 7.8% according to the baseline scenario. Such adjustments with respect to GDP components imply an average economic growth of 4% per year in the period 2022-2026 (Chart 3.30).

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 6.3% on average annually in the forecasting period, being lower by 2.7 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 investment implies lower real growth of imports which, under this scenario, is 7.4% on average annually in the forecasting period, compared to 7.8% according to the baseline scenario.

Effects on export activity in this period are expected to be lower, whereby the contribution of net export to economic growth is less negative in the period 2022-2024 under the baseline scenario, and turns slightly positive in 2026. However, more favourable net export demand only partially offsets the negative effect of the weaker growth of investment on domestic demand and economic growth. Thus, under this scenario, growth of economic activity is projected at 4.6% on average annually in the period 2022-2026 (Chart 3.30).

As regards labour market, lower economic growth implies slower growth of the number of employed and slower pace of unemployment rate reduction compared to the baseline scenario. Hence, according to the first alternative scenario, the average annual employment growth would be 2.7% in the forecasting period, while the average unemployment rate is projected to decline to 10.2% in 2026. According to the second alternative scenario, employment growth in the forecasting period is projected to be 3.1% on average annually, resulting in decline of the unemployment rate to 9.4% in 2026, as opposed to the expectations for a reduction of the unemployment rate to 8.6% according to the baseline scenario.

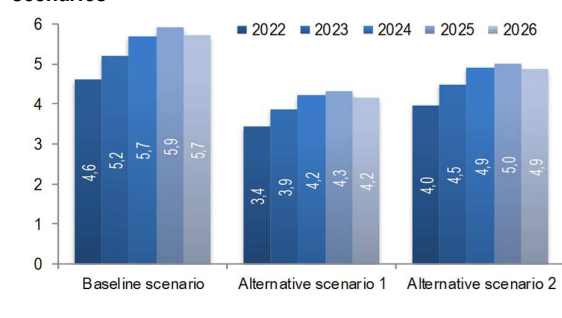
As regards inflation rate, slower economic growth in the forecasting period, according to both alternative scenarios, implies that the inflationary pressures from the demand are lower compared to the baseline scenario, in particular in 2025 and 2026, taking into account that the estimated output gap is significantly lower.

Risks. Baseline macroeconomic scenario is accompanied by risks, which are mainly related to the protraction and the consequences of the health crisis in the country as well as abroad, the intensity of its effects on the economy and the results from the economic measures for its mitigation, high uncertainty as regards price developments of commodities and energy goods on the world markets, etc.

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

On the other hand, NATO membership and the start of EU membership negotiations can have a more significant impact on investment activity and the implementation of institutional and structural reforms in the country. Long-term economic growth is to a great extent conditioned by the dynamics of implementation of the necessary structural reforms, which if enhanced,

Chart 3.30. Economic growth, baseline and alternative scenarios



Source: MoF forecast

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 main risks to the external sector scenario in the period ahead primarily arise from the global environment, particularly the uncertainty about the pandemic and the pace of recovery of our major trading partners. Risks from the global environment remain downward, corresponding to the overall global environment. Namely, unfavourable external factors, which have become pronounced recently, are the disruptions of the global supply chains, transport and logistics, which affect the regular production process worldwide, especially in the automotive sector and the food industry. However, such unfavourable trends and their effects on the economy are assessed as temporary, while expectations for their stabilisation during 2022 are maintained. The possible faster tightening of global financial conditions could adversely affect countries that depend on external financing or have increased public debt. A new downside risk to economic growth is the global energy crisis, which if prolonged could lead to a reduction in global industrial activity, but also to demand, which would also slow down the economic recovery pace. Other global risks, which are influenced by geopolitical, information, security, social and climate factors, are present in this cycle, as well. Any weaker external demand may have adverse effects on the presence of domestic exporters in foreign markets. The weaker global outlook 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 of primary commodities is accompanied by higher uncertainty, with possible effects on domestic inflation and export prices. On the other hand, a positive risk is the possible intensification of the vaccination process globally, which through the confidence channel would have favourable effects on consumption and investment in the private sector, as well as possible faster productivity growth, driven by the trend of automation and job transformation that started during the pandemic. Domestic positive risks remain to be related to the possible more pronounced positive effects of our country's membership in NATO, as well as the possible start of the negotiation process for EU membership, as well as the realisation of the latest development and investment plans of the country in the medium term, which would support investment projects of the public and private sector and would increase the growth and competitiveness of the economy in the medium term.

The balance of payments forecast, after the shock of the pandemic in 2020, envisages stabilisation of the current account deficit, followed by gradual return to normal dynamics. 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 an expectation that in the next three years some of the companies will further enhance the use of the production potential, although the effect will gradually diminish. However, the upward risk is still present, especially for companies that started or accelerated their activities in the last few 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, the net inflows from secondary income (within which, net purchased currency on the exchange market) normalised as expected, with their similar share in the GDP for the following three years being also expected. After the uncertainty conditioned by the pandemic, the net inflows based on FDI returned to the previous 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 crisis years), as well as the continuation of policies to attract FDI.

Risks to the inflation forecast are mainly conditioned by the assumptions about the movements in primary commodities prices, and during the pandemic period, by the potential supply limitations. The main risks in terms of the inflation forecast relate to the extremely high volatility of the prices of primary products in world markets, which is especially associated with the unpredictability of the global energy crisis, as well as with the possible further adverse effects of the corona crisis on their supply and demand. Additional risk is also deemed 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.

Regarding 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. In the short to medium term, the effects of the pandemic and energetic crisis on the quality of the loan portfolio will be especially significant for the credit growth. In the post-crisis period, the renewal of the capital buffers will be crucial, in order to maintain the resilience of the banking system to unforeseen shocks.

The aforementioned risks to the macroeconomic scenario for the next three years point to a need for constant monitoring of any changes in the external and domestic economic conditions in the period ahead and timely taking of adequate measures by policymakers.

4. Fiscal framework

4.1. Policy strategy 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. Fiscal Strategy 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 the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: 4.3% in 2022, 3.5% in 2023, 2.9% in 2024, 2.5% in 2025 and 2.2% in 2026.

Main priorities as regards the tax system are increased 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 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 a regular basis.

The 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 and similar.

Fiscal decentralisation reform offers a systemic solution for stable finances of the municipalities, implying accountable municipalities and delivery of quality and efficient services to the citizens. 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 the 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.

Table 4.1. General Government Budget

	in Denar million						% of GDP					
	2021*	2022*	2023*	2024*	2025*	2026*	2021	2022	2023	2024	2025	2026
Central Budget												
Revenues	124,467	135,600	146,273	163,967	180,477	197,214	17.6	17.5	17.8	18.3	18.7	18.9
Expenditures	170,532	168,317	174,715	189,762	204,737	220,082	24.1	21.8	21.3	21.2	21.2	21.1
Budget balance	-46,065	-32,717	-28,442	-25,795	-24,260	-22,868	-6.5	-4.3	-3.5	-2.9	-2.5	-2.2
Budget Funds												
Revenues	71,668	76,872	82,022	87,580	93,321	99,572	10.1	9.9	10	9.8	9.7	9.6
Expenditures	71,833	77,683	82,032	87,590	93,331	99,582	10.2	10.1	10	9.8	9.7	9.6
Budget balance	-165	-811	-10	-10	-10	-10	0.0	-0.1	0.0	0.0	0.0	0.0
Budget of RNM (Central Budget and Funds)												
Revenues	196,135	212,471	228,295	251,547	273,798	296,786	27.8	27.5	27.8	28.1	28.3	28.5
Expenditures	242,365	245,999	256,747	277,351	298,068	319,664	34.3	31.8	31.2	31	30.9	30.7
Budget balance	-46,230	-33,528	-28,452	-25,804	-24,270	-22,878	-6.5	-4.3	-3.5	-2.9	-2.5	-2.2
Local Government Budget												
Revenues	46,970	46,939	48,055	49,918	52,227	55,478	6.6	6.1	5.8	5.6	5.4	5.3
Expenditures	46,609	46,939	48,055	49,918	52,227	55,478	6.6	6.1	5.8	5.6	5.4	5.3
Budget balance	361	0	0	0	0	0	0.1	0.0	0.0	0.0	0.0	0.0
Consolidated General Government Budget												
Revenues	243,105	259,410	276,350	301,464	326,025	352,264	34.4	33.6	33.6	33.7	33.7	33.8
Expenditures	288,974	292,938	304,802	327,269	350,296	375,141	40.9	37.9	37.1	36.6	36.3	36.0
Budget balance	-45,869	-33,529	-28,451	-25,805	-24,271	-22,877	-6.5	-4.3	-3.5	-2.9	-2.5	-2.2

Source: Ministry of Finance; * - forecast

4.2. Budget implementation in 2021

In the period January - November 2021, total revenues of the Budget of the Republic of North Macedonia¹⁷ were collected in the amount of Denar 197.4 billion or approximately 88.7% of the 2021 Budget, i.e. they were higher by 16.2% compared to the collected ones in the same period last year. Denar 113.9 billion out of this amount was tax revenues, being higher by 19.1% compared to last year. All types of tax revenues experienced growth compared to the analysed period last year. Revenues on the basis of social contributions were collected in the amount of Denar 63.3 billion, being higher by 5.9% than the respective period in 2020.

In the period January - November 2021, total expenditures of the Budget of Republic of North Macedonia were executed in the amount of Denar 227.5 billion, or around 84.6% of the 2021 Budget, i.e. execution was higher by 8.3% in relation to the same period last year.

Within these frameworks, current expenditures amounted to Denar 209.9 billion or 87.8% of the projections, i.e. by 5.4% more compared to the same period in 2020.

Table 4.2. Budget Execution as of November 2021 Inclusive

	Realisation January- November 2021	Realisation January- November 2020	Realisation November 2021/Rebalance 2021 (%)	Realisation January-November 2021/Rebalance January-November 2021 (%)
	in %			
Total revenues	197,428	169,946	88.7%	16.2%
Tax revenues and contributions	177,228	155,443	91.8%	14.0%
Tax revenues	113,920	95,687	92.0%	19.1%
Personal income tax	17,682	15,949	85.1%	10.9%
Profit tax	10,055	9,569	83.8%	5.1%
VAT (net)	53,065	42,371	97.9%	25.2%
Excises	23,635	20,394	85.4%	15.9%
Custom duties	7,669	6,065	118.6%	26.4%
Other taxes	1,814	1,339	66.6%	35.5%
Contributions	63,308	59,756	91.5%	5.9%
Non-tax revenues	12,760	10,200	72.6%	25.1%
Capital revenues	1,771	1,627	55.6%	8.9%
Grants	5,669	2,676	65.2%	111.8%
Total expenditures	227,454	210,005	84.6%	8.3%
Current expenditures	209,864	199,198	87.8%	5.4%
Wages and allowances	28,274	27,249	89.5%	3.8%
Goods and services	16,454	13,215	74.9%	24.5%
Transfers to LGUs	19,522	19,591	91.5%	-0.4%
Subsidies and transfers	23,960	20,644	82.2%	16.1%
Social transfers	112,942	110,772	90.0%	2.0%
Interests	8,712	7,727	92.9%	12.7%
Capital expenditures	17,590	10,807	59.0%	62.8%
Deficit	-30,026	-40,059	64.9%	-25.0%
Deficit (% of GDP)	-4.2%	-6.0%		
Primary deficit (% of GDP)	-3.0	-4.9		
Deficit financing	30,026	40,059		
Inflows	71,884	71,891		
Domestic sources	18,448	23,361		
Foreign sources	50,871	64,732		
Deposits ("-" is accumulation of account)	2,565	-16,202		
Outflows	41,858	31,832		
Repayment upon domestic borrowing	6,123	6,336		
Repayment upon foreign borrowing	35,735	25,496		

Source: Ministry of Finance

In the period January - November 2021, capital expenditures were executed in the amount of Denar 17.6 billion (59%), being higher by Denar 6.8 billion or 62.8% compared to the same period last year. Under the Annual Law on 2021 Budget Execution, new mechanism was put into place, being aimed at executing the capital expenditures, by which budget users

¹⁷ Pursuant to the 2021 Modifications and Amendments to the Budget of the Republic of North Macedonia ("Official Gazette", no. 171/21)

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, for the account of the budget users having underperformed, their resources can be reallocated to budget users showing good performance as regards the capital expenditures.

During this period, the State Budget deficit amounted to Denar 30 billion or 4.2% compared to the GDP projected in 2021, while the primary budget deficit accounted for 3% (Table 4.2).

4.3. Budget plans for 2022

The 2022 Budget has four main goals:

- protecting the health and lives of citizens,
- economic recovery and accelerated growth,
- fiscal sustainability, 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 macroeconomic stability, accelerating economic growth, thus strengthening the growth potential of the national economy.

Health crisis placed new emphasis on public finance sustainability, 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.

In order to mitigate the economic shock triggered by COVID-19 pandemic, the Government responded in a promptly manner by adopting several sets of economic measures through targeted and timely support aimed at protecting the liquidity of companies, preserving jobs and ensuring social protection for the unemployed and the vulnerable households. Undertaken economic measures have caused expenditures to increase, as well as deficits accordingly.

So as to achieve fiscal sustainability by reducing the budget deficit in 2022, a need has arisen to rationalise the public expenditures, measure the results from the expenditure execution, as well as increase the spending efficiency.

During 2022, 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, as well as changes in financing the deficit.

In order to achieve fiscal consolidation on the expenditure side of the Central Budget, the following is envisaged: 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 the structure and execution of capital expenditures.

2022 Budget projects recovery of the economy hit by COVID-19 pandemic, accelerated growth with scaled-up capital investments, as well as maintaining fiscal stability via low budget deficit.

Total revenues of the 2022 Budget of the Republic of North Macedonia are projected in the amount of Denar 238.9 billion, being higher by 7.4%% in relation to 2021, while expenditures are projected in the amount of Denar 272.4 billion, being higher by 1.4% in relation to 2021.

Such projected revenues and expenditures result in a budget deficit of 4.3% of the projected GDP or Denar 33.5 million in absolute terms. Forecasted deficit is in line with the projections set in 2022-2026 Fiscal Strategy and the commitment to fiscal consolidation. Such a budget deficit substantiates 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.

The 2022 Budget revenue projections are based upon the following assumptions: revenue performance throughout 2021; 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.

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

2022 Budget of the Republic of Northern Macedonia									
	Realization 2019	Realization 2020	Budget 2021	Supplement ary Budget 2021	Budget 2022	difference Budget 2022- Supplement ary Budget 2021	difference Budget 2022- Supplement ary Budget 2020	B 2022/SB 2021 (%)	B 2022/SB 2020 (%)
Total revenues	203,946	189,554	212,630	222,542	238,900	16,358	49,346	7.4	26.0
Tax revenues and contributions	178,894	173,464	186,282	193,068	210,829	17,761	37,365	9.2	21.5
Tax revenues	116,728	106,900	117,982	123,873	136,458	12,585	29,558	10.2	27.6
Personal Income Tax	18,706	18,625	20,290	20,790	21,051	261	2,426	1.3	13.0
Profit tax	11,554	10,497	11,501	12,001	12,312	311	1,815	2.6	17.3
VAT	52,059	46,893	52,280	54,219	62,240	8,021	15,347	14.8	32.7
Excises	26,087	22,450	25,285	27,670	28,778	1,108	6,328	4.0	28.2
Customs	6,033	6,738	5,968	6,468	8,983	2,515	2,245	38.9	33.3
Other taxes	674	510	629	729	738	9	228	1.2	44.7
Tax revenues on own accounts	1,615	1,187	2,029	1,996	2,356	360	1,169	18.0	98.5
Contributions	62,166	66,564	68,300	69,195	74,371	5,176	7,807	7.5	11.7
Pension insurance contribution	41,921	45,044	46,260	46,842	50,305	3,463	5,261	7.4	11.7
Employment contributions	2,622	2,757	2,790	2,894	3,075	181	318	6.2	11.5
Health insurance contribution	17,623	18,763	19,250	19,459	20,992	1,533	2,229	7.9	11.9
Non-tax revenues	18,800	11,173	16,954	17,586	19,171	1,585	7,998	9.0	71.6
Capital revenues	2,369	1,846	3,187	3,187	3,330	143	1,484	4.5	80.4
Donations	3,883	3,071	6,207	8,701	5,570	-3,131	2,499	-36.0	81.4
TOTAL EXPENDITURES	217,447	243,421	247,568	268,772	272,428	3,656	29,007	1.4	11.9
Current Expenditures	199,634	227,306	223,513	238,968	234,192	-4,776	6,886	-2.0	3.0
Wages and Allowances	27,754	29,775	31,394	31,594	32,679	1,085	2,904	3.4	9.8
Goods and Services	16,265	15,423	21,322	21,965	20,656	-1,309	5,233	-6.0	33.9
Transfers to LGUs	19,097	21,373	21,315	21,329	22,321	992	948	4.7	4.4
VAT grant	2,216	2,342	2,238	2,238	2,711	473	369	21.1	15.8
Block grants	16,881	19,031	19,077	19,091	19,610	519	579	2.7	3.0
Subsidies and transfers	20,285	34,905	19,351	32,075	23,967	-8,108	-10,938	-25.3	-31.3
Social Transfers	108,131	117,799	120,653	122,627	124,497	1,870	6,698	1.5	5.7
Pensions	56,320	60,216	62,319	62,619	64,350	1,731	4,134	2.8	6.9
Transition costs	8,859	8,608	9,000	9,300	9,870	570	1,262	6.1	14.7
Unemployment benefits	1,472	1,576	1,600	1,650	1,400	-250	-176	-15.2	-11.2
Active employment measures	1,267	1,359	1,460	1,768	1,818	50	459	2.8	33.8
Social benefits	9,416	11,347	11,907	12,311	11,009	-1,302	-338	-10.6	-3.0
Health care	30,797	34,693	34,367	34,979	36,050	1,071	1,357	3.1	3.9
Interest payments	8,102	8,031	9,478	9,378	10,071	693	2,040	7.4	25.4
Capital expenditures	17,813	16,115	24,055	29,804	38,236	8,432	22,121	28.3	137.3
BUDGET BALANCE	-13,501	-53,867	-34,938	-46,230	-33,529	12,702	20,339	-27.5	-37.8
FINANCING	13,501	53,867	34,937	46,230	33,529				
Inflow	29,569	95,695	78,290	89,583	45,103				
Domestic	19,669	37,307	23,437	25,449	27,130				
Foreign	8,632	65,247	53,542	63,731	21,269				
Deposits ("-" is account accumulation)	1,268	-6,859	1,311	403	-3,296				
Outflow	16,068	41,828	43,353	43,353	11,574				
Repayment of domestic borrowing	10,314	26,567	6,119	6,119	5,529				
of which continuous government securities	9,775	6,589	4,679	4,679	5,095				
Repayment of foreign borrowing	5,754	15,261	37,234	37,234	6,045				
MEMORANDUM									
Net domestic borrowing	9,345	10,730	17,008	17,010	21,601				
Net domestic borrowing (continuous government securities)	1,711	22,545	18,448	18,450	22,035				
Net foreign borrowing	2,578	49,496	15,808	25,997	15,224				
Primary budget balance	-5,399	-45,836	-25,460	-36,852	-23,458				
Primary budget balance, % of GDP	-0.8	-6.9	-3.6	-5.2	-3.0				
Budget balance, % of GDP	-2.0	-8.1	-4.9	-6.5	-4.3				

Source: Ministry of Finance

Tax revenues in 2022 are projected in the amount of Denar 136.5 billion, being higher by 10% compared to 2021. VAT accounted for the most of the projected tax revenues, accounting for 45.6%, while excise duties accounted for 21.2% thereof.

Main objective of the tax policy is to ensure sustainable economic growth and development, thereby providing for legal safety of taxpayers and collection of public revenues on a regular basis. Main priorities are:

- 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, designed to simplify and speed up the procedures and reduce the administrative burden, by increasing digitised services, better management of the import-export licenses' issuance, elimination of unnecessary non-tariff barriers and improved internal and tax controls.
- green taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction, i.e. discourage them from polluting the environment.

Under 2022 Budget, around Denar 19.2 billion is projected to be generated on the basis of non-tax revenues (administrative fees, concessions and other non-tax revenues) and Denar 3.3 billion as capital revenues (on the basis of sale of agricultural land and social flats, as well as on the basis of planned dividend by 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 74.4 billion, or by 7.5% higher in relation to 2021.

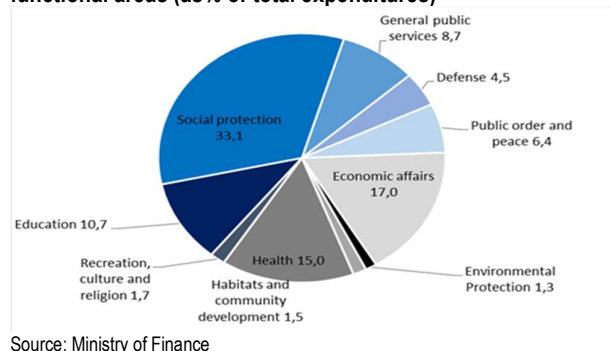
During 2022, on the basis of donations, Denar 5.6 billion is envisaged, which are planned for the budget users to realise through special revenue accounts for specific projects, as well as on the basis of disbursements under the EU pre-accession funds.

Total budget expenditures in 2022 are projected in the amount of Denar 272.4 billion, or by Denar 3.7 billion higher compared to 2021 projections. 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 fulfilment 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,
- accelerated implementation of infrastructure projects, attracting foreign investments and innovations of domestic companies,
- support to the policies for economic growth and higher living standard of the population,
- 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 for 2022 are projected in the amount of Denar 234.2 billion or by 2% lower in relation to 2021 projections, intended for regular payment of wages of the public sector employees, timely and regular payment of pensions,

Chart 4.1. Expenditures of the Budget of the RNM for 2022 by functional areas (as% of total expenditures)



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 health sector.

Reduction of the non-priority expenditures, as well as introduction of spending standards provides for more efficient use of operating resources by improving the planning and the execution of operating expenditures.

Under the current expenditures, the following is projected:

a) expenditures for payment of wages projected in the amount of Denar 32.7 billion, adhering thereby to the commitment to optimise the administration by control over new employments (in line with the Government Programme and the defined policies), as well as raising the living standard of employees and increasing the incentive for professional, high-quality and complete fulfilment of the working tasks,

b) expenditures related to goods and services, projected in the amount of Denar 20.6 billion, being reduced by around 6% or by Denar 1.3 billion, as a result of the fiscal consolidation and reduction of the operating expenditures to minimum. Thereby, within this amount, necessary funds have been provided, pertaining to healthcare of population, procurement of vaccines, as well as meeting NATO Standards.

c) current transfers and subsidies are projected in the amount of Denar 170.8 billion, mainly including the following:

- Social transfers projected in the amount of Denar 124.5 billion, as follows:
 - Denar 64.4 billion is allocated for payment of pensions, all to the end of providing appropriate level of living standard for the elderly persons,
 - Denar 11 billion is allocated for payment of social protection benefits for the most vulnerable categories, also including the social protection system reform by introducing a guaranteed minimum income, thus redesigning the types and the targeting of social assistance, as well as ensuring social safety of the elderly and higher level of social justice,
 - Denar 1.4 billion is allocated for payment of unemployment benefit,
 - Denar 1.8 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 labour market, supporting the job creation, employing young persons, supporting employment of disabled persons, activating the users of guaranteed minimum assistance (GMA) in a manner that the working-able household members will be included in the active employment policies and measures,
 - Denar 36 billion is allocated for health protection through the Health Insurance Fund. These funds are mostly intended for financing healthcare services, measures for pandemic containment and availability of pharmaceuticals to the citizens. Within these amounts, fiscal implications have also been planned, amounting to Denar 700 million, intended for wage increase of all employed people in the public health institutions.
- Agricultural subsidies and funds under the IPARD Programme, which will provide for strengthening and supporting the agriculture sector, all to the end of boosting the export of Macedonian agricultural products, conquering new markets and achieving greater efficiency in using the agricultural subsidies.
- In the field of environment, the new Green Development Programme will provide for coping with the climate and the environmental challenges, all to the end of reducing the issues of harmful gases, better quality of water, air and soil, as well as using new renewable energy sources.
- 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 was also paid to gender responsive budget policies, inter alia, through financial support for women entrepreneurship.
- Transfers to LGUs are projected in the amount of Denar 22.3 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% during the previous year. On this basis, funds amounting to Denar 2.7 billion have been projected, i.e. by Denar 500 million more or by 21% higher compared to 2021. Funds are also allocated for operating costs and payment of wages to employees in the institutions with competences transferred to LGUs, 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.

Capital expenditures are projected in the amount of approximately Denar 38.2 billion or by around 28.3% higher compared to 2021 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 2022, budget funds are projected in the amount of around Denar 6 billion 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- Kjafrican, construction of Gostivar-Bukojcani and Bukojcani-Kicevo sections, as well as Corridor Xd, Prilep-Bitola section. In addition, as regards road infrastructure, via the Public Enterprise for State Roads, Feasibility Study for construction of Tetovo - Prizren road, will be prepared.

The 2022 projected deficit in the amount of Denar 33.5 billion, as well as the debt repayment amounting to Denar 11.6 billion (Denar 6.1 billion out of which as external debt and Denar 5.5 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 6.1 billion includes the regular servicing of liabilities towards foreign creditors, as follows: IBRD in the amount of Denar 1.5 billion, Deutsche Bank in the amount of Denar 1.1 billion, IDA in the amount of Denar 1.0 billion, EBRD in the amount of Denar 1.0 billion, EIB

in the amount of Denar 0.7 billion, CEB in the amount of Denar 0.4 billion, Japanese Bank for International Cooperation in the amount of Denar 0.2 billion and the remaining Denar 0.2 billion towards other bilateral creditors (IFAD, KfW, etc.).

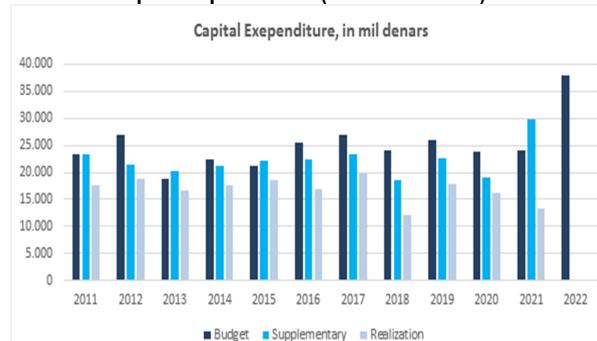
Principal repayment on the basis of domestic debt in the total amount of Denar 5.5 billion pertains to repayments of 2-year and 3-year government bonds in the amount of Denar 5.1 billion and repayment of denationalisation bonds in the amount of Denar 0.4 billion. Remaining long-term bonds with maturities of 5, 7, 10, 15 and 30 years do not fall due in 2022.

Domestic borrowing is projected in the amount of Denar 26.6 billion, which will be provided by borrowing with GS and/or domestic loan. Borrowing on the domestic market will provide for financing under favourable conditions, using the favourable interest rates, which will contribute to reducing the interest-related costs. At the same time, for the purpose of optimising the government securities' portfolio, all to the end of reducing the refinancing risks, the Ministry of Finance will be also committed to lengthening maturity of the government securities' portfolio.

Foreign borrowing may be realised through re-opening of the existing Eurobonds on the international capital market and via disbursement of funds under favourable loans from foreign financial institutions and credit lines intended for financing certain projects. Thereby, the choice of a financing source will be based on the favourable ongoing developments on the international capital market. For the purpose of prudent public finance management, the Ministry of Finance will consider the possibility for active debt portfolio management through liability management activities.

On 30 September 2021, general government debt of the Republic of North Macedonia amounted to EUR 5,987.1 million, i.e. 51.1% of GDP, while public debt, on 30th September 2021, amounted to EUR 6,950.7 million, i.e. 59.3% of GDP. In line with the 2022-2024 Public Debt Management Strategy of the Republic of North Macedonia (with prospects until 2026), general government debt, at the end of 2021, will record a slight increase, which will account for 54.5%, while public debt is expected to be below 63.9%.

Chart 4.2. Capital Expenditures (in Denar Million)



Source: Ministry of Finance

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:

- 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 inflation-indexed bonds, thus stimulating 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, to be inflation linked, will bear a certain coupon and will be initially intended for 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 Denarisation Strategy, with the investors being given a new possibility to manage their portfolio and risk protection.
- "Green Bonds", which 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 facilitate the development of the financial market in the medium term.
- "Project Bonds" will be an alternative way of financing infrastructure-related projects. Project bonds will offer an opportunity for institutional investors to participate in infrastructure projects through listed, tradable securities that can offer superior risk-adjusted returns.
- "Inflation-Indexed Bonds", aimed at mobilising capital, in the form of citizens' cash savings. They will provide for attaining triple effects, i.e. lower amount of the cash as one of the measures aimed at reducing informal economy, thereby 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, with an emphasis on restrictiveness and control over less productive costs, on one hand, and 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. Fiscal Strategy 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 the gradual fiscal consolidation, by reducing the budget deficit as percentage share of GDP, as follows: 4.3% in 2022, 3.5% in 2023, 2.9% in 2024, 2.5% in 2025 and 2.2% in 2026.

Main priorities as regards the tax system are increased 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 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 a regular basis.

The 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 and similar.

Fiscal decentralisation reform offers a systemic solution for stable finances of the municipalities, implying accountable municipalities and delivery of quality and efficient services to the citizens. 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 the 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.

2022-2026 Fiscal Policy reflects the commitment to further strengthening of public finance 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 the processes.

Medium-term priorities will be geared towards coping with the consequences from the health and energy crisis, by 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. This means that such support will be realised 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.

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

Table 4.4. 2022-2026 Budget of the Republic of North Macedonia (Denar million)

	Final account 2020	2021*	2022*	2023*	2024*	2025*	2026*
Total revenues	189,554	222,542	238,900	255,756	280,655	304,977	330,975
Tax revenues and contributions	173,464	193,068	210,829	227,668	252,547	276,169	301,757
Tax revenues	106,900	123,873	136,458	148,126	167,448	185,124	204,350
Contributions	66,564	69,195	74,371	79,542	85,099	91,045	97,407
Non-tax revenues	11,173	17,586	19,171	19,089	19,609	20,009	20,419
Capital revenues	1,846	3,187	3,330	3,330	3,730	4,030	4,030
Donations	3,071	8,701	5,570	5,669	4,769	4,769	4,769
Total expenditures	243,421	268,772	272,428	284,208	306,460	329,247	353,853
Current Expenditures	227,306	238,968	234,192	243,558	258,103	274,689	292,502
Wages and Allowances	29,775	31,594	32,679	33,540	34,040	36,040	39,040
Goods and Services	15,423	21,965	20,656	21,517	23,317	25,817	28,817
Transfers to LGUs	21,373	21,329	22,321	23,423	25,071	27,140	30,151
Subsidies and transfers	34,905	32,075	23,967	25,319	31,319	34,675	38,175
Social Transfers	117,799	122,627	124,497	129,385	134,247	139,809	145,577
Interest payments	8,031	9,378	10,071	10,374	10,109	11,208	10,742
Domestic	2,742	2,949	3,603	3,904	4,151	4,471	4,782
Foreign	5,289	6,429	6,468	6,470	5,958	6,737	5,960
Capital expenditures	16,115	29,804	38,236	40,650	48,357	54,558	61,351
BUDGET BALANCE	-53,867	-46,230	-33,529	-28,452	-25,805	-24,270	-22,878
Primary budget balance	-45,836	-36,852	-23,458	-18,078	-15,696	-13,062	-12,136
Total revenue,% of GDP **	28.5	31.5	31.0	31.1	31.4	31.6	31.8
Total expenditures,% of GDP **	36.7	38.0	35.2	34.6	34.3	34.1	34.0
Budget balance,% of GDP **	-8.1	-6.5	-4.3	-3.5	-2.9	-2.5	-2.2
Primary budget balance,% of GDP	-6.9	-5.2	-3.0	-2.2	-1.8	-1.4	-1.2

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

Thus, budget deficit is envisaged to be gradually reduced from 4.3% of GDP in 2022 to 2.2% of GDP in 2026.

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

In line with the 2021-2025 Tax System Reform Strategy, tax system optimisation is envisaged to provide 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.

In the coming medium-term period, when analysed on the revenue side, tax system optimisation and reduced informal economy are the key policies.

Tax system optimisation aims to ensure 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. Therefore, numerous measures have been envisaged, aimed at optimising the tax base, reducing the tax evasion, reducing the tax arrears, enhancing the capacities of the institutions such as improvements in the field of excise policy and taxation of motor vehicles.

In order to reduce the informal economy, measures have been envisaged, aimed at better detection of the grey economy, efficient inspection services, raising the awareness about the informal economy and the tax morale, as well as addressing and reducing the informal economy in the e - commerce. Main objective of the measures related to reducing the informal economy is establishment of a fair and loyal competition among all participants in the society, implying increased budget revenues, boosted competitiveness and economic development.

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 a regular basis. Main priorities of the Strategy are the following:

- 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 digitised services, better management of the import-export licenses' issuance, elimination of unnecessary non-tariff barriers and improved internal and tax controls.
- introducing environmental (green) taxation, in order to stimulate taxpayers to contribute, through duties and fees, to pollution reduction, i.e. discourage them from polluting the environment. Effects of this priority are also expected to reflect on the budget revenues, as well as the environment.

Slight easing of tax policy, at the same adjusting certain tax rates, which is expected to cause multiple effect, i.e. - it is envisaged to provide greater tax coverage, improved collection, fair and streamlined administrative procedures, as well as support to the private sector, which would result in reducing the tax evasion, as well as increasing the tax base.

As regards tax reforms, it is worth mentioning the reform for VAT refund for individuals, which started to apply as of July 2019, expecting to cover an increasing number of individuals in future. In fact, individuals, by collecting their fiscal receipts and reporting them to the tax authority, are entitled to refund part of the VAT, i.e. 15% of the tax shown on the fiscal receipts, i.e. in the course of 2020, change was made at "MyVAT", i.e. 20% instead of 15% refund on Macedonian products and services. This measure ensures additional income to each household, strengthens the purchasing power and has positive effects on increased consumption and VAT collection, as well as reduction of tax evasion and grey economy. This measure was extended in 2021, whereby the possibility for increasing the highest amount as regards the individuals' right to VAT refund, is being analysed.

In the course of 2021, Ministry of Finance staff prepared draft legal amendments to the Law on Value Added Tax from the aspect of its harmonisation with the EU VAT Directive, which amendments pertain to introducing the term tax representative, regulation of the place of the rendered supply of services, increase of the VAT registration threshold from Denar 2 million to Denar 3 million, precise regulation of the e-invoice concept, regulation of the self-billing treatment, as well as other modifications and amendments, which are expected to enter into force at the beginning of 2022. At the same time, as regards the Value Added Tax, and for the purpose of reducing the informal economy in the hospitality industry, as well as

reducing the prices of restaurant services, new 10% preferential VAT rate was introduced as of 1st January 2021, contributing to reduction of the informal economy in this sector, as well as increased VAT collection therein.

Excise Law simplifies and improves the manner of reporting excise duty for small producers of alcohol, and strengthens the capacity to administer excise duties on excise goods by introducing the excise movement and control system.

Taxation of motor vehicles is carried out on the basis of the new Motor Vehicles Tax Law which, in addition to the basic tax parameter, also envisages introduction of an environment pollution indicator, which contributes to improvement of environment quality, which is to increase by 25% in average annually in the next 4 years.

Modifications and amendments to the Personal Income Tax Law, being applied as of 1st January 2020, stipulate freezing of the progressive personal income tax rates, as well as refund of the 10% flat tax rate for all types of income, except for the income generated from games of chance.

In December 2020, amendments to the Personal Income Tax Law were adopted, thus extending the measure for PIT advance payment exemption for taxpayers generating income from performing independent activity, having suffered damages throughout their operations due to the COVID-19-induced crisis in the months of November and December 2020, as well as the months of January and February 2021. Measures for supporting the bonds in coping with COVID-19 crisis, were also adopted, under which PIT exemption was stipulated, pertaining to certain costs such as: paid premium on voluntary health insurance for employed people; paid laboratory COVID-19 tests for the employees up to certain amount and the costs related to training and additional qualifications.

In April 2021, all to the end of providing further support of taxpayers in managing the consequences from COVID-19, the measure for PIT advance payment exemption was extended from the months of March, April and May 2021. In addition, modifications and amendments to this Law were also made for people generating income from performing craftsmanship activity, being taxed according to lump-sum net income, being lower by 50% in 2021.

In the period to come, analysis of the existing provisions of the Law will be carried out, followed by finding an appropriate income taxation model for the citizens.

As for the tax procedures in 2021, it is planned to adopt new Law on Tax Procedure, as well as modifications and amendments to the Law on PRO, for the purpose of streamlining the tax processes and their digitalisation.

As regards direct taxes, certain changes have been made, aimed at equitable calculation of the tax base at profit tax, thus complying with the international tax practice.

In fact, in 2021, amendments to Profit Tax Law were adopted, for the purpose of simplifying the manner of covering the losses for tax purposes, thus abolishing the condition for previous coverage of the loss pursuant to the Company Law. Respective legal amendments also stipulate increase in the amount of the vacation allowance treated as recognised expenditure for tax purposes.

For the purpose of easier management of the consequences of COVID-19, legal amendments were adopted as measures supporting taxpayers, aimed at increasing the amount for paid laboratory COVID-19 tests, thus being treated as recognised expenditure for tax purposes.

In the upcoming period, analysis will be made to the existing provisions of the Law, all to the end of improving the tax regulations and simplifying its implementation.

In the course of 2021, Republic of North Macedonia, joined the consensus for Pillar 1 and Pillar 2 under the Inclusive Framework on Base Erosion and Profit Shifting (BEPS). Under Pillar 1, right to taxation will be also exercised by countries, where multinational corporations generate profit, regardless of their physical presence therein. Pillar 2 introduces a global minimum corporate tax rate set at 15%, which will apply for multinational corporations for generated income exceeding EUR 750 million.

In 2021, tariff rates have been, for the first time, to such extent, harmonised with the EU ones - by more than 300 tariff numbers (goods) being generally used as intermediate goods in manufacturing, which would, to a great extent, boost the increase of production, export and employment. Analyses have shown that companies using the mentioned products in their production process would increase export and employment by more than 36%.

Additionally, as of the middle of 2021, the application of the new automated VAT refund system was launched with respect to taxpayers registered therefor, thus significantly reducing the average deadline for tax refund and automating the overall process, all to the end of increasing liquidity in the economy.

In line with the strategic goals of the Ministry of Finance, analysis and assessment of all tax expenditures has commenced, arising from the existing tax laws, as well as related laws, granting certain tax exemptions, all to the end of timely recording and assessment of the potential tax revenues. Obligation for assessing the tax expenditures on annual basis would, at the same time, arise from the new Budget Law, pending parliamentary procedure, thus complying with the Directive on Requirements for Budgetary Frameworks of the Member States (2011/85/EU), being obliged to prepare reports on the tax expenditures and their impact on the revenues.

The process of strengthening the capacities of the Public Revenue Office and the Customs Administration to implement the aforementioned legal provisions is carried out in parallel with the process of the respective legal amendments.

Tax revenues account for 59.4% of the projected revenues, followed by revenues on the basis of social contributions accounting for 30.4%, non-tax revenues and capital revenues accounting for 9.4%, 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 excises.

Non-tax revenues in the next medium-term period account for around 7% 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.

In the period 2022-2026, the average share of total expenditures of the Budget of the Republic of North Macedonia accounts for around 31.4% of GDP.

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 and NATO integration processes. Average share of total expenditures of the Budget of the Republic of North Macedonia accounts for around 34.4% of GDP in the period 2022-2026.

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 economic growth.

Thus, 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 refinancing.

Main objectives of the policy aimed at reducing the current expenditures, are:

- increasing the efficiency of the public administration operations by optimising and rationalising the working posts,
- 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; and
- reducing poverty by properly targeting the use of social assistance and grater participation on the labour market.

As for policy aimed at improving the capital expenditure structure and execution, the main objective is 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.

Expenditure projections in the for the next medium-term period are 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.

The following assumptions are 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-sized 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, 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 is 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 are projected for construction of Skopje-Blace and Kicevo-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 section, Kriva Palanka - Bulgarian border, financing of Kicevo-Ohrid and Stip-Radovis sections, as well as the National Roads Programme, the Western Balkans Trade and Transport Facilitation Project, as well as Skopje Rapid Bus Transit Project on the territory of the City of Skopje.

With respect to railway infrastructure, it is planned to finance the three phases of construction and rehabilitation of the eastern part of the Railway Corridor VIII section to Bulgaria, therefore, EUR 130 million as EU grant funds has been provided for the second and the third phase. At the same, the Construction of the Railway Section Kicevo - Border with Albania Project is envisaged to commence. Construction of "Tabanovce" joint border station with accompanying facilities between the Republic of North Macedonia and the Republic of Serbia will commence as well, to be financed with a grant under the Western Balkans Investment Framework and an EBRD loan.

EIB and EBRD loans, as well as EIB grant, will be used for financing one of the major capital projects in the country in 2022, that being the Wastewater Treatment Plant Skopje.

Regarding gasification, construction of national gas pipeline, in particular Skopje-Tetovo section, Gostivar-Kicevo 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 implemented during this period in the field of utilities infrastructure is the first and the second phase of the Water Supply and Wastewater Collection Project.

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

With respect to the environment, a major capital project is the construction of a wastewater treatment plant in Skopje, as well as the solid waste stations in the Southwest, Vardar, Pelagonija, Southeast and Skopje regions.

As for the health sector, capital projects include the construction of the University Clinical Centre in Skopje and reconstruction and extension of the Regional Clinical Hospital in Stip.

Taking into account the need to support the healthcare system for the purpose of managing and mitigating the impact of COVID-19, a World Bank loan is provided for financing the Emergency COVID-19 Response Project in North Macedonia.

With respect to education sector, financing the reconstruction of student dormitories in the Republic of North Macedonia is envisaged, while implementation of the "Project for Construction of Physical Education Facilities in Primary Schools and Rehabilitation of Primary and Secondary Schools" will continue, being financed under CEB loan 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 the primary education in the country, implementation of the 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 2022. Implementation of the "Social Insurance Administration Project", funded with a World Bank loan, will also continue.

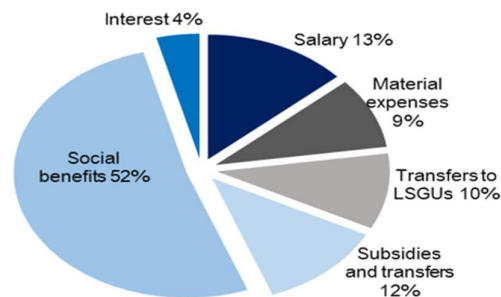
As for the judiciary, the Prisons Reconstruction Project, financed with a Council of Europe Development Bank loan, will continue to be implemented.

Two major capital projects are 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 to generate revenues, i.e.

make savings, or are of high priority for the municipalities. North 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.

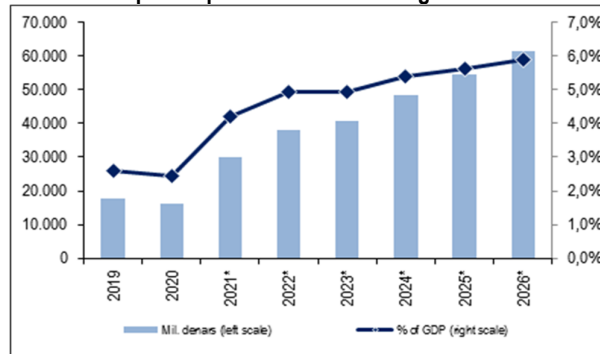
As regards energy infrastructure, projects envisaged to be financed are those implemented by AD ESM and AD MEPSO, such as: Wind Park Bogdanci - phase 2, District Heating System for Bitola, 400kV Interconnection Transmission Line Macedonia (Bitola) - Albania (Elbasan), Photovoltaic Power Plant Oslomej, Wind Park Miravci, Lindane Cleaning Project

Chart 4.4. Average structure of current expenditures for 2022-2026 (in %)



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

Chart 4.3. Capital expenditures in the Budget of RNM



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

(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 the fiscal framework, strengthening the process of Budget planning and execution, improvement of the revenue collection, strengthening the public procurement system, internal and external control and transparent reporting, a Project for Introduction of an Integrated Financial Management Information System and Tax Integrated IT System is envisaged to be implemented.

To the end of supporting the private sector, Project for Financing Small- and Medium-Sized Enterprises and Mid-Cap Companies – 6th phase will continue to be implemented.

Moreover, reforms are 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 are planned, as follows:

- budget users to project the capital expenditures in a more realistic manner,
- continuing the application of the CAPEF mechanism as stipulated in the Budget Execution Law
- prioritising the capital investments and strengthened role of the Government in selecting and oversight and monitoring the implementation through the established Delivery Unit
- strengthening the role of the Ministry of Finance in the process of public investment management by establishing a special organisational unit to appraise and monitor public infrastructure projects,
- 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,
- 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, a legally prescribed obligation has been 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, the 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, the 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, in view 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 approved budget.

Measures aimed at improved execution of capital expenditures envisage 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. It will contain data on the project as a whole, from its preparation until its completion;

- adopting standard methodology for defining, preparing, reviewing, appraising and prioritising new infrastructure projects, in line with Article 20 of the new Budget Law (to be adopted by the Government upon proposal by MoF), specifying that the budget users have to submit, as part of the Budget preparation process, pre-feasibility or feasibility study to MoF supporting all new major investment proposals, as well as that MoF will prepare an opinion to the Government (cross-sectoral working group/committee) on the basis of the results from the studies, prior to considering a certain project for financing from the Budget or any other source;
- 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; gradually supplementing the information on public enterprises/joint stock companies' financial performance in the MTFS with data on capital spending plans and their realisation by 32 public enterprises/joint stock companies, including the awarding a mandate to MoF to request and compile information on public enterprises/joint stock companies and PPPs;
- presenting information on individual projects in the budget documentation, distinguishing between new and ongoing projects, and identifying cumulative expenditures, remaining balance to project completion, as well as projections for the necessary finances to support new projects per years; 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 a standard criteria for project selection;
- preparing an inventory of all existing appraised projects and creating project database;
- establishing standard criteria for project selection, for example having a positive NPV, and readiness for implementation;
- 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 infrastructure projects.

Table 4.5. Deficit and sources for its financing (Denar million)

	2020 Realization	2021*	2022*	2023*	2024*	2025*	2026*
Budget balance	-53,867	-46,230	-33,529	-28,452	-25,804	-24,271	-22,877
Deficit financing	53,867	46,230	33,529	28,452	25,804	24,271	22,877
Inflows	95,695	89,583	45,103	77,804	56,593	80,837	105,422
Domestic sources	37,307	25,449	27,130	31,668	40,501	31,404	45,811
Foreign sources	63,889	63,731	21,269	43,091	11,251	49,151	56,301
Deposits ("-" is a cumulative account)	-5,501	403	-3,296	3,045	4,841	282	3,310
Outflows	41,828	43,353	11,574	49,352	30,789	56,566	82,545
Repayment by domestic borrowing	15,261	6,119	5,529	13,103	18,821	9,674	24,526
Repayment by foreign borrowing	26,567	37,234	6,045	36,249	11,968	46,892	58,019
Memorandum:							
Net domestic borrowing	22,046	19,330	21,601	18,565	21,680	21,730	21,285
Net foreign borrowing	37,322	26,497	15,224	6,842	-717	2,259	-1,718

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

Projected deficit and its financing. Financing the projected deficit, as well as debt repayment, will be provided by foreign and domestic borrowing (Table 4.5). In March 2021, eighth Eurobond was issued, in the amount of EUR 700 million, with historic low coupon interest rate of 1.625% and 7-year maturity period, being traded on the London Stock Exchange. Eurobond has been intended for financing the budget needs for 2021, as well as for refinancing the third Eurobond issued in 2014, amounting to EUR 500 million. In addition, second tranche under the macro-financial support from the European

Union, was also disbursed, whereby, by the end of this year, IMF funds, amounting to EUR 160 million will be also provided. In addition to foreign sources, EUR 300 million is planned to be provided from domestic sources via auctions on the domestic market by the end of the year.

In the period 2022-2026, foreign borrowing may be realised through issuance of Eurobond on the international capital market and by disbursement of funds under favourable loans from foreign financial institutions 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, thus providing for additional financing under favourable terms and conditions, by using the low interest rates and the interest of the investors. In addition, new financing instruments will be offered such as: green bond, inflation-indexed bond, project bond and development bond. 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 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.

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 equal 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 2021, Ministry of Finance actively worked on 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 2022 and in the medium-term, and for the purpose of strengthening the fiscal decentralisation, many activities and measures are envisaged with respect to 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, 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 the course of September 2021, draft Law on Modifications and Amendments to the Law on Financing Local Government Units was submitted to the Parliament of the Republic of North Macedonia. Modifications and amendments envisaged under the draft Law on Financing Local Government Units are aimed at ensuring further democratisation of 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 are made aimed at strengthening the fiscal capacity and increasing the municipal revenues by gradually increasing the VAT grant rate and PIT rate.

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 problems with the arrears, as follows:

- using standby credit by the Ministry of Finance,
- issuing municipal bond for known purchaser – Ministry of Finance, and
- 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 are also 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, are 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 problems 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, procedures on declaring financial instability and analysis of the existing arrears of both the municipalities and the public enterprises.

For the purpose of increased transparency and accountability and strengthening the fiscal decentralisation, government oversight will be enhanced, in particular by the Department for 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 Equal Regional Development, as well 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 equal regional development and enhancement of all regions in the country in the next period as well. Implementation of the 2021-2031 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 local development throughout the country. Council for Equal 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.

Implementation of Public Sector Energy Efficiency Project has commenced 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 is being 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 energy class 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 design.

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 are 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 4.6. Medium-Term Projection on Local Government Budget

	2021*	2022*	2023*	2024*	2025*	2026*
Total revenues	46.970	46.939	48.055	49.918	52.227	55.478
Tax revenues	12.125	12.445	12.655	12.870	13.110	13.350
Non-tax revenues	2.580	2.601	2.689	2.689	2.689	2.689
Capital revenues	3.296	2.900	2.900	2.900	2.900	2.900
Transfers	26.707	26.729	27.761	29.409	31.478	34.489
Donations	2.262	2.264	2.050	2.050	2.050	2.050
Total expenditures	46.609	46.939	48.055	49.918	52.227	55.478
Salaries and contributions	19.287	19.287	19.334	19.384	19.434	19.641
Goods and services	10.941	11.237	11.070	11.870	12.170	13.338
Interest payments	62	61	61	61	61	61
Subsidies and transfers	3.269	3.485	3.481	3.581	3.681	3.681
Social transfers	65	65	65	65	65	65
Capital expenditures	12.985	12.804	14.044	14.957	16.816	18.692
Balance	361	0	0	0	0	0

Source: Projections by the Ministry of Finance (*)

4.5. Structural balance (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 cyclical effects of economic activity on the fiscal indicators and estimate the underlying 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 the deviation of the actual/projected GDP from potential, whereby the adjustment is made on aggregate level for the central government budget.

In 2021, amid domestic economic recovery from the consequences of the pandemic on economic activity, GDP is envisaged to remain below potential, hence the cyclical budgetary component is negative, amounting to 1.5%. Thus, a cyclically adjusted budget deficit accounts for 4.9% of the potential GDP, pointing to a fiscal impulse of 1.2% (Chart 4.5).

In 2022, in conditions when the output gap, though significantly reduced, remains in the negative zone, automatic stabilisers have a negative effect on the budget balance, whereby the estimated cyclically adjusted budget deficit is lower than the projected budget deficit, at the same time narrowing to 3.5%. In 2023, by closing the gap between projected and potential GDP, the cyclically adjusted budget deficit equals the planned one. In the period 2024-2026, cyclical budgetary component shifts to the positive zone, with cyclically adjusted budget deficit amounting to 4% on average annually. In the period 2022-2026, cyclically adjusted primary budget deficit is estimated to be 2.6% on average annually (Table 4.7).

Table 4.7. Aggregate Fiscal Indicators (%)

	2021	2022	2023	2024	2025	2026
Total budget balance	-6.4	-4.3	-3.4	-2.9	-2.5	-2.2
Primary budget balance	-5.1	-3.0	-2.2	-1.8	-1.4	-1.2
Cyclical budget component	-1.5	-0.8	0.0	0.8	1.6	2.0
Cyclically adjusted total budget balance	-4.9	-3.5	-3.4	-3.7	-4.1	-4.2
Cyclically adjusted primary budget balance	-3.6	-2.2	-2.2	-2.6	-3.0	-3.2

Source: Calculations by the Ministry of Finance

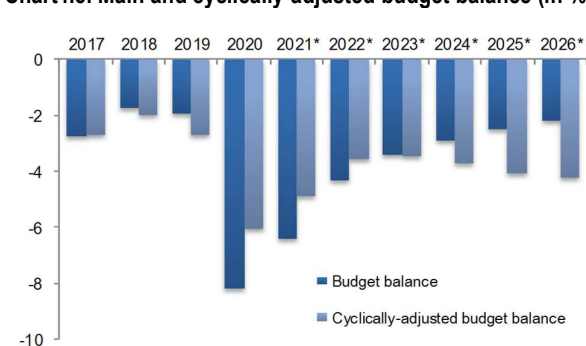
Note: Data on cyclically adjusted total/primary budget balance are expressed in relation to potential GDP

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

At the end of Q3 2021, general government debt of the Republic of North Macedonia¹⁸ amounted to EUR 5,987.1 million, i.e. 51.1% of the projected GDP. Total public debt¹⁹, 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 6,950.7 million, accounting for 59.3% of the projected GDP at the end of Q3 2021. 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 17May 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 2021, this debt amounted to EUR 40.1 million, i.e. it accounted for 0.34% of GDP. During the analysed period, domestic general government debt accounted for 38.76% in the total general government debt, while the external general government debt accounted for 61.24%. Share of external general government debt is at the same level compared to end-2021, taking into account the fact that the Republic of North Macedonia kept the same proportion in terms of borrowing in 2021 as well.

Exposure of the general government debt portfolio to market risks recorded further reduction, in line with the favourable changes in the interest and the currency structure. From the point of view of interest structure, fixed interest rate debt increased by 2.4 p.p. compared to the end of 2020. Share of fixed interest rate debt in the total

Chart4.5. Main and cyclically-adjusted budget balance (in %)



Source: Calculations by MoF; * - forecast

¹⁸General government debt comprises financial liabilities incurred on the basis of the Republic of North Macedonia and the municipalities, the municipalities within the

¹⁹Public 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

general government debt was significantly above the minimum share of 60% set under the Public Debt Management Strategy, accounting for 79.50% in Q3, compared to variable interest rate debt, accounting for 20.5%. As for the currency structure, the Denar-denominated debt accounted for 23.96% of the total debt, while debt denominated in the foreign currency accounted for 76.04%. Share of euro-denominated debt in the general government debt portfolio accounted for 91.8%, significantly above the minimum share of 85% determined under the revised Public Debt Management Strategy and, compared to end-2020, it slightly increased by 0.08 p.p.

Table 4.8. Public debt stock (EUR million)

	2012	2013	2014	2015	2016	2017	2019	2020	Q3 2021
External public debt	1,941.20	2,078.70	2,725.10	2,847.50	3,286.00	3,187.50	3,537.76	3,709.85	4,323.67
General government Debt	1,615.90	1,597.50	2,092.20	2,096.70	2,446.60	2,376.80	2,695.01	2,763.54	3,382.53
Guaranteed debt	325.3	481.2	633	750.8	839.4	810.7	842.74	929.94	919.98
Non-guaranteed debt								15.87	21.16
Domestic public debt	967.60	1,202.70	1,196.20	1,379.70	1,425.40	1,599.40	1,664.40	1,831.56	2,159.61
General government debt	938.60	1,174.10	1,170.30	1,356.60	1,404.90	1,581.70	1,580.75	1,793.29	2,133.43
Guaranteed debt	29.00	28.60	25.90	23.20	20.50	17.70	15.00	12.27	9.55
Non-guaranteed debt								26.00	16.63
Total public debt pursuant to the Public Debt Law	2,908.80	3,281.40	3,921.30	4,227.20	4,711.40	4,786.90	5,202.16	5,540.91	6,483.27
Total public debt as % of GDP	38.30	40.30	45.80	46.60	48.80	47.70	48.42	49.20	61.00
Total general government debt	2,554.50	2,771.60	3,262.50	3,453.30	3,851.50	3,958.50	4,344.42	4,556.83	5,515.96
General government debt as % of GDP	33.70	34.00	38.10	38.10	39.90	39.40	40.44	40.46	51.90
Total guaranteed debt	354.30	509.80	658.90	774.00	859.90	828.40	857.74	942.21	929.53
Guaranteed debt as % of GDP	4.70	6.30	7.70	8.50	8.90	8.30	8.40	8.37	8.74
Total non-guaranteed debt								41.87	37.79
Non-guaranteed debt as % of GDP								0.37	0.36

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

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 2022-24 Public Debt Management Strategy (with 2026 prospects) was adopted on 7th December 2021.

Investments launched in the past period, as well as new investments, in the field of road and rail infrastructure, water supply and sewerage, investments in 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 Programme of the Government of the Republic of North Macedonia, are expected to continue in the 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 2022-2024, total of around EUR 1490 million is to be repaid on the basis of prior borrowings, also including the Eurobond in the amount of EUR

450 million, issued in 2016, to be repaid in July 2023, as well as other repayments of debts on the domestic and foreign market.

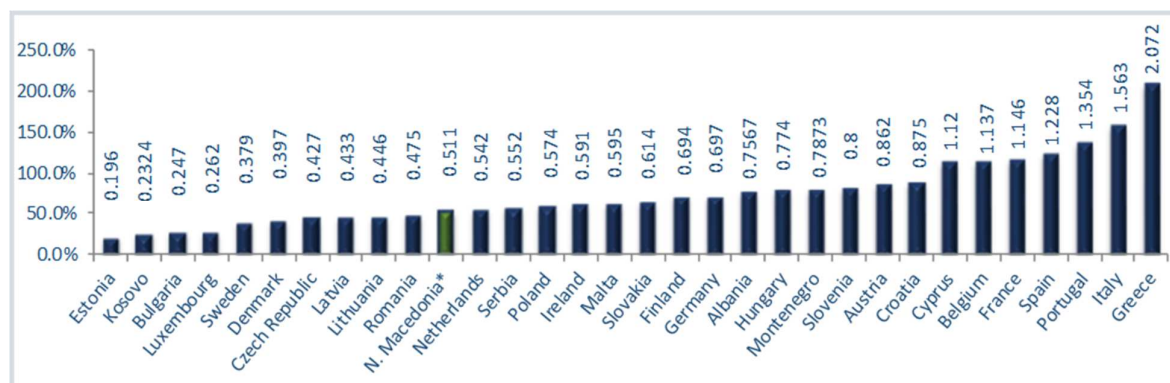


Chart 4.6. General government debt of EU member states and countries in the region in Q2 2021 (% of GDP)

*Data on North Macedonia pertain to the third quarter in 2021

Source: Ministry of Finance, Eurostat, October 2021

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, most of the European Union countries, as well as the countries in the region, have been forced to widen their budget deficits all to the end of ensuring funds for managing the pandemic. In most of the economies, this has resulted in an increased level of public debt by around 10%. During 2021, Republic of North Macedonia recorded a reduction of the public debt to GDP ratio compared to 2020, getting close to the maximum limit determined in the 2022-2024 Public Debt Management Strategy (with prospects until 2026). Still, medium-term projections presented in this Strategy, show that public debt will exceed the maximum threshold of 60% in the period 2022-2024, however, as a result of the fiscal consolidation measures, it is expected to stabilise in 2024 and to return to the stipulated limit below 60% of GDP in 2025 and 2026.

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.

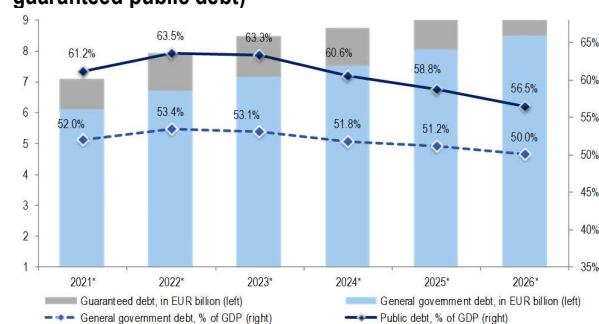
In order to protect the central government debt portfolio against the re-financing risk, the minimum threshold of "average time to maturity" indicator in 2022 should be 4 years.

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

In order to protect the central government debt portfolio against the interest rate risk, the minimum threshold of "average time to re-fixing" indicator in 2022 should be 3 years.

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

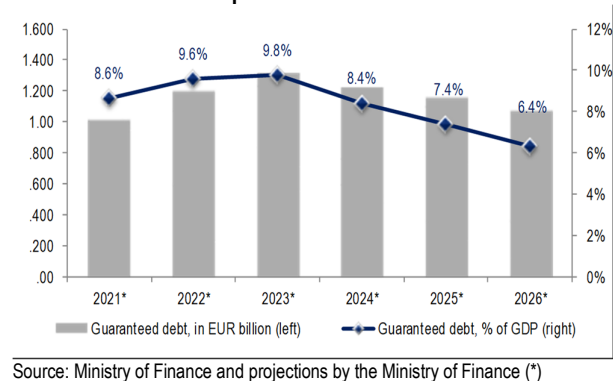
Chart 4.7. Forecast of total public debt (government and guaranteed public debt)



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

Guaranteed debt. On the basis of the analyses made on trends of projected guaranteed public debt in the period 2022-2026, it is expected to experience a moderate increase by 2023, as a result of the disbursement of loan proceeds under the projects, mainly in the field of road infrastructure, implemented with loans for which sovereign guarantee is issued. Under the 2022-2024 revised Public Debt Management Strategy (with prospects until 2026), the limit for maximum net borrowing on the basis of guaranteed debt is set to amount to up to EUR 250 million in 2022 and not to exceed 15% of GDP. In addition, guaranteed debt is expected to stabilise and reduce to 6.4% of GDP in 2026. Therefore, the projected level of guaranteed public debt throughout the whole period is below the set maximum limit.

Chart 4.8. Guaranteed public debt forecast

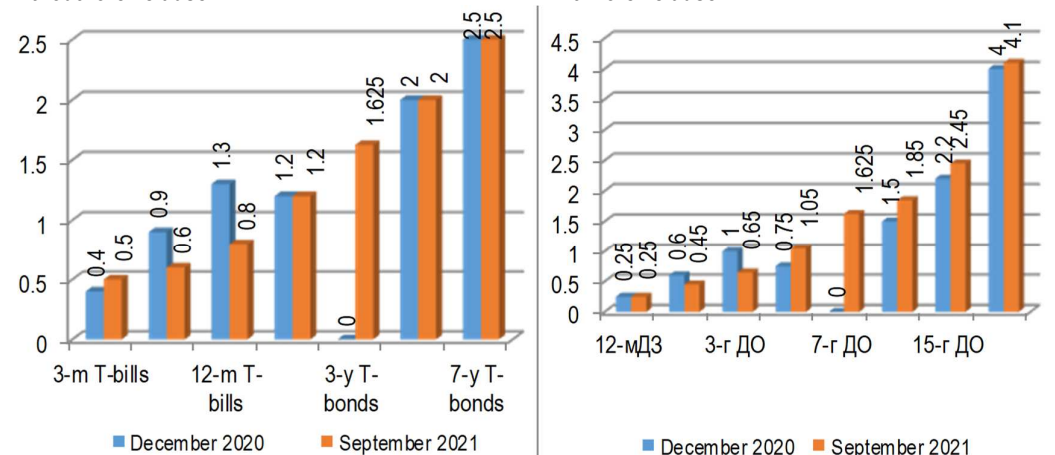


Pursuant to the latest modifications and amendments to the Public Debt Law, legal obligation is introduced for the Ministry of Finance to assess the creditworthiness of public debt issuers requesting issuance of sovereign guarantee, on the basis of their financial analysis and their outlook during the 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 2021 inclusive, issued sovereign guarantees amounted to EUR 923.5 million, accounting for 7.8% of GDP (included in the public debt, which accounted for 59.3% 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 2021, the Ministry of Finance issued 12-month treasury bills, as well as 2-, 3-, 5-, 7- and 15-year treasury bonds.

During this period, a total of 36 auctions of GS were held, i.e. 16 auctions of treasury bills and 20 auctions of treasury bonds. Total amount offered for sale at the auctions was Denar 40,319.76 million, demand amounted to Denar 39,481.76 million and the amount realised accounted for Denar 39,481.76 million.

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



Source: Ministry of Finance

In the course of 2021, 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 33,943.59 million as opposed to Denar 5,538.17 million issued through government securities with forex clause. Chart 4.7 shows interest rates

on government securities applied in the period January 2021 - September 2021, which increased in April 2021 at 12-month treasury bills, as a result of the newly occurred COVID-19 induced crisis. As of September 2021 inclusive, stock of outstanding GS amounted to Denar 140,056.27 million, Denar 29,267.73 million out of which as treasury bills and Denar 110,788.54 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 2021 amounted to Denar 930.20 million, increasing by Denar 678.84 million compared to the same period last year.

In the period January - September 2021, 7 transactions pertaining to treasury bills, and 16 transactions pertaining to treasury bonds, were realised on the OTC market. Total nominal trading amounted to Denar 5,061.98 million. Compared to the trading by September 2020, amounting to Denar 3,893.52 million, it can be concluded that more transactions with government securities were realised as of 30th September 2021 inclusive, while total nominal amount of trading was higher by Denar 1,168.46 million.

International capital market. In March 2021, the Ministry of Finance issued the eighth Eurobond of the Republic of North Macedonia on the international capital market, amounting to EUR 700 million, at a price of 98.432% and historic low interest rate of 1.625%, with 7-year maturity. Thus, by July 2021, 5 Eurobonds were traded on the international capital market issued by the Republic of North Macedonia, when the Eurobond issued in 2014, fell due to be repaid, by which, 4 Eurobonds were traded by the end of 2021, falling due to be repaid in 2023, 2025, 2026 and 2028, the yield of which, as of 30th September 2021 inclusive, accounted for 0.528%, 1.244%, 1.567% and 2.052%, respectively.

Credit rating of the Republic of North Macedonia. In November 2021, "Fitch" Credit Rating Agency affirmed the Republic of North Macedonia's "BB+" rating with a negative outlook. Previously, in May 2021, "Fitch" Credit Rating Agency affirmed the Republic of North Macedonia's "BB+" rating, revising the outlook to negative from stable.

In February and August 2021, "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. Sensitivity 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 macroeconomic 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 the medium-term fiscal scenario is based on certain macroeconomic assumptions, they are considered to be the primary factor with a potential effect on the fiscal trends. Hence, as a first risk scenario, we assume materialisation of downside risks related to the external environment, according to the first alternative scenario explained in point 3.3. Under this scenario, projected average real GDP growth in the period 2022-2026 is 4% per annum, i.e. it is by 1.4 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 a budget deficit of 3.9% of GDP on average annually in the coming five-year period, i.e. the budget deficit is wider by 0.8 p.p. on average compared to the baseline projections. Table 4.8 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 at a level of around 70% in relation to the planned baseline scenario. Lower execution of capital expenditures would cause a slowdown of gross investment growth, and accordingly a lower real GDP growth rate in relation to the baseline scenario, on average by 0.8 p.p. per annum in the period 2022-2026. This scenario would adversely affect tax revenues as well, which would exceed the effect of the reduced expenditures. Therefore,

according to this scenario, the budget deficit would worsen by 0.4 p.p. on average annually compared to the baseline scenario in the forecasting period.

Table 4.9. Sensitivity analysis of budget deficit

	2022	2023	2024	2025	2026
Budget deficit (% of GDP)					
Baseline scenario	-4.3	-3.4	-2.9	-2.5	-2.2
Scenario 1. Lower economic growth	-4.9	-4.1	-3.7	-3.4	-3.2
Scenario 2. Lower execution of capital expenditures	-4.6	-3.8	-3.3	-3.0	-2.7
Scenario 3. Lower collection of tax revenues	-5.2	-4.3	-3.8	-3.5	-3.2

Source: Calculations by 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 forecast, lower tax revenues would lead to higher budget deficit, which would be 4% of GDP on average annually during the analysed period, reaching the level of around 3% of GDP in 2026.

Materialisation of any of the aforementioned 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. The uncertainty arising from the future trends of macroeconomic variables on the international capital market significantly affects the decision-making for efficient management of country's debt portfolio. In conditions of large oscillations of economic variables, there is a need to actively manage risks which the 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 assess the exposure of the debt portfolio to market risk, i.e. interest rate risk and exchange rate risk, 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 trends 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 possible currency movements 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 2020-2022, 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 4.10. 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	2022	2023	2024
Baseline scenario	100.0	100.0	100.0
Scenario 1: increase of respective interest rates by 1 p.p.	109.1	109.6	110.4
Scenario 2: appreciation of other currencies in the portfolio in relation to the euro by 10%	100.4	100.1	100.2

Source: Calculations by 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 2022 surge by 1 percentage point in relation to the baseline projection, it would cause interest-related costs to increase by 9.1%, i.e. by EUR 9.3 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 0.4% in 2022, i.e. by EUR 0.8 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 finances

Maintenance of the overall fiscal discipline on the medium run is one of the priorities in the projecting 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 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. 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

The new Budget Law, pending parliamentary procedure, provides the framework defining the public finance management system in the Republic of North Macedonia.

The Budget is one of the most important instruments of economic policy. Hence, the Budget Law, which defines the procedures for preparation and adoption of this document, is equally significant.

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. The Law also prescribes 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.

Under this legal solution, commitment to strategic planning continues, providing a medium-term public finance framework, i.e. medium-term budget planning and strengthening of the process by introducing fiscal policy statement to be submitted to the Parliament during the Government term of office, which will contain fiscal strategy guidelines, as well as realistic macroeconomic and fiscal projections (revenues and expenditures) in line with the most recent available statistical and other relevant data.

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 Law envisages new deadlines for the Budget preparation process, shifting its timeframe, all to the end of greater predictability, public inclusion and transparency.

Under the new Law, Registry of Public Entities, publicly available, is envisaged to be established for the first time. This Registry will keep records of all legal entities established, directly or indirectly, by the state or the municipalities, thus providing for comprehensiveness and transparency of all public entities regardless of whether they are at central or local level.

At the same time, reporting quality and quantity are envisaged to be improved.

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 Budget Law, further improvements of the public financial management system, as well as developing a detailed plan for all working processes in the Ministry of Finance. Furthermore, in the coming period, the new 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 fully 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. The Action Plan envisages activities, which are to be implemented by the competent national institutions in the forthcoming period to the end of improving the public investment management. 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, introducing central oversight of public investment portfolio at national level, including the monitoring and the management of the overall delivery risk. Expert IMF and World Bank assistance and EU financial support will be provided for the implementation of the activities aimed at strengthening the public investment management.

4.10. Sustainability of public finances

Calculations related to 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 a higher intensity by 2030, projected at 7.5% the same year, and with lower intensity in the remaining period, 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.

Based on employment and wage growth projections, an average annual growth of 6.2% of revenues from pension insurance contributions is envisaged in the analysed period, while their average share in GDP amounts to 6.8%. As for pension-related expenditures, it is worth mentioning that only those of the state pension fund are taken into account. Taking this into consideration, and based on 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 expected to gradually reduce, projected at 6% in 2060. Public expenditures for health protection as a percentage of GDP are projected to gradually increase, reaching approximately 8% in 2060, mainly as a result of the effects of population ageing. 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. government debt and projected effective interest rate.

5. Structural reforms in 2022-2024

Links between the structural reform measures from ERP 2022-2024 and Key structural challenges (Commission assessment of ERP 2021-2023), ERP Policy Guidance 2021, Enlargement Package 2021, 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.

Links between the structural reform measures from ERP 2022-2024 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.

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% 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. N. 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 2018-25, 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).

As a result of the effects of the COVID-19 pandemic, NorthMacedonia closed its schools and moved to remote learning with a range of online educational programmes. This move was met with some challenges such as including stressfulness and unpreparedness for teachers, and technical problems with the National Distance Learning Platform. Universities migrated towards a mixed environment with both physical attendance and online classes, which posed some difficulties in the credibility of the examination process and the fight against cheating. In order to advance towards achieving the national education goals, the authorities will have to increase the efforts related to educational quality and equity which were exacerbated by the COVID-19 pandemic (Apostolov, 2020; Hawke, 2020; Kajosevic and Marusic, 2020).

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).

One of country's main challenges with regards to the development of the labour market has been the school-to-work transition. NorthMacedonia's youth employment rate, similarly to many EU countries, is generally higher than the total unemployment rate, but the levels in NorthMacedonia 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.

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; and
- continue improvements to working conditions and devise measures and activities to combat the informal economy.

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.

The reform of primary education started with the adoption of the new Concept for primary education consequently new curricula were prepared for I-st and IV-th grade of primary education. Additionally, teachers were trained from I-st and IV-th grade from all primary schools (about 3,000).

According to the data from the Announcement for enrolment of students in secondary education, for the academic year 2021/2022, most of the enrolled students, i.e. 62% are enrolled in vocational education. In comparison to the academic year 2020/2021, it is evident that there is a decrease of enrolled students in general high school education and an increase of

students in the in VET, which indicates that the reformed 4-year vocational education with a new structure of 45% general education and 55% of vocational theory and practical training is attractive to students. It is worth to mention that all curricula are based on learning outcomes, and work-based learning is included in the curriculum. 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. The Ministry of Education and Science reviewed several VET funding scenarios and developed the Concept for development of RVET Centers which is covering formal, non-formal, adult education and validation of non-formal and informal learning. Adoption of the concept will provide guidance for the already established and the new RVET Centers as innovative, progressive and sustainable institutions. Strengthening the mentoring system for practical education in the companies is foreseen based on the Concept of work-based learning, the Protocol for preventive measures in the realisation of work based learning internships, practical training and exercises for the employer as well as the new Law for VET. Additionally for better connectivity with the labour market, the National Qualifications Framework Committee, undertakes activities to promote and implement an automated access tool for linking the qualification learning outcomes to ESCO (European Skills, Competences, Qualifications and Occupations) skills. ESCO, as a bridge between education and training and the labour market, allows skill terminology to be used to systematically identify and analyse which skills are related to a particular qualification. This tool will enable the alignment between Macedonian qualification framework register and European registers.

According to the Law on Higher Education, the National Council for Higher Education and Scientific Research, was constituted and started working on June, 2021. The activities are underway for adoption of the Rulebook on the methodology, standards and procedure for accreditation of higher education institutions and for accreditation of study programmes, as well as for a Rulebook on standards and procedure for external evaluation and self-evaluation. Also, the National Council for Higher Education and Scientific Research will prepare during it's mandate a new proposal/model for financing the higher education and scientific research activity, which should contribute to increasing the quality of higher education, as well as promoting investments in science.

In the area of non-formal and informal learning and adult education, a new Law on Adult Education has been developed, which will regulate the VNIU system for the first time. The law is in parliamentary procedure (July 2021). Also, a document on quality assurance Indicators in Adult Education is being prepared. Over 100 special adult education programmes are verified each year. However, much work remains to be done to implement the VNIU system at the national level, and the Regional VET Centres can be appropriate for introducing the VNIU concept.

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 planed 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+. Also, Twinning project "Further support for the implementation of the National Qualifications Framework"²⁰ will begin with a duration of 30 months, which aims to improve the implementation of the NQF as a good basis for achieving a coordinated and more efficient quality assurance system of the process for developing validation and accreditation of qualifications. Additionally, procedure is underway for providing equipment.²¹

a. Planned activities in 2022

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

²⁰ https://www.bmeia.gv.at/fileadmin/user_upload/Zentrale/Europa/EU-Twinning/April-Juni_20/Further_support_to_the_implementation_of_the_National_Qualifications_Framework.pdf

²¹ <https://cfcd.finance.gov.mk/tenders/publicTender/detailedTender/284?tab=latestPublications>

Establishment of the last 3 sectoral commissions: for graphic design, forestry and wood processing and for sports and recreation	National Qualifications Framework Board
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
Adoption of one-year and four-year work programme	National Council for Higher Education and Scientific Research

b. Planned activities for 2023

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
Implementation of one-year and four-year work programme	National Council for Higher Education and Scientific Research

c. Planned activities for 2024

Planned activities	Responsible institution
Establishment of a system for validation of non-formal education for acquiring specific qualifications/recognition of previous learning	Adult Education Centre; 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
Implementation of one-year and four-year work programme	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)
Ratio of students enrolling to VET schools compared to general education	58%-42%	60,3%-39,7%	62%-38%	64%-36%	64%-36%
System for VNIL	-	Piloting 1	Piloting 2	Established system for validation	Efficient system for validation
Number of established Regional VET Centres	Adoption of changes in the Law	Refurbishment and Transforming 3 VET schools	Fully functional 3 Regional VET centres	Purchase of equipment and development of programmes for 3 regional VET Centres	New 2 Regional VET centres established
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

Ration of early leavers from education and training at age 18 – 24 (%)	7.1	7.0	7.0	6.9	6.8
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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	2022	2023	2024
1. Budgetary expenditures*	3,983,869	4,048,502	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	5,507,121	5,571,754	5,732,004

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 NRCs (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 of the labour market

1. Description of the measure:

The proposed measure aims to contribute to improving the labour market and employment situation in the Republic of North Macedonia through specific interventions with a view to impact the following:

- Improving and further promoting the flexibility of the labour market, through legislative interventions in the area of labour legislation, which will enable further regulation of the legal framework regarding under-represented and atypical forms of work and employment contracts and
- Additional expansion of the coverage and access of the various vulnerable groups of citizens to the various active employment programmes and measures and to the services on the labour market (*in this part, this measure is directly correlated and complementary with the measure referring to "Enhancing the system for social inclusion of vulnerable groups", that is, "Labour Market Activation of Vulnerable Groups"*).

Several analyses, but also the results of the consultations with the social partners (workers' and employers' organisations, chambers of commerce, etc.) clearly show that in the Republic of North Macedonia there is a strong need for better and more efficient regulation of the legal framework related to non-standard forms of work, which are insufficiently present on the labour market in the country.

Thus, for example, in conditions of the significant and substantial changes we are witnessing regarding the way we work which includes up-to-date technologies and digital forms of communication, in the information and knowledge based societies, the need to introduce and implement new and atypical forms of work, such as telework, work from home and so on, is of greater importance for both employers and workers. In addition to the relatively low representation of these forms of work on the Macedonian labour market, the current health and economic crisis, caused by the COVID-19 pandemic, has further increased the need for introduction and appropriate regulation and implementation of remote work, 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 remote working and work from home and causes legal uncertainty for both employers and workers.

In order to overcome these situations, which are expected to contribute to the general improvement of the labour market situation, these issues have found their proper place in the draft text of the new Law on Labour Relations (LLR), which is being prepared in the past two years within a really intensive and wide consultative process, involving, in addition to the relevant state institutions and bodies, all other stakeholders, primarily the social partners, chambers of commerce, academic community, domestic experts in the field, as well as experts from relevant international organisations, representatives of the non-governmental sector, and so on.

The preparation of the new LLR is in the final phase and after its adoption, intensive work will be done to ensure practical application, promotion of novelties, monitoring of the application and effects, etc.

a. Activities planned for 2022

- 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, tribunes and so on;
- Adoption of a new Law on Labor Relations and preparation of bylaws in accordance with the new Law;
- Organisation of educational, trainings/seminars on application of the new legal provisions (for labour inspectors, social partners and so on);

b. Activities planned for 2023

- Monitoring and evaluation of the application and efficiency of the new legal provisions regarding the increase of the labour market flexibility.

2. Results indicators

Indicator*	Baseline (2020)	Intermediate target (2023)	Target (2025)
Employment rate (20-64) - TOTAL	59.1	59.0	61.0
Employment rate (20-64) - MEN	68.9	69.0	71.3
Employment rate (20-64) - WOMEN	49.0	49.6	50.0
Employment rate (15+)	47.2	48.4	49.5
Unemployment rate of young people (15-29)	26.7	27.0	24.0
Long-term unemployment rate	12.4	12.0	10.0

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

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, thus also increasing the competitiveness of the Macedonian economy. At the same time, the aspect of this measure regarding the increase of the labour market flexibility and the regulation of the legal framework for functioning of the atypical 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.

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

In EUR	2022	2023	2024
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	180,000	0	0
2.1. of which IPA funding, including WBIF funding	0	0	0
Total	180,000	0	0

*national public finance sources

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

The measure has direct impact on employment and on improving the opportunities for employment on the labour market in the Republic of North Macedonia. And of course, through that, on the improvement of the social status and the socio-economic situation and position of the persons who will be directly covered and affected by the implementation of the planned activities, both in the part of the flexible and atypical forms of work, and naturally in the part of the persons that will be covered by specific active programmes and measures for employment and measures for activation on the labour market. 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 beneficiaries of guaranteed minimum assistance from the social protection system. Employment, improving employability, their integration into the labour market and improving the economic status of these citizens, have a direct impact on the conditions related to poverty and social exclusion.

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", which are present in the annual Operational Plans for Active Employment Programmes and measures for employment and labour market services.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating actions
Lack of human and other capacities and resources in the Employment Service Agency, to efficiently implement active measures on the labour market	high (medium)	Realisation of new employments, trainings of employees, improving physical capacities and work processes in the Employment Service Agency of the Republic of North Macedonia
Lack of interest and/or existence of mistrust of businesses about using more flexible and atypical 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

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 refers to the implementation of the reform in the social protection system started in 2019 whose goal 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. On one hand, 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 the GMA beneficiaries and other vulnerable individuals (e.g. persons with disabilities) from welfare 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 reaching out to vulnerable groups and facilitating their transition to 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.

Social services are central to ensuring equity 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 governance and quality assurance of social services.

The measures complements measure 2: *Increasing the flexibility of the labour market*, which provides for increased funding for active employment measures, and that is essential to address the needs of GMA beneficiaries and other groups at risk of poverty and social exclusion, most of whom are long-term unemployed and low-skilled.

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

I. Inclusion of vulnerable groups through activation

a. Activities planned for 2022

- Monitoring and evaluation of activities for activation of minimum guaranteed assistance beneficiaries in the labour market;
- Elaborating provisions in the Law on Employment and Insurance Against Unemployment conducive to provision of services for supported employment by various service providers;
- Developing a Law on Social Enterprises and providing financial and technical support for social enterprises that focus on improving employment prospects for vulnerable population, including persons with disabilities.
- Elaborating new employment model for persons with disabilities with a view to greater inclusion of persons with disabilities in the open labour market.

b. Activities planned for 2023

- Enacting the provisions in the Law on Employment and Insurance Against Unemployment conducive to provision of services for supported employment by various service providers;
- Adopting the Law on Social Enterprises, which creates ground for social enterprise that focuses on improving employment prospects for vulnerable population;
- Adopting Law on Employment of Persons with Disabilities and bylaws, regulating employment, including professional rehabilitation of persons with disabilities.

II. Improving the availability of quality social services

a. Activities planned for 2022

- Providing financial and technical support for further development and diversification of social services in local communities across the country;
- Developing a new software which integrates cash benefits and social protection services;

b. Activities planned for 2023

- Putting into use the new software that integrates cash benefits and social protection services;
- Improving the system for monitoring, supervision and quality assurance of social services in compliance with national standards for quality of social services;

c. Activities planned for 2024

- Implementation of the comprehensive system for monitoring, supervision and quality assurance of social services (relying on the new software), which includes a quality control mechanism, complaints, licensing and tools for monitoring and quality assurance at the level of social service providers, at the level of centres for social work, at local and national level, for all types of social services provided in the Law on Social Protection.

2. Result indicators

Indicator	Baseline	Intermediate target (2024)	Target (2025)
At-risk-of-poverty rate	21.9% (2018)	21%	20.5%
% of people living in households with very low work intensity (0-59)	16.4% ²² (2018)	15.3%	15,1%

²²https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=sdg_01_40&plugin=1

% of social assistance/GMA beneficiaries in employment after termination of use of services and measures for labour market activation	-	25%	25%
% of severely materially deprived people	30.5% (2018)	-	28%
Number of licensed services provided (by type of service; home based, community based, extra-familial care)	50 (2021)	65	70

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

The funds for implementation of the activities are estimated to EUR 9.854.000 for 3 years covering the costs for establishment and running of the supported employment and social services.

In EUR	2022	2023	2024
1. Budgetary expenditures*	2,721,160	3,007,000	114,500
2. Non-budgetary financing	2,208,840	1,147,000	655,500
2.1 of which IPA funding, including WBIF funding	2,208,840	1,147,000	655,500
Total	4,930,000	4,154,000	770,000

*National public finance sources

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

Better targeting and increasing the effectiveness of cash transfers and their connection with the measures for activation of the labour market and social services contributes to exit the poverty circle, economic strengthening and social inclusion, i.e. achieving the target poverty rate of 20.5% in 2025. The measure will contribute to optimal utilisation of financial resources aimed at providing social services.

Furthermore, social services sector is labour intensive, so that its growth has a potential to create a great number of jobs that attract dominantly women. Moreover, social enterprises as an emerging field may play a significant contribution in local economy through job creation, improving quality of life and provision of valuable social services. An important aspect of service quality is the hiring of service providers with a regulated employment which is important to promote decent work in this sector and to ensure access to 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 people with disabilities is important for aligning 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.

5. Expected impact on the environment

Reducing poverty and social exclusion has an impact on the lifestyle of the population and creates conditions for improving the environment.

6. Potential risks

Risk	Probability (low or high)	Planned mitigating actions
Low interest by the municipalities for service development and lack of human potential	Low	Direct contacts with all municipalities, organising round tables, 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	High	Detailed process monitoring
Resistance in maintaining cooperation between Centres for Employment and Centres for Social Work regarding activation of the beneficiaries of GMA	Medium	Ensuring close monitoring, coordination and dialogue between the institutions and by creation of clear inter-institutional rules of cooperation
The crisis caused by COVID-19 negatively affects activation of beneficiaries of GMA in the labour market	High	Introducing incentives in the design of active labour market measures and programmes that encourage the employment of workers who fall into vulnerable categories

Measure 4: Strengthening the quality of the Primary Health Care

1. Description of the measure

This is a new measure that has been introduced in ERP 2021-2023.

Given that the population in the country is aging, which affects the organisation and costs of health, as well as the fact that health care is mainly focused on hospital treatment due to underdeveloped primary health care, it is necessary to overcome these shortcomings in the current health system through appropriate reforms, in order to optimally use the resources and increase the effectiveness of public health expenditures.

Although the focus of the health system has been on tackling the pandemic caused by the covid-19 virus, the Ministry of Health and the Health Insurance Fund remain committed to implementing primary health care (PHC) reform whose main goal is to improve the health of the population, by improving the quality and availability of primary health care and providing comprehensive primary care.²³

The focus of the measure is the reform of the primary health care²⁴, 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. The measure will encourage and ensure the improvement of prevention, defining and applying standards for the provision of services in accordance with evidence-based medicine, developing guidelines and protocols. It is expected to encourage and motivate a larger number of general practitioners to specialise in family medicine and change in the payment model from the Health Insurance Fund, encouraging the realisation of certain health services by nurses and facilitating administrative work.

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 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 platform is 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 gynecologist 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 Centers 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.

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.

On December 7, 2021 at the proposal of the Ministry of Health the Government adopted the Health Strategy of the Republic of North Macedonia 2021-2030 with an Action plan.

a. Planned activities 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

²³https://www.euro.who.int/__data/assets/pdf_file/0009/403020/MKD-PHC-report-160519.pdf

²⁴<https://documents1.worldbank.org/curated/en/595391593096242357/Assessment-of-Primary-Health-Care-Capacity.docx>

- For the selected primary care gynaecologists for prenatal care²⁵, cervical cancer and family planning²⁶
- 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.

b. Planned activities for 2023

1. Development of additional PHC protocols:
 - Two protocols for the selected general medicine doctors from the primary health care;
 - One protocol for the selected primary care gynaecologists;
 - One protocol for the selected primary care paediatricians.
2. 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.
3. Providing scholarship for specialisation in family medicine for at least 100 doctors who already work as selected doctors.
4. Equipping the selected family medicine doctors with spirometer and ultrasound devices - in average one spirometer and one on ultrasound device per three doctors, and establishing a process for their horizontal collaboration.
5. Equipping the selected primary care gynaecologists with 4D ultrasound devices (60 devices regionally distributed) and establishing a process for their horizontal collaboration.
6. Financial incentive (stimulation) for second nurse / administrator and incentives of the selected physicians who are specialists or specialising in family medicine.
7. Equipping the offices of the other 1200 selected primary care doctors with vital signs equipment (otoscope, rhino scope, ophthalmoscope, blood pressure monitor, stethoscope), ECG and inhaler.
8. Continuation of the public campaign and development of information and education materials related to the developed PHC protocols.
9. 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;
 - 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.
10. Conducting training for the use of the new modules on "My appointment".

c. Planned activities for 2024

1. Development of additional PHC protocols:
 - two protocols for the selected general medicine doctors from the PHC;
 - one protocol for the selected primary care gynaecologists;
 - one protocol for the selected primary care paediatricians.
2. 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.
3. Providing scholarships for specialisation in family medicine for at least 100 doctors who already work as selected primary care doctors.

²⁵The Guideline for pre-natal care is adopted in 2014; it's adaptation for use within this reform is to be completed.

²⁶The 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

4. Continuation of the public campaign and development of information and education materials related to the developed PHC protocols.
5. Financial incentive (stimulation) for second nurse / administrator and incentives for selected doctors who are specialists or for a specialisation in family medicine.
6. 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

	Baseline 2021	Intermediate target 2023	Target 2024
Referral to a higher level of health care	-	Reduction by 10% compared to 2019	Reduction by 20% compared to 2019
Percentage of patients with chronic non-communicable diseases (diabetes, hypertension, asthma/COPD 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 envisaged with the developed protocols	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	2022	2023	2024
1. Budget funding*	916,000	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	916,000	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
Delay of the functionalisation of the process for revision of the current Positive list of drugs by the	Medium	Temporary adaptations of the by-laws to the Health Insurance legislation

Minister of Health, as a pre-requisite for alignment of the Positive list with the protocols		
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2) *Fostering the green transition*

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, NorthMacedonia 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). A new Law on Waste is being prepared with the goal of addressing the circular economy and secondary raw materials, and it is expected to be fully harmonised with the EU acquis in this area. NorthMacedonia 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 and thus the circular economy but, according to the government, there are issues with communication, and efficient co-ordination mechanisms are largely lacking. 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 its revision of the National Waste Management Strategy (2016-20) in 2021. The legislative framework pertaining to the overall municipal solid waste management has gaps and contradictions compared to the EU directives, while the laws and regulation do not provide the required clear and concise regulatory framework, which leads to a poor and ineffective implementation. An integrated regional system for waste management is under consideration but faces delays due to lack of administrative and financial resources (EC, 2020). Another problem with regards to waste management is the fact that waste collection and treatment infrastructure is heavily dependent on donor funds, with waste collection and treatment services being funded from the waste collection fees.

NorthMacedonia's air quality has been a moot point for a long period of time. Air quality above NorthMacedonia 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 (2019-20) and programmes for Air Quality for 2019 and 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). Apart from the regional sewerage systems to protect the natural lakes, only 12 cities have constructed separate sewerage systems. 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 started in 2020 but was delayed due to the COVID-19 pandemic.

Measures whose implementation is inevitable to foster green transition include:

- 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

- improve the wastewater system by increasing the number of wastewater treatment plants and applying the water-user and polluter-pays principles for all water users and dischargers.

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) is 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:²⁷

Producers from RES (types of power plants)	2019 (in MW)	2020 (in MW)
hydro power plants (large + small)	698.08	705.85
wind power plant	36.8	36.8
biogas plants	6.9	6.9
photovoltaic power plants	23.99	29.72
Biomass plants	0.60	0.60
Total:	766.37	779.87

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 premia).

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. Investors will have 3 years to complete the construction of the PV plants after the Agreements for right to use the premium are signed.

The Rulebook on Renewable energy sources (“Official Gazette” no. 112/19)²⁸ 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 installed capacity of the power plant should not exceed 4kW for households and 20 kW for small consumer, budget user or individual 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.

In order to promote the important role of the prosumers, the Ministry of economy with technical assistance conducted an assessment of the main barriers (legal, administrative, regulatory, financial, technical, customer awareness, social acceptance, etc.) as an initial step for development of a detailed analysis that will be in accordance with the ECS’s guidelines on prosumers. This assessment will be According to the draft NECP, the objective of the country is to have up to 400 MW PV roof-top systems by 2040 – either prosumers or systems from which the overall produced electricity will be used for own purposes or will be stored.

²⁷https://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

²⁸[final Pravilnik_OIE_28.05.19 bez TC \(1\) \(1\)-converted.pdf \(economy.gov.mk\)](https://www.erc.org.mk/odluki/2021.04.28_RKE%20GI%202020-final.pdf)

In the Budget for 2021, the Ministry of Economy for the first time has proposed awarding subsidies to the households which will install photovoltaic power plants for self-consumption. With this measure, 16 households in 2021 were awarded with subsidies for total of 45kW installed capacity. This support measure will also be part of the annual programme for promotion of RES and improvement of EE in households for 2022.

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 final draft of the NECP has been prepared with technical assistance and in consultation with relevant stakeholders. A Strategic Environmental Assessment was also prepared and a public debate was held on these two documents. In the meantime, the Energy Community informed that the deadline for adoption of this plan for the contracting parties will be 2024 and will cover the period from 2025-2030. It is expected that by the end of the year, the Assembly will adopt the amendments to the Law on Energy, which provide a legal basis for the NPEC, and then start working on the final Energy and Climate Plan.

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.

Law on biofuels in transport. 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. A public debate was held and the Law will be submitted to the Government.

This Law shall enter into force on the eighth day from the day of its publication in the "Official Gazette of the Republic of North Macedonia", and its implementation shall start on 1 January 2023.²⁹

a. Activities planned in 2022

- Preparation of an Action plan for biofuels
- Preparation of bylaws from the Law on biofuels
- Detailed analysis to improve the legal framework for prosumers and comply with ECS guidelines

b. Activities planned in 2023

- Implementation of measures from the Action plan on biofuels
- Development of software tool administered by the Ministry of Economy, which will cover the following processes: submitting and processing the applications for financial support to domestic biofuel producers, administering the payments, reporting on implementation of the Action Plan and programmes on biofuels, registration and reporting by the biofuels traders and public transport and public sector entities on mandatory supply and consumption of biofuels.
- Training of Energy Department staff to operate and administer the software tool and to incorporate tasks related to biofuels

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%

²⁹ [Министерство за економија \(economy.gov.mk\)](http://mke.gov.mk)

Total installed capacity of RES	766.37 MW	1,087 MW	1,162 MW	1,493 MW
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3. Expected impact on competitiveness

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. With the allocation of financial resources to support the production of biofuels, it is expected new production facilities to be opened and to expand the existing ones. The increased domestic production of biofuels will indirectly contribute to a certain development of the sectors from which the raw materials for production are obtained, primarily agriculture by investing in cultivation of the unused or neglected agricultural areas. This is especially important for those countries that do not have their own sources of fossil fuels and it can contribute to sustainable economic growth and development of rural areas, as well as to creation of new vacancies.

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

In EUR	2022	2023	2024
1. Budgetary expenditures*	0	2,800,000	3,500,000
2. Non-budgetary financing	20,000	0	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	20,000	2,800,000	3,500,000

*national public finance sources

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

The introduction of biofuels can increase the cost to consumers. It is necessary to introduce certain subsidies for traders and producers in order to avoid rising of fuel prices and to encourage support and investment in medium and small businesses owned by women, led by women and/or dominated by women in the energy sector.

6. Environmental impact

By 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
Lack of administrative capacity that should respond to the obligations arising from the law	High	In order for the Ministry of Economy as responsible public body for creating, analysing and monitoring the implementation of the policy and legal framework on biofuels, to manage with the legal mandate and responsibilities, its capacities need to be strengthened. For that purpose, additional staff members are required in the Energy Department within the Ministry, energy specialists from the City of Skopje administration, as well as specialised inspectors within the State Market Inspectorate as responsible body for inspection supervision. These staff members need to be further trained on this subject matter in order to incorporate tasks related to biofuels. Furthermore, software tool should be introduced (developed and put into operation) and administered by the Ministry of Economy, which will cover the following processes: submitting and processing the applications for financial support to domestic biofuel producers, administering the payments, reporting on implementation of the Action Plan and programmes on biofuels, registration and reporting by the biofuels traders and public transport and public sector entities on mandatory supply and consumption of biofuels.
Unpreparedness and lack of interest of consumers to use biofuels	Medium	The fuel consumer in public transport and the public sector is obliged to ensure that the percentage share of biofuels in the total purchased amount of fuels for transport in the period 2023-2030 will gradually increase, starting from 5% in 2023 ending up to 40% in 2030. With this obligation, public sector entities will set an example and encourage other legal entities and individuals to use biofuels.

Delay in construction of rooftop PV plants for own consumption in households	Medium	The household electricity market is not yet developed, so almost all households are supplied by a universal supplier. In the Rulebook on RES there is exception for households that are supplied by the universal supplier, can't be "prosumers". Mitigation actions should include amendments to the Law on Energy, the Law on VAT and the Rulebook on RES to improve the legal framework for prosumers and to comply with ECS guidelines for prosumers, as well as Information campaigns.
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Measure 6: Improvement of Energy Efficiency

1. Description of the measure

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 the EEF next period will be focused on analysing the current legal framework in the country for development of the EEF and also defining strategic goals and mission of the EEF. It is needed to propose regulatory and legal changes to enable DBNM to manage the EEF and review the legislative framework to establish the EEF, define options for operation of the EEF adequate for North Macedonian conditions, develop the organisational set-up of the EEF, development of the legal documents of the EEF to ensure both its establishment and operations, and also staffing recruitment plan.

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 country, with their basic information. For some of the buildings which are classified as buildings with the worst energy characteristics, energy audits will be performed.

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.

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.

In the period of writing this document, Rulebook on energy characteristics of the buildings, Rulebook on energy audits of buildings, Rulebook on energy audits at large enterprises are being finished, 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 are finalising, so next period will be implementation. Also, work will also be done on drafting the remaining bylaws arising from the Energy Efficiency Law.

a. Activities planned in 2022

- 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
- 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 2023

- Establishment of Energy efficiency Fund
- Preparation and adoption of Strategy for reconstruction of buildings by 2030
- Implementation of the rest measures from NECP regarding EE

c. Activities planned in 2024

- 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

Indicators	2022 - 2024
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	2022	2023	2024
1. Budgetary expenditures*	150,000	90,000	180,000
2. Non-budgetary financing	25,850,000	710,000	20,000,000
2.1 of which IPA funding, including WBIF funding	850,000	510,000	1,020,000
Total	26,000,000	800,000	20,180,000

*Note: the total sum of the loan for EE Fund is represented in 2022 because we don't have information about distribution of the money through years.

*national public finance sources

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

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 bring improvement, several problems related to sewage collection and wastewater treatment need to be addressed:

- To harmonise national legislation in prioritised areas with EU legislation;
- To prepare planning documents that allow undertaking of measures and activities for implementation of the legislation within specified timeframe;
- Waste water treatment capacities have to be extended considerably;
- Sewage networks have to be extended and rehabilitated, and storm water systems separated from the sewage system;
- PUCs economic setup has to be improved to ensure cost recovery and sustainability of operations, including improved tariff setting practices, increased revenue collection rate, etc.;
- Human resource capability has to improve and incorporate relevant sector knowledge;
- Efficiency of PUCs operations has to increase;
- Regular monitoring of the urban wastewater quantities and quality has to be established, and the information system on waste water collection, treatment, discharge improved; public awareness for wastewater as a source of pollution and degradation of the environment has to be raised;

For the implementation of this measure, financial sources has been provided through IPA II (2014-2020) and loans from EIB and EBRD.

The measure aims to ensure extension of the length of sewerage networks, the number of households connected to the network, as well as the number of treatment plants and their capacity. The data from 2016 indicate that 64% of population has been connected to sewerage networks, while the capacity of the existing treatment plants in 2020 was 27.5% of the total needed capacity in the country. The investments in sewerage networks, collector systems and treatment plants are envisaged in the National Water Strategy 2012-2042 and aim to improve the coverage of the population with these

investments, ensuring a higher quality of life of citizens, higher level of nature protection and developing preconditions for the implementation of the Green Deal and the Green Agenda for the Western Balkans.

a. Planned activities in 2022

- 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.
- 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.
- Tendering procedure for supply and Supply of Specific Equipment for Water Monitoring Information System.
- 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 Radovich, Kichevo, Strumica, Prilep, Berovo, Kumanovo, Bitola and Tetovo.
- Tendering procedure and start the implementation of the project activities for Further support in the implementation of the reforms in the water sector.
- Continuation of activities for Improvement of the wastewater collection infrastructure in the City of Skopje.
- 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).
- 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).
- 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).
- 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).

b. Planned activities in 2023

- Continuation of the project implementation for Improved Implementation of the EU Floods Directive through Harmonisation of National Legislation and Preparation of Flood Risk Management Plans.
- Continuation of the project implementation 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.
- Continuation of the project implementation for Supply of Specific Equipment for Water Monitoring Information System.
- Continuation of the project implementation 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 Radovich, Kichevo, Strumica, Prilep, Berovo, Kumanovo, Bitola and Tetovo.
- Continuation of the project implementation for Further support in the implementation of the reforms in the water sector.
- Continuation of activities for Improvement of the wastewater collection infrastructure in the City of Skopje.
- Continuation of the project implementation for Rehabilitation and extension of the sewage network in the Municipality of Kichevo (104 km of network, 4630 new households connected).
- Continuation of the project implementation 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).
- Continuation of the project implementation 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).
- Continuation of the project implementation for Construction of WWTP for the City of Skopje (Design and construction of the Central WWTP for 625.000 PE up to 2035).

c. Planned activities in 2024

- Continuation of the project implementation for Improved Implementation of the EU Floods Directive through Harmonisation of National Legislation and Preparation of Flood Risk Management Plans.

- Continuation of the project implementation for Development and Implementation of River Basin Management Plans for all River Basins (River Vardar, CrnDrin, Strumica) under the Water Framework Directive with Implementation of Measures
- Continuation of the project implementation for Supply of Specific Equipment for Water Monitoring Information System.
- Continuation of the project implementation 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.
- Continuation of the project implementation for Further support in the implementation of the reforms in the water sector.
- Continuation of the project implementation for Rehabilitation and extension of the sewage network in the Municipality of Kichevo (104 km of network, 4630 new households connected) - Activities in the warranty period.
- Continuation of the project implementation 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).
- Continuation of the project implementation 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).
- Continuation of the project implementation for Construction of WWTP for the City of Skopje (Design and construction of the Central WWTP for 625.000 PE up to 2035).

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 Kočani. At the same time, a loan agreement from EIB in amount of 50 million EUR 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 and the source of financing

In EUR	2022	2023	2024
1. Budget funding*	10,895,990	10,895,990	10,895,990
2. Non-budget funding	27,400,000	27,400,000	27,400,000
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

* National sources of public finance

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 Macedonian institutions authorities through mainly the SWGs, with a strong ownership and leadership by the relevant Ministry.
Delay in the tendering procedure and contracting	Medium	Most of the technical and tender documentation is in final stage of preparation. Tenders to be launched as per the Procurement Plan
Delay in obtaining building permits and solving land ownership	Medium	Accurate screening of the documentation and elaboration of a road map attributing responsibilities and timing to address each pending issue.
Poor cost recovery for environmental services by the PUCs	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. Inclusion among the conditions for implementation of the obligation for the OS to hire at least 90% of the people included in the organogram.
Insufficient coordination among the institutions, including municipalities	Medium	Inclusion of all the relevant stakeholders at National and at 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

In the field of waste management, the previous Law on Waste Management regulated the framework for establishing waste management infrastructure, which was mostly based on undertaking activities by local self-government units. The results

of its implementation showed weaknesses and ambiguities in cases when there is not enough capacity of the local self-government in finding funds for construction of new waste infrastructure, as well as in the inability to ensure mutual coordination between all stakeholders. Additionally, the experience so far has shown that the development of waste infrastructure requires large financial resources, the finding of which requires a clear and precise definition of competencies and responsibilities between central and local government.

The adoption of the new Law on Waste Management ("Official Gazette of RSM" No. 216/2021) will enable the establishment of a functional system for regional waste management and construction of regional landfills, and at the same time to close all non-standard 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 environmental protection, and all this will be a step towards enabling circular economy for this sector. This law harmonised Directive 2008/98 / EC of the European Parliament and of the Council of 19 November 2008 on waste and repealing certain directives.

The waste legislation of the Republic of North Macedonia is harmonised with the EU waste legislation.³⁰

The new laws adopted in 2021 are as follows:

- Law on Management of Batteries and Accumulators and Waste from Batteries and Accumulators (Official Gazette of RNM no. 176/21).
- Law on Management of Electric and Electronic Equipment and Waste Electric and Electronic Equipment (Official Gazette of RNM no. 176 /21).
- Law on Extended Producer Responsibility for management with Special waste streams (Official Gazette of RNM no. 215/21).
- Law on Packaging and Packaging Waste Management (Official Gazette of RNM no. 215 /21).
- Law on Waste Management(Official Gazette of RNM no. 216 /21).
- Law on Management of Special Waste Streams(Official Gazette of RNM no. 216 /21).

These laws entail an obligation for implementation of waste reduction policies, waste separation and recycling. The Republic of North Macedonia is making efforts for implementation of this new legislation, which includes improvement of waste collection practices, by establishing waste selection and waste separation schemes, as well as development of secondary selection and waste recycling capacities. Only non-recyclable waste should be disposed on landfills, which should be built in compliance with the EU Landfill Directive. The present state of affairs with the landfills in the Republic of North Macedonia indicates that most of the ways/methods of waste disposal are not compliant with any technical or environmental standards. Most of the existing municipal disposal sites/landfills should be closed because the sites have no capacity to be upgraded in accordance with the EU requirements. Furthermore, only 70% of the population receives regular waste collection services. Regular collection and recycling of waste or composting of municipal waste is still in an early development stage.

The first National Waste Management Strategy (2008-2020)³¹, and the National Waste Management Plan (2009-2015), introduced the concept of integrated waste management at the regional level. The new National Waste Management Plan (2021-2031)³² adopted in September 2021, which refers to a period of 10 years also identified the waste management regions in the country.

Within the IPA 2007-2013, regional waste management plans were prepared for the Eastern and Northeastern regions, as well as for the Pelagonija, Southwest, Vardar, and Skopje regions. The necessary technical documentation for the establishment of financially self-sustainable waste management systems for the six mentioned regions has also been prepared. For the Polog region, the technical and tender documentation is in the final stage of preparation, and the necessary documentation for the Southeast region is also about to be prepared. The government is focus on implementation of these planning documents through the EU funds (IPA) and through loans (credit lines). Namely, for the East and Northeast region, the construction of the regional system should start in 2022, and it is financed through IPA funds. The construction of the Regional Waste Management System for the Skopje region is envisaged under IPA 3 for the programme year 2024, and for the other five regions, the country has requested a loan from the EBRD.

³⁰Directive 2008/98 / EC, Directive of the European Parliament and of the Council of 20 December 1994 on packaging and packaging waste, Directive of the European Parliament and of the Council of 4 July 2012 on waste electrical and electronic equipment, Directive of the European Parliament and of the Council of 6 September 2006 on batteries and accumulators and on waste batteries and accumulators and repealing Directive 91/157 / EEC, Directive 2000/53 / EU on waste vehicles and Directive (EU) 2018/850 of the European Parliament and of the Council of 30 May 2018 amending Directive 1999/31 / EC on the landfill of waste

³¹[МЖСПП / Документи / Стратегии](#)

³²[МЖСПП / Документи / Планови](#)

The measure for establishing an integrated and self-sustainable waste management system is new in the Structural Reform Programme 2022-2024, and it was planned in the context of the need to improve the situation in this area. This measure aims to ensure:

- Creating conditions for collection and disposal of solid waste and reduction of further deterioration of the environment with uncontrolled waste management.
- Reduced volume of municipal solid waste deposited in landfills and increased share of selected, composted, and recycled waste.
- Increased population served by waste collection and disposal in accordance with EU standards.
- Improved inter-municipal cooperation through the introduction of regional waste management systems.
- Closing of non-compliant landfills / dumpsites as soon as the appropriate alternative is established and
- Developed project documentation needed to continue investing in closure and reclamation of non-compliant landfills, including development of risk assessment and remediation or follow-up care plan.

Following activities are planned in context of the proposed measure:

- Supporting the implementation of the Regional Waste Management System in the East and Northeast regions, as a service agreement, which will assist in the establishment of an Inter-Regional Enterprise and will establish the waste management system.
- The preparation and revision of the National Waste Planning Documents will also continue.

The Republic of North Macedonia is committed to work towards a 2050 climate neutrality target – the heart of the European Green Deal. In its recently submitted Enhanced NDC, North Macedonia committed to reducing net greenhouse gas emissions by 82% compared to 1990 levels by 2030. The NDC includes a specific goal for the waste sector: a 21% reduction from 1990 levels in 2030. The NDC is strongly linked with the country's Long-Term Climate Action Strategy and the Law on Climate Action, which are in the final phase of development.

At the same time, the measure is an introduction to the future realisation of the overall objective of enabling efficient and effective operation of a modern, responsible industry for recycling and recovery industry in the country, following the principles of the circular economy.

It will be achieved through the implementation of the specific objective of developing professional, deliverable, accountable and efficient schemes for extended producer responsibility (EPR system), which will strengthen the capacities of the competent national authorities for waste management and stakeholders for modern waste management and on-line recording and reporting system, which will establish a base for the introduction of the circular economy.

The MOEPP has identified waste management as a priority environmental issue to be addressed, as well as a key opportunity to contribute to reaching the ambitious climate actions stipulated in the North Macedonia's enhanced Nationally Determined Contributions on Climate Change (NDC). North Macedonia's NDC explicitly includes the waste sector and opportunities to reduce emissions through circular economy projects. The assessment of GHG mitigation potential by introducing circular economy projects in North Macedonia finds that incorporating circular practices into the treatment of biowaste and C&DW could result in total emissions reductions of ~690.85 Gg/CO₂e per year and the creation of over 600 new green jobs in more sustainable industries.

While North Macedonia strives to realise ambitious NDC and EU climate goals, including ambitious CE goals tied to EU accession aims, the systems and structures are not in place to realise these ambitions.

In addition, in North Macedonia there is not much experience in the proposed technologies and commercial banks do not have the capacity to evaluate these types of projects and therefore assign them a higher risk and interest rate if they are willing to loan at all.

a. Planned activities in 2022

- Continuation of activities for closure of the non-compliant landfills and dumpsites in the East and Northeast regions.
- Start the project for Supporting of the implementation of the Regional Waste Management System in the East and Northeast regions.
- Signing a Contract for preparation and revision of the National Planning Documents for Waste Management.
- 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.

- Starting the activities for construction of the transfer stations and the regional landfill for the east and Northeast region.

b. Planned activities in 2023

- Finalising the activities for closure of the non-compliant landfills and dumpsites in the East and Northeast regions.
- Finalising the activities for Support to the implementation of the Regional Waste Management System in the East and Northeast region.
- Continuation of the implementation of the activities for Preparation and revision of the National planning documents for waste management.
- Continuation of implementation of Twining Contract for Support in the implementation of the waste management legislation and extended producer responsibility scheme.
- Continuing the activities for implementation of the project for establishment of a Regional Waste Management System in the East and Northeast regions and
- Starting the activities for construction of regional landfills and transfer stations in five regions via loan from EBRD.

c. Planned activities in 2024

- Continuation of the activities for implementation of the project for establishment of a Regional Waste Management System for the East and Northeast regions.
- Continuation of the evaluation procedure for the project for Support to the implementation of the Regional Waste Management System in the East and Northeast regions.
- Continuation of the implementation of the activities for Preparation and revision of the National planning documents for waste management and
- Continuation of the implementation of the activities for construction of regional landfills and transfer stations in five regions via loan from EBRD.

2. Results indicators

Indicator	Baseline 2020	Intermediate target 2024	Target 2028
Number of regional landfills	0	1	5
Percentage of the population covered by the regional integrated waste systems	0	370,901	2,000,000
Number of closed dumpsites	0	115	1,000
Number of closed noncompliant landfills	0	18	54
Number of prepared Plans for implementation of the Extended Producer Responsibility Schemes and circular economy 2020-2030	0	It will be determined after the assessmentphase within the IPA project	

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	2022	2023	2024
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 provide for more social effects, and above all, access of the majority of the population to waste collection and a cleaner environment through its recycling. A particularly significant effect will be the closure of illegal landfills, which will contribute to reducing their harmful gas emissions, as well as reducing the risks to public health.

Furthermore, the realisation of the projects implies engagement of workers which will directly affect the labor market in the short term, while in the long run, the maintenance and management of regional landfills provides for employments which will contribute to opening of new jobs.

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 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 North Macedonian institutions authorities through mainly the SWGs, with a strong ownership and leadership by the relevant Ministry.
Delay in the tendering procedure and contracting	Medium	Most of the technical and tender documentation is in final stage of preparation. Tenders to be launched as per the Procurement Plan
Delay in obtaining building permits and solving land ownership	Medium	Accurate screening of the documentation and elaboration of a road map attributing responsibilities and timing to address each pending issue.
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.

Measure 9: Increasing the competitiveness of the electricity market

1. Description of the measure

The main goal of the energy policy of the Republic of North Macedonia is to create the most suitable development of the energy sector which will ensure: reliable, safe and quality energy and fuel supply to consumers, accelerated economic development and increased care for and protection of the environment.

This measure will enable liquid electricity market and creation of conditions for increased competition in the energy supply to consumers, as well as increase in number of companies that will participate on the open energy market. The adoption of the new Energy Law enabled for establishment of organised electricity market, as well as full liberalisation of the energy market, which had started from January 2019.

The stated key objectives shall be achieved through the following strategic commitments:

- Achieving sustainable development of the energy sector
- Reduce import dependency
- Diversification of fuels
- Positive environmental impact with investment in low-carbon energy

In order to achieve competitive goals and a free electricity market for all consumers, the market was liberalised gradually. Consumers have the right to choose their electricity supplier and buy electricity from a trader of their choice, at a planned price that best meets their needs.

The adoption of the new Law on Energy enabled the fulfilment of energy "soft measures", removal of legal obstacles for the establishment of an organised electricity market and full liberalisation of the electricity market, which began in January 2019. Universal supplier was selected at the beginning of 2019, and that is the company EVN HOME. EVN HOME is a universal supplier for households and small consumers and was established on the electricity market from July 1, 2019. Also, this company is a supplier to customers in the last resort when their supplier has not performed its activity.

The Republic of North Macedonia should establish an organised electricity market and make a market merger with some of the neighbouring countries. In this regard, the Action Plan for Establishment of a National Organised Electricity Market (NEMO) has been adopted, and AD MEPSO, as an electricity market operator, undertakes to implement it. According to the new law on energy AD MEPSO in 2018 established a new company MEMO DOOEL Skopje - National electricity market operator which in 2019 receives a license to perform energy activity electricity market operator. The NEMO designation is in line with the European Community Recommendations for Early Implementation of the EU Capacity Allocation and Cessation Management Regulation (CACM Regulation) for the designation of an operator in an organised market. In 2019, the government issued a decree for the operation of the operator of the organised electricity market and the necessary technical, personnel and financial conditions to be met. MEMO DOOEL Skopje submitted to ERC a notification for fulfilment of the conditions for appointment of an operator on the organised electricity market. The application was positively evaluated by ERC and AD MEPSO and it was submitted to the Government. In September 2020, the Government decided that MEMO is an operator of the organised market in the Republic of North Macedonia, which has the obligation to establish an organised electricity market and in the future to merge with other neighbouring organised markets in accordance with the European model, which in 2021 can continued the current project the day before the market and the merger of the market of North Macedonia with Bulgaria. The appointment of MEMO as NEMO* provided the basis for the continuation of the European Community project for connecting the markets between the Republic of North Macedonia and the Republic of Bulgaria. In 2021, MEMO joined the SDAC 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.

From the aspect of establishing the organised electricity market, in 2021 MEMO announced a tender for procurement of a service for renting a trading platform for the market one day in advance with a PCR module for connecting the market one day in advance. Upon successful completion of the procurement, the economic operator will have an obligation within 9 months to establish an organised electricity market in such a way that a market merger can be performed in accordance with the European model. Electricity Market Rules have been adopted by the Energy Regulatory Commission.

a. Planned activities for 2022

Under the first activity, the following technical steps are planned:

- Amendment and approval of the new Project Roadmap to finish the process in year 2022
- HLMD (High level market design) drafting and approval (electricity market connection between EU country and non EU country connection)
- Full CACM (legislation) adoption in North Macedonia
- Rules for electricity trading in organised electricity market
- Drafting and submission of the SDAC procedures amendments for inclusion of BG-MKD border of electricity
- Training materials preparation and members' training activities

2. Results Indicators

Indicator	Baseline (2020)	Intermediate target	Target (2022)
Electricity consumption in isolated regime via organised day-ahead market	-	-	at least 10%
Consumers on free electricity market	-	-	70%

Source: Ministry of Economy

3. Expected impact on competitiveness

The increase in liquidity is expected after the merger of the market with at least one neighbouring country. This measure will enable liquid electricity market and creation of conditions for increased competition in the energy supply to consumers, as well as increase in number of companies that will participate on the open energy market, improving the competitiveness of domestic companies and integration in global value chains. Further liberalisation of the electricity market has effects on other economic sectors, especially those whose competitiveness depends on energy prices.

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

The estimated costs for year 2022 are 480,000 EUR, when the project will be finished. The year 2022 is the last year of this project according to all activities which has been done in the previous years. The real benefit from this project will be in the second half of the year 2022.

In EUR	2022	2023	2024
1. Budgetary expenditures*	0	0	0
2. Financing from the MEMO's budget**	480,000	0	0
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	480,000	0	0

*national public finance sources

** MEMO's budget as Nominated Electricity Operator (NEMO)

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

Opening the electricity market positively affects employment, bearing in mind that opening of new companies directly affects creation of new job positions, improving the competitiveness of domestic companies and integration in global value chains, also together achieving sustainable development of the energy sector.

6. Expected impact on the environment

The measure will have positive environmental impact, because of diversification of fuels. It is in line with the goals for decarbonising the energy system from the European Green Deal, investment in low-carbon energy infrastructure and reduction of greenhouse emissions in the country, together achieving sustainable development of the energy sector.

Our country is energy dependent on coal exploration, production and use, but this electricity market opening will decrease production of electricity from coal. Reducing environmental pollution by using lignite is a challenge, but it is a priority setting strict environmental criteria and maximum care for the protection in the working process and of the environment. In this regard, this market opening will result in a reduction of SO_x and dust emission in accordance with European directives and Macedonian legislation.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Achieving liquidity in isolated mode	High	- In accordance with all adopted bylaws, energy trading conditions foresee compensation of maintenance costs for the electricity distribution and transmission system (losses). - Merge the day-ahead markets between Bulgaria and North Macedonia.
Implementation of Capacity Allocation and Cessation Management Regulation (CACM Regulation) as a precondition for quick connection to organised electricity market with neighbouring countries	High	Currently, preparations are done to overcome this potential risk within the Energy Community Secretariat, with the participation of the programme Steering Committee for Day-Ahead Market Integration by the contracting parties (MEMO and IBEX)

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

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.

Additional problems for domestic companies and the efforts to boost their competitiveness stem from the lasting effects of the COVID-19 pandemic, causing them to reduce their investment in development of human and physical capital. Following the outbreak of the crisis, 45% of the country's businesses reported a decline in demand for products and services, 38% reported weaker confidence in supply chain partners and 35% reported disruptions in the sourcing of raw materials (ILO, 2020). The pandemic has negatively affected profitability and turnover in 90% of companies and caused a drop in their productivity (ILO, 2020). It is expected to further exacerbate the slowdown in regional productivity (World Bank, 2020c).

The COVID-19 crisis has also shown the vulnerability in global value chains, which represented 80% of global trade before the crisis (IMF, 2019b). NorthMacedonia's links to global value chains are still predominantly concentrated in services and low- to medium-value manufacturing (IMF, 2019b). In order to raise the competitiveness of local companies, higher investments are required in human and physical capital, the overall business environment has to be improved with better enforcement of business regulations and corporate governance, and the provision of better services is needed. Country's current position in the global value chains will also benefit from greater investment in research and innovation.

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 employment also reduce the levels of formal employment and its associated benefits such as job security and safety at work.

NorthMacedonia'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 NorthMacedonia (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).

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;
- 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 10: Implementation of an Intelligent Transport System (ITS) along Corridor X

1. Description of the measure

The measure continues from previous ERP.

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.³³ 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

³³<http://documents.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

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 till mid-2022, 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 2022

- Completing the national ITS Strategy
- 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.

b. Planned activities in 2023-2024

- Construction activities in the course of 2023 and final activities, including procedure for getting a certificate and defect liability period.

2. Results Indicators

Indicator	Baseline 2018		Target 2024	
	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	Baseline 2018		Target 2024	
	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 percent, increasing to 20 percent when the dynamic signal control strategies are integrated with information and guidance³⁴. 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.³⁵

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.³⁶

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

3. Expected impact on competitiveness

The use of information and communication technologies 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.

³⁴ CODE, 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.

³⁵ Oh J. et al. (2015), Michigan Department of Transportation, "Costs and Benefits of MDOT Intelligent Transportation System Deployments".

³⁶ Based on data from SEETO, EU and National Customs, counts from 2015, updated via linear regression for 2018.

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(Due to the sensitive period (Publication of the tender for ITS project) this data will not be available for public usage.).

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 that 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 WBs at the firm level. The results will be used for potential interventions to help women headed businesses.³⁷. 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). This data is scarce for all regional participants, which increases their value for further research related to air quality management and climate action. 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

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 Governmentprogrammes andit 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 Petrovecand therefore the activities should be speedup.
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 11: Broadening the scope of digital services provided on National E-service Portal

1. Description of the measure

The measure continues from the previous ERP.

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

³⁷<http://documents.worldbank.org/curated/en/919401555624976466/pdf/Western-Balkans-Trade-and-Transport-Facilitation-Project.pdf>

related to social security, labour and employment data, recognition of diplomas, etc. At the moment, the Portal offers e-services for individuals, while the needed functionalities for offering e-services for the businesses are not in place.

The specific objectives are:

1. To upgrade the Portal with profiles for legal entities;
2. To upgrade the Portal with the functionality for proxy agents, who could apply for e-services on behalf of a user;
3. To increase the number of available e-services on the Portal, including digitalisation of necessary registers;
4. Proposals for necessary legislative changes to streamline digitalisation;
5. Building human and technical capacities for e-service delivery within the administration.

The focus of the third objective is to develop at least 135 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, beverages, raw materials, agriculture, etc.; decisions for different types of retirement and pension users. The selection of the services followed the EU E-Government Benchmarking list. Also, the third objective includes the digitalisation of base registers related to the selected 135 e-services and development of Register of registers. 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 is also a part of this objective. Providing necessary equipment to support the delivered software solutions on the central location and in the beneficiaries is also a factor in the successful delivery of this measure.

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 bodies. Complementary to this measure, and for its wider results some other activities for upgrading the broadband infrastructure are on-going for implementation of National Operational Broadband Plan. According to the Annual report for the development of the electronic communication market for 2020³⁸, the number of subscribers of mobile internet (2G/3G/4G) is 1.371.660 and the number of broadband Internet subscribers, not including mobile Internet, is 475.569. The trend shows that these numbers are increasing each year.

a. Activities planned in 2022

- business analysis of the service delivery processes,
- mapping of the necessary registers for delivering a specific services,
- building capacities for process reengineering,
- technical specification of the required equipment for deployment of the solution;
- development of the Methodology for measuring e-service delivery including piloting;
- development and deployment of Register of registers
- reengineering of processes;
- development and deployment of new e-services on the Portal,
- integration of existing e-services on the National Portal

b. Activities planned in 2023

- business analysis of the service delivery processes;
- development and deployment of base registers, including data entry from the beneficiaries;
- capacity building on delivered solutions
- development and deployment of new functionalities on the Portal.

c. Activities planned in 2024

- development and deployment of new functionalities on the Portal;
- development and deployment of new e-services on the Portal.

The activities will be implemented by MISA in cooperation with other institutions.

2. Results Indicators

Indicator	Baseline 2020	Intermediate target 2022	Intermediate target 2023	Target 2025
Number of registered users of the National Portal	25,000	80,000	150,000	300,000
Number of e-services offered	137	220	280	300

³⁸ <https://aek.mk/wp-content/uploads/2021/07/20210719-Godisen-izvestaj-za-razvoj-na-pazarot-za-2020.pdf>

Number of applications submitted through the National Portal	12,200	100,000	250,000	500,000
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3. Expected impact on competitiveness

The National e-services Portal is expected to reduce administrative and financial burden not only on citizens but on 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.

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

For three years, the cost is estimated at EUR 3.6 million, financed both from IPA funds and national budget.

In EUR	2022	2023	2024
1. Budgetary expenditures*	415,000	390,000	212,000
2. Non-budgetary financing	1,300,000	1,300,000	0
2.1 of which IPA funding, including WBIF funding	1,300,000	1,300,000	0
Total	1,715,000	1,690,000	212,000

* 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 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 citizens, regardless of location (urban and rural), gender and social background, degree and type of disability, etc.

6. Expected impact on the environment

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 transport, thus indirectly impacting the pollution levels (like CO2 emissions).

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.
Inability to travel and have face-to-face meetings due to pandemic restrictions between the selected project implementer and beneficiaries (all involved public institutions and organisations with public authorisation).	High	Using video conferencing tools and offer technical support to the working group. Hiring local staff for filling in the personal needed.
Low level of using the e-services due to the lack of knowledge and required equipment.	Medium	Promoting the Portal and e-services provided on it, with special focus on the advantages of e-services consumption and security aspect. Enhancing and improving digital skills of the populations. Wider coverage with quality Internet nationwide. Reanimate and transform existing Internet cafes to be more used by those users with weak knowledge or without necessary devices.

Measure 12: Streamline the use of parafiscal charges

1. Description of the measure

The measure continues from previous Programme.

This measure 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 businesses³⁹ 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 further identifying (mapping), optimising, and 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.

The objective of the measure will be achieved through a comprehensive inventory and development of the Register of all non-tax and parafiscal fees that exist in the Republic of North Macedonia. As starting point, a study will be prepared that should include, but not to be limited to the following aspects: assessment of the legal framework, rational or justification behind each of the para-fiscal charge mapped in the current list of 377 charges; assessment of the price of parafiscal charges, with respect to their intrinsic value, as well granulated at geographic level (national-local), by company's size and by age (start-ups vs. established businesses) and the possibility for their digitalisation. It also should take into consideration the fiscal impact of the para-fiscal charges on the budget of Republic of North Macedonia.

Having in mind the complexity of the activities planned for the period 2022-2023, a project proposal has been submitted to EUD for providing expert support through IPA funds. The direct beneficiary of the project will be Ministry of Economy and involving all relevant institutions and stakeholders.

The measure is part of the Action Plan for implementation of the Strategy for formalisation of informal economy 2018-2022⁴⁰, 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 environment⁴¹.

a. Activities planned in 2022

The planned activities have been slightly modified compared to those in previous programme having in mind the EU funded project that will support the implementation of the measure.

- Make an assessment of the legal, institutional and operational framework for para-fiscal charges in Republic of North Macedonia
- 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
- 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

b. 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.
- Start the process of amendment of parafiscal charges from the List of 377 para-fiscal charges according to the proposed methodology

c. Activities planned in 2024

- Continuation of the process of amendment of the para-fiscal charges from the List of 377 para-fiscal charges according to the proposed methodology

³⁹<http://www.economy.gov.mk/doc/2838>

⁴⁰<http://www.mtsp.gov.mk/dokumenti.nsp>

⁴¹<https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-north-macedonia-report.pdf>

- 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 and Cabinet of the Deputy Prime Minister in charge of Economic Affairs, Coordination of Economic Sectors and Investments in cooperation with all relevant Ministries and Agencies, as well as municipalities including Business Associations and NGO's.

2. Results Indicators

Indicator	Baseline (2020)	Intermediate target (2022)	Target (2024)
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.

In EUR	2022	2023	2024
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	150,000	150,000	0
2.1 of which IPA funding, including WBIF funding	150,000	150,000	0
Total	150,000	150,000	0

*National public finance sources

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

By 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 para-fiscal 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	Medium	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	MoE submitted a project proposal to EUD, for IPA funded external consultancy in order to ensure relevant expertise will be provided for successful measure implementation

Measure 13: Hybrid fund for green and digital start-ups and innovative SME's

1. Description of the measure

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 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 an 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 2022

- 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 2021	Intermediate target 2022	Target 2023
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

*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	2022	2023	2024
1. Budgetary expenditures*	10,000,000	0	0
2. Non-budgetary financing	0	0	17,000,000
2.1 of which IPA funding, including WBIF funding	0	0	0

Total	10,000,000	0	17,000,000
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*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 14: Financial support for Roma entrepreneurs

1. Description of the measure

The measure foresees establishing of a Matching Fund and is initiative 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 results from the previous experience with the labour market activation measures (such as “self-employment loans” measure implemented by Employment Service Agency) showing limited access for Roma community to applications for unemployed and persons included in the informal economy.

The aim of the measure is to create criteria and favourable conditions for easier access to financial resources “credit loans” 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 Fund will provide for:

1. Provision of financial support to Roma entrepreneurs intended for self-employment and formalisation, and
2. Provision of financial support for Roma entrepreneurs intended for registered businesses and job creation.

The support will be in a form of mentoring in preparation the business plan, mentoring in the process of formalisation and implementation the business idea along with providing favourable financial sources.

The fund is a credit instrument which will be provided through an open call from January - June 2022 and from September - December 2022 under open process for application. In future, it is foreseen to function as a revolving fund.

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.

a. Activities planned for 2022

- Setting up the basic infrastructure, conditions and operative rules for implementing the measure
- Prepare operational guidelines for the implementation of Measure 1 and the establishment of a Project administration.
- 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 2023

- Continuation of the implementation of activities through the revolving fund.

2. Results indicators

Indicator	Baseline (2020)	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)	0	50	150
Number of supported new employments through supported businesses under the measure of favourable and affordable credit funds for existing businesses run by Roma (cumulative)	0	50	150

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 5,940,000 for three years.

In EUR	2022	2023	2024
1. Budgetary expenditures*	990,000	990,000	990,000
2. Non-budgetary financing	990,000	990,000	990,000
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	1,980,000	1,980,000	1,980,000

* National public finance sources

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

Positive impact because there is place for introducing the new business idea and services supportive to environment.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Lower interest by the community	Medium	Active promotion of the Fund for Financial Support

Measure 15: Establishment of Management Information System on State Aid

1. Description of the measure

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 recently adopted 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 2022

- 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 2023

- Establish the State Aid Register as part of the MIS SA

c. Activities planned in 2024

- 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 (2021)	Intermediate target (2022)	Target (2023)
SA MIS established	0	1	0
Number of state aid providers included in SA MIS	0	0	5+ ⁴²
Number of SA Schemes/ programmes registered in the SA MIS	0	0	5+ ⁴³

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

The cost is estimated at EUR 3,500,000. The expected source of financing is from IFS (World Bank group).

In EUR	2022	2023	2024
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

⁴² The number of institutions that provide/manage one or more State Aid alike programmes or schemes.

⁴³ 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.

Total	2,000,000	1,500,000	0
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* 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 16: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities

1. Description of the measure

This measure referring to the establishment and implementation of a systematic and coordinated approach in tackling the phenomenon of informal economy in the Republic of North Macedonia, through development and introduction of proper mechanisms and tools, as well as through awareness raising about the phenomena has been continually present in the Economic Reform Programme since 2020.

In the upcoming period, additional expert support in the activities aimed at tackling undeclared work and the informal economy is also provided within the implementation of the IPA II project "Improving Working Conditions" that has been implemented since November 2019. In the frame of the project, more activities have been initiated in the development of systems, indicators, mechanisms and procedures for measurement, monitoring and reporting related to the informal economy and undeclared work, which will involve numerous state institutions and social partners. For some of the activities that were planned to be fully realised by the end of 2021, however, there will be some extension of the previously set deadlines and they will be completed during 2022. Analyses have been made and recommendations provided for designing appropriate systems/tools/mechanisms that will contribute to reducing these phenomena in certain activities and sectors of the economy, which are specific to the emergence of undeclared work and employment, and activities are planned to promote and raise awareness among various subjects about the negative effects and consequences of informal employment.

In addition, the project "Improving conditions for employment of seasonal workers" will be implemented in this area until the end of 2023. This project aims to contribute to the formalisation of seasonal labour in agriculture, primarily through the establishment of a system for registration of seasonal workers by adopting new or amending existing legal solutions and software that will simplify the registration procedure.

As one of the lessons learned from the analysis and evaluation of the implementation of the Action Plan for formalisation of the informal economy 2018-2020, the need arose for high-level political commitment for coordinating the implementation of the Strategy. During the second ministerial dialogue on structural reform measures for ERP 2022-2024 chaired by the Minister of Finance, it was proposed transfer of the coordination role from the Ministry of Labour to the Deputy Prime Minister for Economic Affairs. This will ensure improved and more effective coordination of all relevant institutions and stakeholders in the implementation of the planned measures and activities.

This measure is linked to the Strategy for Formalisation of the Informal Economy 2018-2022. A new one will be prepared for the period 2023-2027, along with an Action Plan for 2023 – 2024.

a. Activities planned for 2022

- Finalising the design of the model and mechanism which promote formal employment in selected sectors with high incidents of undeclared activities;
- Performing cost-benefits analysis from implementation of the proposed model and developing legal framework, institutional and administrative mechanisms for its implementation;
- Implementing preparatory activities for rolling-out the agreed model, including definition of procedures, forms, training of staff;
- 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);
- 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);
- 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;
- 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;
- 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.
- Preparing a new Strategy for Formalisation of the Informal Economy, for the following period 2023-2027, along with an Action Plan for 2023 – 2024.

b. Activities planned for 2023

- Developing and implementing a software solution (tool) for simplification of the system for registration of seasonal workers.
- Adopting a new Strategy for Formalisation of the Informal Economy, for the following period 2023-2027 along with an Action plan for 2023-2024 year.

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2023)	Target (2025)
Participation/share of informally employed in the total number of employed persons (SSO - LFS)	13.6%	13.0%	10.0%

3. Expected impact on competitiveness

Efficient and functional labour markets are in negative correlation with informal employment and undeclared work, and on the other hand 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 operations, 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, a better business environment and fair competition, reduce job insecurity, and put the financial sustainability of social protection systems at less risk.

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	2022	2023	2024
1. Budgetary expenditures*	0	0	0
2. Non-budgetary financing	260,000	80,000	0
2.1 of which IPA funding, including WBIF funding	180,000	80,000	0
Total	260,000	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

Reducing the emergence of unfair competition between firms and enterprises due to the existence of the informal economy and informal employment, as well as 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 in which they are pushed 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 fighting the informal economy	low	Involvement of all stakeholders in the design phase of the planned measures and activities. Their participation will also be 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)	Transfer of the coordination role from the Ministry of Labour at the level of Deputy Prime Minister for Economic Affairs. This will ensure improved and more effective coordination of all relevant institutions and stakeholders in the implementation of the planned measures and activities. Thus, 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 coordination among 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 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.

Measure 17: Enhancing cooperation between the academy and the industry - STP

1. Description of the measure

Establishment of a Science and Technology Park (STP)

The measure is rolled over from the previous year, details on its implementation are presented in Table 11.

The Republic of North Macedonia strives to continue its economic growth, so it is very important to develop the competitiveness of its private sector based on knowledge and innovation. Innovative activity is causality to many indicators of business success. Companies that innovate are much more likely to export, and most of them have a significant increase in turnover and profits after introducing innovation.

According to the latest European Innovation Scoreboard 2021, North Macedonia has high performance relative to the EU on indicators such as *attractive research systems and foreign doctorate students*, but still low performance on linkages indicators such as *innovative SMEs collaborating with others and public-private publications*. Data shows that companies rely more on internal knowledge of innovation rather than external knowledge, so cooperation between companies and other stakeholders is limited. Relationships between companies and universities or research institutions are particularly rare, although firms that have established links with academic institutions tend to be more innovative.

The Competitiveness in South East Europe 2021 Policy Outlook places North Macedonia's scores for science, technology and innovation above the WB6 average in each sub-dimension, rating second in the region in public research system and business-academia collaboration, and third in STI system. The report however also states that despite the notable progress, the institutional support for business-academia collaboration is not approached systemically and remains under-represented in the national STI policy framework. The recommendation is to promote business-academia collaboration through a systematic and targeted approach: "Targeted incentives, both financial and non-financial, could help raise awareness and stimulate interest in increased collaboration. North Macedonia's emerging institutional infrastructure will help to support integration between academia and the private sector, if it is designed with encouraging collaboration as a key objective."

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. 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.

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 2022

- 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.

- 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.

- 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.

b. Activities planned in 2023

- 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 2024

- 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

	Baseline (2022)	Intermediate target (2023)	Target (2024)
Number of active contracts for business & academia innovation cooperation	0	0	10

3. Expected impact on competitiveness

The proposed measure and its future roll out 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 HEIs and PROs which is applicable in industry i.e. will enhance knowledge and technology transfer contributing to the competitiveness and export potential of the companies. 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, 350+ million EUR revenue, 80+ million EUR in added value (2015), 400+ new high added value jobs, 15+ million EUR in VAT annually (estimated). TPLJ is self-sustainable and profitable with 20 million EUR in assets. Science and technology parks exist and function successfully in our surrounding, Serbia, Bulgaria, Croatia and Greece.⁴⁴

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

EUR	2022	2023	2024
1. Budgetary expenditures*	700,000	1,000,000	2,000,000
2. Non-budgetary financing	0	0	0
2.1. of which IPA funding, including WBIF funding	0	0	0
Total	700,000	1,000,000	2,000,000

*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

⁴⁴<https://www.tp-lj.si/en/about-us/impact-of-technology-park-ljubljana>

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.

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 relevant stakeholders in all related activities.
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 18: Strengthening the market rules in the Republic of North Macedonia

1. Description of the measure

This measure is deriving from the ERP 2021-2023.

The measure will enhance the harmonisation with the EU acquis in the area 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 the putting in operation of 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 2022

- 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 2023

- 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 (2021)	Intermediate target (2022)	Target (2023)
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 Action 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 3,000,000. The source of financing is IPA funds.

EUR	2022	2023	2024
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 19: Modernisation of the post-harvest management of the agricultural products

1. Description of the measure

The main objective of the measure is increasing the competitiveness of the agricultural by modernisation of the postharvest management of agricultural products and proper introduction and implementation of the agricultural hygiene and quality standards, waste management and protection of the environment. Modernisation will include construction and operation of two purchase centres in the Municipality of Resen and Strumica, and one agri-food trade platform in Skopje. The establishment of these modern centres and trading platform will solve most of the problems that currently exist in the production and trade of agricultural products in the Republic of North Macedonia. These problems seriously disrupt the market for agricultural products and affect their competitiveness. Some of the identified main problems are:

- inadequate application of mandatory quality and safety standards in primary production;
- 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.

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. The general locations for these logistics infrastructure investments have been identified based on: (a) proximity of the centres to the main production areas of North Macedonia: Resen (mainly apples), Strumica (vegetables) and Skopje region; (b) the proximity of the platform to Skopje, with 600,000 inhabitants the main consumption area of the country, and the main road networks that connect to the rest of the Balkan region and provide a unique opportunity for agro-logistics; and (c) a demand analysis based on qualitative interviews with the agri-business operators and a pre-feasibility study conducted by the Faculty of Agricultural Sciences and Food of Skopje that highlights the need for facilities for collection and conditioning activities, as well as a stronger supply network for the agricultural trade platform in the Balkan region.

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 – Ministry of Agriculture, Forestry and Water Economy of the Republic of North Macedonia 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 thanks to 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 (Official Gazette of RNM No: 16/2021):

- 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 products (Official Gazette of RNM No: 140/2010) and Law on agriculture and rural development (Official Gazette of RNM No: 49/2010).

The management and operation with centres would be contracted to a private operator or an association of cooperatives through a concession agreement, while with the 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 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 2022-2024.

Activity	2022	2023	2024
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	Adoption of the programme	Implementation of the CMO measures
Construction of a purchase centre for fruits and vegetables in Resen and Strumica		Starting with construction	
Construction of a trading platform for fruits and vegetables in Skopje		Starting with 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 new jobs

Source: * and ** The World Bank Agriculture Modernisation Project (P168014)

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 conditions of manipulation and storage of the products, it is expected that the products will be with higher quality, higher income and reduced food loss.

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 2022-2024 is estimated at around EUR 33.8 million out of which EUR 700,000 are IPA funds and the remaining funds are provided through the World Bank loan.

In EUR	2022	2023	2024
1. Budgetary expenditures* - World Bank loan	3,200,211	15,392,954	14,587,507
2. Non-budgetary financing - IPA	0	350,000	350,000
2.1 of which IPA funding, including WBIF funding	0	0	0
Total	3,200,211	15,742,954	14,937,507

*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 we currently have, 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.

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 foregoing challenges on the way to achieving a decent level of competitiveness and inclusive growth, another challenging area which should be given heed is the public finance management (PFM). NorthMacedonia has taken several steps to improve public financial 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. NorthMacedonia 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 Taxonomic Information System (ITIS). 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 20: Establishing Integrated Tax Information System in PRO

1. Description of the measure

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 Integrated Tax Information System (ITIS) aims to improve the operational efficiency of tax administration functions, as well as increase revenue by strengthening compliance monitoring and improving taxpayer services.

The new Integrated Tax Information System 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 Integrated Tax Information System 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 Integrated Tax Information System, 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 Public Revenue Office (for example, e-tax portal, DANIS (current Tax Information System), Monthly calculation for integrated payment -MCIP) are gradually being replaced by new modules of Integrated Tax Information System 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 Integrated Tax Information System 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 Integrated Tax Information System are being implemented:

- New Masterfile - 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 module e-Taxes in which, in addition to modernising the manner of receipt of applications and other submissions submitted by the taxpayers to the PRO, the so-called electronic mailbox, i.e. on the portal taxpayers will be able to download electronic documents submitted by the PRO.

With the implementation of these projects in 2021, the basic structure of the IT system of the PRO is established and basic structure will be completed by replacing the module for processing tax returns and other submissions and determination of tax debt.

In order to complete the IT system, modules of the information system PRO remain, which are foreseen to be implemented in the period 2021-2024. Most of the modules for the new ITIS are financed with budget funds, and the rest of ITIS should 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 integrated tax information system (or ITIS), which include the remaining projects/modules for completing the IT system.

In the framework of the digital transformation of the Public Revenue Office and the introduction of Integrated Tax Information System, two components are emphasized:

Component 1. Completion of the remaining modules from Integrated Tax Information System

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 2021, which will end in 2022.
- New Integrated Tax Information System modules for e-commerce and e-invoice
- Data warehouse
- Business Intelligence Tools as components: risk management, compliance and fact-based decision-making

Component 2. Ensuring security of IS (Information system) and smooth functioning of the Integrated Tax Information System

- Activities to increase the safety and security of IS
- Disaster Recovery Centre

Component 1. Completion of the remaining modules from Integrated Tax Information System

a. Planned activities in 2022

- Continuation of the realisation of the procurement of the software for conducting a tax procedure per case.
- Commencement of activities for establishing a data warehouse

b. Planned activities in 2023

- Establishing a data warehouse and business intelligence tools - Data Warehouse and BI
- Establishment of a new ICT infrastructure

Component 2. Ensuring security of IS (Information system) and smooth functioning of the Integrated Tax Information System

a. Planned activities in 2022

- Continuation of modernisation of the ICT infrastructure
- Continuation of activities to increase the security of the Public Revenue Office systems
- Commencement of activities for the establishment of a Disaster Recovery Centre

b. Planned activities in 2023

- Continuation of activities to increase the security of the Public Revenue Office systems
- Continuation of the activities for development and restructuring of the IT subsystems of the Public Revenue Office

- Establishment of a Disaster Recovery Centre

c. Planned activities in 2024

- Increasing the reliability of Public Revenue Office systems
- Development and restructuring of the IT subsystems of the Public Revenue Office

2. Results Indicators

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2024)
Percentage of 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 institutions with which the Integrated Tax Information System is exchanging data	15	At least 25	At least 30
Percentage of data transferred 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 also 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, as well as reducing the informal economy, which helps formal business to increase their revenues 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	2022	2023	2024
1. Budgetary expenditures*	2,500,000	1,350,000	1,150,000
2. Non-budgetary financing	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 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
Measure 9: Increasing the competitiveness of the electricity market
3. Improving the competitiveness of domestic companies, their integration in the global value chains and formalisation of the economy
Measure 10: Implementation of an Intelligent Transport System (ITS) along Corridor X
Measure 11: Broadening the scope of digital services provided on National E-service Portal
Measure 12: Streamline the use of parafiscal charges
Measure 13: Hybrid fund for green and digital start-ups and innovative SME's
Measure 14: Financial support for Roma entrepreneurs
Measure 15: Establishment of Management Information System on State Aid
Measure 16: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities
Measure 17: Enhancing cooperation between the academy and the industry – STP
Measure 18: Strengthening the market rules in the Republic of North Macedonia
Measure 19: Modernisation of the postharvest management of the agricultural products
B. Reforms addressing other challenges:
Measure 20: Establishing Integrated tax information system in PRO

6. The cost and financing of structural reforms

The total cost for financing the structural reform measures under ERP 2022-2024 is EUR 389,485,185 for the whole period under which the Programme is submitted, i.e. for 2022-2024. Of that amount, EUR 91,704,672 are provided from the Central Budget, EUR 8,270,000 are funds provided from other national public finance sources, EUR 101,116,341 from IPA funds, 3,350,000 are provided through other grants, EUR 149,064,672 are provided through project loans and the source of financing for EUR 35,980,000 will be additionally determined. Central budget funds account for 23.5% of total financing costs, 2.1% of total funds are provided from other national public finance sources, IPA funds account for 26.0%, other grants for 0.9%, 38.3% of total funds are provided through project loans, while the source for 9.2% of the funds will be additionally determined.

Compared to the previous Economic Reform Programme (ERP 2021-2023), the total costs for financing the structural reform measures from ERP 2022-2024 are higher by EUR 140,748,888, i.e. 56.5%.

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 economy, in particular the measure for establishing wastewater collection and treatment infrastructure in accordance with EU requirements for which in the period 2022-2024 a total of EUR 170,374,956 are planned to be allocated, the measure for improvement of energy efficiency (EUR 46,980,000) 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. The measures 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 management of the agricultural products and the measure for establishment of hybrid fund for green and digital start-ups and innovative SME's (EUR 33,880,672 and EUR 27,000,000, respectively) are next in the amount of allocated funds. For the measures for strengthening of human capital for inclusive development, especially the measures from the education area (Further development of the qualifications system) and the area of health care (Improving the quality of the Primary health care) in the analysed period it is planned a total of EUR 16,810,879 and EUR 16,731,800, respectively, to be allocated.

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 2022-2024, 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, Public Procurement Bureau, Fund for Innovation and Technology Development, Employment Agency. 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.

The situation with the global COVID-19 pandemic posed a new challenge in the process of preparation of the programme, where the tools for organising virtual events were mostly used in holding working meetings with institutions, training, consultations, and implementation of the EC advisory mission. Also, the electronic communication was used to the maximum extent, in order for the ERP preparation process to move within the established time frame and dynamics for its submission to the EC.

On June 24 - 25, 2021, a Regional EU meeting for starting the process of preparation of the ERP 2022-2024 was held where inter alia the new ERP Guidance Note and its novelties were presented i.e introducing new structural reforms areas, new ERP structure 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 April - May 2021, as part of the EU funded multi-beneficiary project⁴⁵, two workshops with CEF⁴⁶ – e-learning - were held: the first one was focused on stakeholder mobilisation for successful structural reforms, held on April 12 and 21 and second workshop for strengthening the capacities of the institutions involved in the process of preparation of ERP for creating reform measures and their integration in the budgets, held on May 17 – 28.

On July 12, 2021, 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 2022-2024.

⁴⁵EU funded multi-beneficiary project "Strengthening Line Ministries' Capacities to Assess Fiscal Implications of Structural Reforms", a regional project for Western Balkans countries and Turkey

⁴⁶Centre of Excellence in Finance, Ljubljana

In July 2021, the Government adopted the Information for the Economic and Financial Dialogue between EU and Western Balkan and Turkey and the Economic Reform Programme 2022-2024 containing the Joint Conclusions - Policy Guidances with Recommendations, and the process for preparation of the new ERP 2022-2024 started.

On July 21 and September 17, 2021, two meetings were held between the Minister of finance and Ministers and Directors of the relevant institutions, on how to implement the Joint Conclusions of the Economic and Financial Dialogue with the EU of 12 July 2021 and the draft proposals for structural reform measures for ERP 2022-2024.

In August, the Government adopted the Information for ERP 2022-2024 with an Action Plan for implementation of the policy recommendations adopted at the Economic and Financial Dialogue of July 12, 2021, which contained a review of the level of implementation of the joint conclusions from the previous Economic and Financial Dialogue with the EU held in May 2020, where the Republic of North Macedonia records the best result. The Information also contained the novelties in the EC Guidance Note for preparation of ERP 2022-2024, the key challenges that the country needs to overcome in the future, as well as the Action Plan for fulfilling the joint conclusions of the Economic and Financial Dialogue with the EU of July 21 2021 and Work Plan with time dynamics for preparation of ERP 2022-2024.

In September, the relevant institutions submitted to MoF draft of the sector diagnostics with proposals of reform measures for ERP 2022 – 2024, after which a draft of structural reforms was prepared under the new programme.

In October and December 2021, the relevant institutions submitted to the MoF 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 July 12, 2021.

In the period September - October, CEF held 2 more workshops in order to improve the quality of the proposed reform measures.

The EC Advisory Missions on the proposed measures were held on November 16 and 23, and in discussions with the institutions, proposals were made to improve the measures.

From 10 to 24 of December draft ERP 2022-2024, Chapter 5 – Structural reform measures, was published on the MF's website (<https://finance.gov.mk/economic-reform-programme/?lang=en>), as part of the process for public consultation and at the same time electronic invitation was sent to stakeholders, for the submission of opinions and comments regarding the measures. In addition, on December 16, 2021, on the Workshop organised by CEF in Skopje, a session was held with the present stakeholders to improve their involvement in the public consultations on ERP. Draft ERP 2022-2024, Chapter 5 - Structural reform measures has been submitted for discussion on the Economic and Social Council, in accordance with the Annual Work Programme of the ESC for 2021. The received comments and suggestions are attached in Annex 3.

In December 2021 the macroeconomic and fiscal framework for ERP 2022-2024 was prepared.

In January 2022, ERP was submitted with Information to the Government, with draft conclusions to accept the text of ERP 2022-2024 and to oblige the Minister of Finance to submit it to the EC.

The Government adopted the Programme at a session held on 28.01. 2022.

Annex 1: Summary data

Table 1a. Macroeconomic prospects

	ESA Code	2020	2020	2021	2022	2023	2024
		bn EUR	Rate of change				
1. Real GDP at market prices	B1*g	10.54	-6.1	4.1	4.6	5.2	5.7
2. GDP at market prices	B1*g	10.64	-5.3	10.0	7.1	7.3	7.8
Components of real GDP							
3. Private consumption expenditure	P3	7.02	-4.6	4.8	3.5	3.9	4.2
4. Government consumption expenditure	P3	1.67	6.4	1.8	1.7	1.7	1.4
5. Gross fixed capital formation ⁴⁷	P51	3.23	-16.1	7.7	8.5	8.9	9.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	:	:	:	:	:	:
7. Exports of goods and services	P6	6.25	-10.9	13.7	8.3	8.6	9.0
8. Imports of goods and services	P7	7.62	-10.9	13.6	7.7	7.8	8.0
Contribution to real GDP growth							
9. Final domestic demand		11.92	-7.6	5.8	5.3	5.8	6.2
10. Change in inventories and net acquisition of valuables	P52+P53	:	:	:	:	:	:
11. External balance of goods/services	B11	-1.38	1.5	-1.7	-0.7	-0.6	-0.4

Source: SSO and calculations of the Ministry of finance

Table 1b. Price developments

		2020	2021	2022	2023	2024
1. GDP deflator	%	0.9	5.7	2.4	2.0	2.0
2. Private consumption deflator	%	2.0	3.0	2.4	2.0	2.0
3. HICP	%	:	:	:	:	:
4. National CPI	%	1.2	3.2	2.4	2.0	2.0
5. Public consumption deflator	%	5.8	5.3	3.0	2.1	1.7
6. Investment deflator	%	-4.4	13.8	2.6	1.9	2.0
7. Export price deflator (goods & services)	%	0.4	9.5	3.5	1.8	1.6
8. Import price deflator (goods & services)	%	0.3	9.5	3.5	1.8	1.6

Source: Calculations of the Ministry of Finance and NBRNM

Table 1c. Labour market developments

	ESA code	2020	2020	2021	2022	2023	2024
		Level	Rate of change				
1. Population (thousands)			2,073	2,068	2,062	2,056	2,049
2. Population (growth rate in %)			-0.2	-0.2	-0.3	-0.3	-0.3
3. Working-age population (persons, thousands ⁴⁸)			1,686	1,695	1,709	1,722	1,738
4. Participation rate			56.4	56.1	56.5	57.0	57.7
5. Employment ⁴⁹ (persons, thousands)			795	801	826	855	888
6. Employment ⁵⁰ , hours worked			:	:	:	:	:
7. Employment (growth rate in %)			-0.3	0.8	3.1	3.5	3.8
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate ⁵¹			16.4	15.8	14.4	12.9	11.4
11. Labour productivity ⁵² , persons		818.1	-5.8	3.2	1.5	1.7	1.8
12. Labour productivity ⁵³ , hours worked			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

⁴⁷ Data refers to gross capital formation

⁴⁸ Age group of 15-64 years

⁴⁹ Occupied population, domestic concept national accounts definition

⁵⁰ National accounts definition

⁵¹ Harmonised definition, Eurostat

⁵² Real GDP per person employed

⁵³ Real GDP per hour worked

Table 1d. Sectoral balance

% of GDP	ESA	2020	2021	2022	2023	2024
1. Net lending/borrowing vis-à-vis the rest of the world	B9	1.1	1.4	0.2	1.3	1.1
of which:						
- Balance of goods and services		-12.8	-16.2	-16.2	-13.6	-12.5
- Balance of primary incomes and transfers		9.4	12.4	12.4	11.2	11.0
- Capital account		4.1	4.5	4.0	3.7	2.6
2. Net lending/borrowing of the private sector	B9/EDP B9	4.9	2.6	0.5	1.0	1.4
3. Net lending/borrowing of general government		-8.3	-6.4	-4.3	-3.4	-2.9
4. Statistical discrepancy		0.4	0.7	0.0	0.0	0.0

Source: NBRNM and MoF

Table 1e. GDP, investment and gross value added

	ESA	2020	2021	2022	2023	2024
GDP and investment						
GDP level at current market prices (in bn Denars)	B1g	655.9	721.6	773.0	829.5	894.4
Investment ratio (% of GDP)		29.0	32.4	33.6	34.7	35.9
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-3.2	:	:	:	:
2. Industry (excluding construction)		-10.4	:	:	:	:
3. Construction		-4.0	:	:	:	:
4. Services		-4.5	:	:	:	:

Source: SSO and calculations of the Ministry of Finance

Table 1f. External sector developments

Euro billion	2020	2021	2022	2023	2024
1. Current account balance(% of GDP)	-3.4	-3.8	-3.8	-2.4	-1.6
2. Export of goods	4.8	6.0	6.3	6.9	7.4
3. Import of goods	6.6	8.4	8.9	9.4	9.9
4. Trade balance	-1.8	-2.4	-2.6	-2.5	-2.5
5. Export of services	1.4	1.7	1.9	2.0	2.2
6. Import of services	1.0	1.1	1.3	1.4	1.5
7. Service balance	0.4	0.6	0.6	0.6	0.7
8. Net interest payments from abroad	:	:	:	:	:
9. Other net factor income from abroad	-0.4	-0.5	-0.5	-0.6	-0.6
10. Current transfers	1.4	1.9	2.1	2.1	2.2
11. Of which from EU	:	:	:	:	:
12. Current account balance	-0.4	-0.4	-0.4	-0.4	-0.2
13. Capital and financial account balance	0.4	0.5	0.5	0.5	0.4
14. Foreign direct investment, net	0.2	0.3	0.4	0.5	0.5
15. Foreign reserves	3.4	3.6	:	:	:
16. Foreign debt	8.5	:	:	:	:
16a. Of which: public	:	:	:	:	:
16b. O/w: foreign currency denominated	:	:	:	:	:
16c. O/w: repayments due	:	:	:	:	:
17. Exchange rate vis-à-vis EUR (end-year)	61.7	61.6	61.6	61.6	61.6
18. Exchange rate vis-à-vis EUR (annual average)	61.7	61.6	61.6	61.6	61.6
19. Net foreign saving (% of GDP)	:	:	:	:	:
20. Domestic private saving (% of GDP)	:	:	:	:	:
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

		2017	2018	2019	2020	2021
1. Current Account Balance	% of GDP	-1.0	-0.1	-3.3	-3.4	-3.8
2. Net International Investment Position	% of GDP	-58.0	-56.2	-57.6	-64.1	:
3. Export market share	% growth	3.4	12.3	4.1	1.7	:
4. Real Effective Exchange Rate	% growth	-0.5	1.4	-1.7	1.9	:
5. Nominal Unit Labour Costs	% growth	3.9	6.5	7.0	13.7	:
6. Private sector credit flow	% of GDP	2.5	3.3	2.8	2.4	:
7. Private sector debt	% of GDP	87.5	86.8	88.0	94.0	:
8. General Government Debt	% of GDP	39.4	40.4	40.4	51.9	51.9

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

Table 2a. General government budgetary prospects

	ESA	2020	2020	2021	2022	2023	2024
		bn denars	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-54.62	-8.3	-6.4	-4.3	-3.4	-2.9
2. Central government	S1311	-54.01	-8.2	-6.4	-4.2	-3.4	-2.9
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-0.75	-0.1	0.1	0.0	0.0	0.0
5. Social security funds	S1314	0.14	0.0	0.0	-0.1	0.0	0.0
General government (S13)							
6. Total revenue	TR	200.30	30.5	33.7	33.6	33.3	33.7
7. Total expenditure ⁵⁴	TE	254.92	38.9	40.0	37.9	36.7	36.6
8. Net borrowing/lending	EDP.B9	-54.62	-8.3	-6.4	-4.3	-3.4	-2.9
9. Interest expenditure	EDP.D41	8.06	1.2	1.3	1.3	1.3	1.1
10. Primary balance ⁵⁵		-46.55	-7.1	-5.0	-3.0	-2.2	-1.7
11. One-off and other temporary measures ⁵⁶		:	:	:	:	:	:
Components of revenues							
12. Total taxes (11 = 12a+12b+12c)		114.80	17.5	18.8	19.3	19.4	20.2
12a. Taxes on production and imports	D2	82.19	12.5	13.7	14.4	14.4	15.0
12b. Current taxes on income and wealth	D5	29.61	4.5	4.6	4.4	4.5	4.7
12c. Capital taxes	D91	3.01	0.5	0.5	0.5	0.5	0.5
13. Social contributions	D61	66.56	10.1	9.6	9.6	9.6	9.5
14. Property income	D4	3.07	0.5	0.9	0.8	0.8	0.8
15. Other (15 = 16-(12+13+14)) ⁵⁷		15.87	2.4	4.3	3.8	3.6	3.3
16 = 6. Total revenue	TR	200.30	30.5	33.7	33.6	33.3	33.7
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁵⁸		181.36	27.6	28.4	28.9	29.0	29.7
Selected components of expenditures							
17. Collective consumption	P32	70.47	10.7	11.6	10.8	10.3	9.9
18. Total social transfers	D62 + D63	117.85	18.0	17.0	16.1	15.6	15.0
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	117.85	18.0	17.0	16.1	15.6	15.0
19 = 9. Interest expenditure	EDP.D41	8.06	1.2	1.3	1.3	1.3	1.1
20. Subsidies	D3	37.74	5.8	4.9	3.6	3.5	3.9
21. Gross fixed capital formation	P51	20.80	3.2	5.2	6.1	6.1	6.6
22. Other (22 = 23-(17+18+19+20+21)) ⁵⁹		:	:	:	:	:	:
23.=7. Total expenditures	TE ⁶⁰	254.92	38.9	40.0	37.9	36.7	36.6
p.m. compensation of public sectoremployees	D1	48.11	7.3	7.1	6.7	6.4	6.0

Source: Ministry of Finance

⁵⁴ Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9⁵⁵ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9)⁵⁶ A plus sign means deficit-reducing one-off measures⁵⁷ P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (other than D.91)⁵⁸ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate⁵⁹ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8⁶⁰ Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9

Table 2b. General government budgetary prospects

	ESA	2020	2021	2022	2023	2024
		bn denars				
Net lending (B9) by sub-sectors						
1. General government	S13	-54.62	-45.87	-33.53	-28.45	-25.81
2. Central government	S1311	-54.01	-46.07	-32.72	-28.44	-25.79
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-0.75	0.36	0.00	0.00	0.00
5. Social security funds	S1314	0.14	-0.17	-0.81	-0.01	-0.01
General government (S13)						
6. Total revenue	TR	200.30	243.11	259.41	276.35	301.46
7. Total expenditure ⁶¹	TE	254.92	288.97	292.94	304.80	327.27
8. Net borrowing/lending	EDP.B9	-54.62	-45.87	-33.53	-28.45	-25.81
9. Interest expenditure	EDP.D41	8.06	9.44	10.13	10.44	10.17
10. Primary balance ⁶²		-46.55	-36.43	-23.40	-18.02	-15.64
11. One-off and other temporary measures ⁶³		:	:	:	:	:
Components of revenues						
12. Total taxes (11 = 11a+11b+11c)		114.80	136.00	148.90	160.78	180.32
12a. Taxes on production and imports	D2	82.19	98.89	110.94	119.61	133.84
12b. Current taxes on income and wealth	D5	29.61	33.32	33.96	36.98	42.08
12c. Capital taxes	D91	3.01	3.78	4.00	4.20	4.40
13. Social contributions	D61	66.56	69.20	74.37	79.54	85.10
14. Property income	D4	3.07	6.74	6.48	6.49	6.91
15. Other (15 = 16-(12+13+14)) ⁶⁴		15.87	31.18	29.65	29.54	29.14
16 = 6. Total revenue	TR	200.30	243.11	259.41	276.35	301.46
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁶⁵		181.36	205.19	223.28	240.32	265.42
Selected components of expenditures						
17. Collective consumption	P32	70.47	83.79	83.86	85.46	88.61
18. Total social transfers	D62+D63	117.85	122.69	124.56	129.45	134.31
18a. Social transfers in kind	P31=D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	117.85	122.69	124.56	129.45	134.31
19 = 9. Interest expenditure	EDP.D41	8.06	9.44	10.13	10.44	10.17
20. Subsidies	D3	37.74	35.34	27.45	28.80	34.90
21. Gross fixed capital formation	P51	20.80	37.71	46.93	50.66	59.28
22. Other (22 = 23-(17+18+19+20+21)) ⁶⁶		:	:	:	:	:
23.=7. Total expenditures	TE ⁶⁷	254.92	288.97	292.94	304.80	327.27
p.m. compensation of public sectoremployees	D1	48.11	50.88	51.97	52.87	53.42

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				2.6	-0.1		
	revenues							
	Subtotal							

⁶¹ Adjusted for the next flow of swap-related flows so that TR-TE = EDP.B9⁶² The primary balance is calculated as (EDP.B9, item 8) plus (EDP.D41 + FISIM recorded as intermediate consumption, item 9)⁶³ A plus sign means deficit-reducing one-off measures⁶⁴ P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (other than D.91)⁶⁵ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate⁶⁶ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8⁶⁷ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9

Non-temporary measures¹	Subtotal					
	Total					

Source: Ministry of Finance

Table 3. General government expenditure by function

Percentage of GDP	COFOG	2020	2021	2022	2023	2024
1. General public services	1	16.5	5.0	4.0	:	:
2. Defence	2	1.1	1.4	1.6	:	:
3. Public order and safety	3	2.3	2.4	2.4	:	:
4. Economic affairs	4	4.0	4.2	4.4	:	:
5. Environmental protection	5	0.2	0.3	0.5	:	:
6. Housing and community amenities	6	1.7	2.9	2.8	:	:
7. Health	7	6.3	6.6	5.5	:	:
8. Recreation, culture and religion	8	0.6	0.6	0.6	:	:
9. Education	9	3.9	4.0	3.9	:	:
10. Social protection	10	2.4	12.7	12.2	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	38.9	40.0	37.9	36.7	36.6

Source: Ministry of Finance

Table 4. General government debt developments

Percentage of GDP	ESA	2020	2021	2022	2023	2024
1. Gross debt ⁶⁸		51.9	51.9	53.3	53.0	51.7
2. Change in gross debt ratio		11.4	0.0	1.4	-0.3	-1.3
Contributions to change in gross debt						
3. Primary balance ⁶⁹		7.1	5.0	3.0	2.2	1.7
4. Interest expenditure ⁷⁰	EDPD.41	1.2	1.3	1.3	1.3	1.1
5. Real growth effect		2.6	-1.9	-2.2	-2.6	-2.8
6. Inflation effect		-0.4	-2.7	-1.2	-1.0	-1.0
7. Stock-flow adjustment		0.9	-1.7	0.5	-0.2	-0.4
of which:						
- Differences between cash and accruals ⁷¹		:	:	:	:	:
- Net accumulation of financial assets ⁷²		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other ⁷³		:	:	:	:	:
p.m. implicit interest rate on debt ⁷⁴		2.9	2.8	2.7	2.5	2.3
Other relevant variables						
8. Liquid financial assets ⁷⁵						
9. Net financial debt (9 = 1 - 8)						

Source: Ministry of Finance

Table 5. Cyclical developments

Percentage of GDP	ESA	2020	2021	2022	2023	2024
1. Real GDP growth (%)	B1g	-6.1	4.1	4.6	5.2	5.7
2. Net lending of general government *	EDP.B.9	-8.3	-6.4	-4.3	-3.4	-2.9
3. Interest expenditure	EDP.D.41	1.2	1.3	1.3	1.3	1.1
4. One-off and other temporary measures ⁷⁶		:	:	:	:	:

⁶⁸ As defined in Regulation 3605/93 (not an ESA concept)

⁶⁹ Cf item 10 in Table 2a

⁷⁰ Cf item 9 in Table 2a

⁷¹ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant

⁷² Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant

⁷³ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

⁷⁴ Proxied by interest expenditure divided by the debt level of the previous year

⁷⁵ AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).

⁷⁶ A plus sign means deficit-reducing one-off measures

5. Potential GDP growth (%) ⁷⁷		2.1	2.3	2.5	2.8	3.3
Contributions (percentage points):						
- labour		1.2	1.0	0.9	0.9	0.9
- capital		1.3	1.4	1.5	1.6	1.7
- total factor productivity		-0.4	-0.1	0.2	0.3	0.7
6. Output gap		-5.8	-4.1	-2.2	0.1	2.4
7. Cyclical budgetary component		-2.1	-1.5	-0.8	0.0	0.8
8. Cyclically-adjusted balance (2-7)		-6.2	-4.8	-3.6	-3.5	-3.7
9. Cyclically-adjusted primary balance (8-3)		-5.0	-3.5	-2.3	-2.2	-2.6
10. Structural balance (8-4)		:	:	:	:	:

* Data pertains to central government budget

Source: Ministry of Finance

Table 6. Divergence from previous programme

	2020	2021	2022	2023	2024
1. GDP growth					
Previous programme	-4.4	4.1	4.6	5.2	:
Latest programme	-6.1	4.1	4.6	5.2	5.7
Difference (p.p.)	-1.7	0.0	0.0	0.0	:
2. General government net lending (% of GDP)					
Previous programme	-8.4	-4.9	-3.8	-3.2	:
Latest programme	-8.3	-6.4	-4.3	-3.4	-2.9
Difference (p.p.)	0.1	-1.4	-0.5	-0.2	:
3. General government gross debt (% of GDP)					
Previous programme	51.2	53.2	53.3	53.7	:
Latest programme	51.9	51.9	53.3	53.0	51.7
Difference (p.p.)	0.7	-1.3	0.1	-0.7	:

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)	:	:	:	:	:	:	:

⁷⁷ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

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) ⁷⁸	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 ⁷⁹ (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19	Subtotal	0.6	0.0
Others	Subtotal	7.6	0.3
Total		8.2	0.3

Source: Ministry of Finance

Table 8. Basic assumptions on the external economic environment underlying the programme framework

		2020	2021	2022	2023	2024
Short-term interest rate	Annual average	-0.4	-0.5	-0.5	-0.3	-0.3
Long-term interest rate	Annual average	-0.5	-0.3	-0.1	0.1	0.1
USD/EUR exchange	Annual average	1.14	1.19	1.16	1.16	1.16
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	61.67	61.6	61.6	61.6	61.6
Global GDP growth, excluding EU	Annual average	-2.9	5.8	4.5	3.7	3.4
EU GDP growth	Annual average	-5.9	5.0	4.3	2.5	1.9
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU (y-o-y)	Annual average	-8.9	9.3	6.1	4.5	4.5
Oil prices (Brent, USD/barrel)	Annual average	43.4	71.6	78.9	72.3	71.0

Source: European Commission, Economic Forecast Autumn 2020 and European Central Bank

Table 9a: Social scoreboard indicators⁸⁰

	Data source	2017	2018	2019	2020	2021
Equal opportunities						
1. Adult participation in learning during the last 12 months, age 25-64		N/A	N/A	N/A	N/A	N/A
2. Share of early leavers from education and training, age 18-24	Eurostat	8.5%	7.1%	7.1%	5.7%	N/A
3. Share of population with basic overall digital skills or above, age 16-74	Eurostat	32%	N/A	32%	N/A	N/A
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	Eurostat	31.1%	29.8%	24.5%	26.2%	N/A
5. Gender gap in employment rate, age 20-64	Eurostat	21.9 pps.	21.4 pps.	21.3 pps.	19.9 pps.	N/A
6. Income quintile share ratio - S80/S20	Eurostat	6.38	6.16	5.56	N/A	N/A
Working conditions						
7. Employment rate, age 20-64	Eurostat	54.8%	56.1%	59.2%	59.1%	N/A

⁷⁸Labour market calculation refer to the age group of 15-64 years old.

⁷⁹Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the ERP.

⁸⁰ Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when available. In case of data from national or international sources, a footnote should be added for each indicator explaining how it is defined. In case no data are available for an indicator, please see whether any data would be available for a similar indicator and explain so. For 2021, please add the data for the last quarter and indicate the quarter in brackets (e.g. (Q3)). If no data are available, please mark "N/A". For all indicators the values shall be inserted in the table, not the year-on-year change of the values.

8. Unemployment rate, age 15-74	Eurostat	22.4%	20.8%	17.3%	16.4%	N/A
9. Long-term unemployment rate, age 15-74	Eurostat	17.4%	15.5%	13.1%	12.4%	N/A
10. Gross disposable income of households in real terms, per capita		N/A	N/A	N/A	N/A	N/A
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	Eurostat	41.6%	41.1%	39.9%	N/A	N/A
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	Eurostat	47.2%	45.9%	44.0%	N/A	N/A
13. Impact of social transfers (other than pensions) on poverty reduction	Eurostat	14.29%	14.79%	14.96%	N/A	N/A
14. Disability employment gap, age 20-64		N/A	N/A	N/A	N/A	N/A
15. Housing cost overburden rate	Eurostat	11.7%	10.2%	9.9%	N/A	N/A
16. Children aged less than 3 years in formal childcare	Eurostat	10.3%	8.8%	13.0%	N/A	N/A
17. Self-reported unmet needs for medical care	Eurostat	2.5%	2.3%	2.5%	N/A	N/A

Table 9b: Other selected indicators⁸¹

	Data source	2017	2018	2019	2020	2021
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP	MF	11.6	11.5	11.9	2.4	12.7
2. Public healthcare expenditure in % of GDP	MF	4.9	4.9	5.0	6.3	6.6
3. Household out-of-pocket payments as a % of total health expenditure		42.4	42.1			
4. Percentage of population not covered by health insurance (Health Insurance Fund data)		9.8	10.0	9.7	10.1	N/A
5. Ratio of doctors per 1000 inhabitants	Eurostat	6.22	6.36	6.47	N/A	N/A
6. Ratio of nurses per 1000 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						
8. Greenhouse gas emissions per capita	SSO	0.0066 CO ₂ -eq. [kt]	0.004 CO ₂ -eq. [kt]	0.006 CO ₂ -eq. [kt]	N/A	N/A
9. Generation of waste excluding major mineral wastes	Eurostat	N/A	549 kg per cap.	N/A	N/A	N/A
Digital economy						
10. Percentage of households with broadband access (mobile and fixed)	SSO	73.6%	79.3%	81.8%	79.9%	83.7%
11. Share of total population using internet [NB: population 16-74]	SSO	74.5%	79.2%	81.4%	81.4%	86.4%
Energy						
12. Energy imports dependency (%)	Eurostat	56.186%	58.395%	58.516	63.300	N/A
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	Eurostat	331.36 kg/EUR	302.18 kg/EUR	321.27 kg/EUR	307.66 kg/EUR	N/A
14. Share of renewable energy sources (RES) in final energy consumption (%)	Eurostat	19.633%	18.179%	16.811%	N/A	N/A
Transport						
15. Railway Network Density (meters of line per km ² of land area)	UNECE	26.85	26.85	26.85	26.85	26.85

⁸¹ Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when available. In case of data from national or international sources, a footnote should be added for each indicator explaining how it is defined. In case no data are available for an indicator, please see whether any data would be available for a similar indicator and explain so. For 2021, please add the data for the last quarter and indicate the quarter in brackets (e.g. (Q3)). If no data are available, please mark "N/A". For all indicators the values shall be inserted in the table, not the year-on-year change of the values.

16.Motorisation rate (Passenger cars per 1000 inhabitants)	Eurostat	194	200	205	N/A	N/A
Agriculture						
17.Share of gross value added (Agriculture, Forestry and Fishing)	SSO	9.1%	9.8%	9.4%	9.8%	N/A
18.Share of employment (Agriculture, Forestry and Fishing)	SSO	16.2%	15.7%	13.9%	12.0%	11.5%
19.Utilised agricultural area (% of total land area)	Eurostat	49.7%	49.7%	49.7%	49.7%	49.7%
Industry (except construction)						
20.Share of gross value added	SSO	20.5%	21.5%	20.8%	19.7%	N/A
21.Contribution to employment (% of total employment)	SSO	23.3%	23.9%	24.1%	23.9%	23.1%
Services						
22.Share of gross value added	SSO	62.9%	62.6%	63.3%	64.2%	N/A
23.Contribution to employment (% of total employment)	SSO	53.2%	52.9%	55.0%	57.1%	57.9%
Business Environment						
24.Rank in Global Competitiveness Index (Source: World Economic Forum)	WEF	60	84	82	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	0.35%	0.36%	0.37%	N/A	N/A
27.R&D expenditure – EUR per inhabitant	Eurostat	17.20€	18.8€	19.9€	N/A	N/A
Trade						
28.Export of goods and services (as % of GDP)	SSO	55.1%	60.4%	62.4%	58.9%	N/A
29.Import of goods and services (as % of GDP)	SSO	69.0%	72.8 %	76.2%	71.9%	N/A
30.Trade balance (as % of GDP)	SSO	-13.8%	-12.5%	-13.8%	-13.0%	N/A

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 2022	5,507,121	0	0	0	5,507,121
Year 2023	5,571,754	0	0	0	5,571,754
Year 2024	5,732,004	0	0	0	5,732,004
Measure 2: Increasing the flexibility of the labour market					
Year 2022	0	180,000	0	0	180,000
Year 2023	0	0	0	0	0
Year 2024	0	0	0	0	0
Measure 3: Enhancing the system for social inclusion of vulnerable groups					
Year 2022	0	550,000	4,250,000	130,000	4,930,000
Year 2023	0	140,000	3,518,000	496,000	4,154,000
Year 2024	0	200,000	570,000	0	770,000
Measure 4: Strengthening the quality of the Primary Health care					
Year 2022	0	230,000	26,000	660,000	916,000
Year 2023	3,740,000	402,000	156,000	4,664,500	8,962,500
Year 2024	3,740,000	359,800	286,000	2,467,500	6,853,300
Measure 5: Promotion of renewable energy sources					
Year 2022	0	20,000	0	0	20,000
Year 2023	0	100,000	2,700,000	0	2,800,000
Year 2024	0	0	3,500,000	0	3,500,000
Measure 6: Improvement of energy efficiency					
Year 2022	0	1,000,000	0	25,000,000	26,000,000
Year 2023	0	800,000	0	0	800,000
Year 2024	0	1,020,000	0	20,000,000	20,180,000
Measure 7: Establishing wastewater collection and treatment infrastructure in accordance with EU requirements					
Year 2022	0	331,000	0	56,460,652	56,791,652
Year 2023	0	526,000	0	56,265,652	56,791,652
Year 2024	0	526,000	0	56,265,652	56,791,652
Measure 8: Establishing an integrated and financially self-sustainable waste management system					
Year 2022	0	312,699	0	16,764,451	17,077,150
Year 2023	0	223,749	0	8,975,615	9,199,364
Year 2024	0	223,749	0	8,975,615	9,199,364
Measure 9: Increasing the competitiveness of the electricity market					
Year 2022	120,000	130,000	200,000	30,000	480,000 ⁸²

⁸² The funds are intended for activities of the market operator

Year 2023	0	0	0	0	0
Year 2024	0	0	0	0	0
Measure 10: Implementation of an Intelligent Transport System (ITS) along Corridor X					
Year 2022	0	0	0	TBD	TBD
Year 2023	0	0	0	TBD	TBD
Year 2024	0	0	0	TBD	TBD
Measure 11: Broadening the scope of digital services provided on National E-service Portal					
Year 2022	25,000	1,690,000	0	0	1,715,000
Year 2023	0	1,690,000	0	0	1,690,000
Year 2024	0	212,000	0	0	212,000
Measure 12: Streamline the use of parafiscal charges					
Year 2022	0	150,000	0	0	150,000
Year 2023	0	150,000	0	0	150,000
Year 2024	0	0	0	0	0
Measure 13: Hybrid fund for green and digital start-ups and innovative SME's					
Year 2022	0	0	10,000,000	0	10,000,000
Year 2023	0	0	0	0	0
Year 2024	0	0	17,000,000	0	17,000,000
Measure 14: Financial support for Roma entrepreneurs					
Year 2022	0	0	1,980,000	0	1,980,000
Year 2023	0	0	1,980,000	0	1,980,000
Year 2024	0	0	1,980,000	0	1,980,000
Measure 15: Establishment of Management Information System on State Aid					
Year 2022	500,000	1,500,000	0	0	2,000,000
Year 2023	1,500,000	0	0	0	1,500,000
Year 2024	0	0	0	0	0
Measure 16: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities					
Year 2022	0	260,000	0	0	260,000
Year 2023	0	80,000	0	0	80,000
Year 2024	0	0	0	0	0
Measure 17: Enhancing cooperation between the academy and the industry – STP					
Year 2022	100,000	0	0	600,000	700,000
Year 2023	150,000	0	0	850,000	1,000,000
Year 2024	150,000	0	0	1,850,000	2,000,000
Measure 18: Strengthening the market rules in the Republic of North Macedonia					
Year 2022	0	1,000,000	0	0	1,000,000
Year 2023	0	1,000,000	0	0	1,000,000
Year 2024	0	0	0	0	0
Measure 19: Modernisation of the postharvest management of the agricultural products					

Year 2022	0	1,000,000	0	2,200,211	3,200,211
Year 2023	500,000	5,242,954	0	10,000,000	15,742,954
Year 2024	500,000	4,087,507	0	10,000,000	14,937,507
Measure 20: Establishing Integrated tax information system in PRO					
Year 2022	0	0	0	2,500,000	2,500,000
Year 2023	0	0	0	1,350,000	1,350,000
Year 2024	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 2022	3,983,869	0	0	1,523,502	0	0	0	5,507,121
Year 2023	4,048,502	0	0	1,523,502	0	0	0	5,571,754
Year 2024	4,208,502	0	0	1,523,502	0	0	0	5,732,004
Measure 2: Increasing the flexibility of the labour market								
Year 2022	0	0	0	180,000	0	0	0	180,000
Year 2023	0	0	0	2,000,000	0	0	0	0
Year 2024	0	0	0	0	0	0	0	0
Measure 3: Enhancing the system for social inclusion of vulnerable groups								
Year 2022	291,160	0	0	2,208,840	0	2,430,000	0	4,930,000
Year 2023	253,000	0	0	1,147,000	0	2,754,000	0	4,154,000
Year 2024	114,500	0	0	655,500 ⁸³	0	0	0	770,000
Measure 4: Strengthening the quality of the Primary Health care								
Year 2022	816,000	0	100,000	0	0	0	0	916,000
Year 2023	5,112,500	0	3,850,000	0	0	0	0	8,962,500
Year 2024	3,013,300	0	3,840,000	0	0	0	0	6,853,300
Measure 5: Promotion of renewable energy sources								
Year 2022	0	0	0	0	20,000	0	0	20,000
Year 2023	2,800,000	0	0	0	0	0	0	2,800,000
Year 2024	3,500,000	0	0	0	0	0	0	3,500,000
Measure 6: Improvement of energy efficiency								
Year 2022	150,000	0	0	850,000	0	25,000,000	0	26,000,000
Year 2023	90,000	0	0	510,000	200,000	0	0	800,000
Year 2024	180,000	0	0	1,020,000	0	0	20,000,000	20,180,000
Measure 7: Establishing wastewater collection and treatment infrastructure in accordance with EU requirements								
Year 2022	10,895,990	0	0	18,495,662	0	27,400,000	0	56,791,652
Year 2023	10,895,990	0	0	18,495,662	0	27,400,000	0	56,791,652
Year 2024	10,895,990	0	0	18,495,662	0	27,400,000	0	56,791,652
Measure 8: Establishing an integrated and financially self-sustainable waste management system								
Year 2022	3,377,235	0	0	13,699,915	0	0	0	17,077,150
Year 2023	2,195,567	0	0	7,003,797	0	0	0	9,199,364
Year 2024	2,195,567	0	0	7,003,797	0	0	0	9,199,364
Measure 9: Increasing the competitiveness of the electricity market								

⁸³ Proposed under IPA III, still in negotiation and pending approval by the European Commission

Year 2022	0	0	480,000	0	0	0	0	480,000 ⁸⁴
Year 2023	0	0	0	0	0	0	0	0
Year 2024	0	0	0	0	0	0	0	0
Measure 10: Implementation of an Intelligent Transport System (ITS) along Corridor X								
Year 2022	0	0	0	0	0	TBD	0	TBD
Year 2023	0	0	0	0	0	TBD	0	TBD
Year 2024	0	0	0	0	0	TBD	0	TBD
Measure 11: Broadening the scope of digital services provided on National E-service Portal								
Year 2022	415,000	0	0	1,300,000	0	0	0	1,715,000
Year 2023	390,000	0	0	1,300,000	0	0	0	1,690,000
Year 2024	212,000	0	0	0	0	0	0	212,000
Measure 12: Streamline the use of parafiscal charges								
Year 2022	0	0	0	150,000	0	0		150,000
Year 2023	0	0	0	150,000	0	0	0	150,000
Year 2024	0	0	0	0	0	0	0	0
Measure 13: Hybrid fund for green and digital start-ups and innovative SME's								
Year 2022	10,000,000	0	0	0	0	0	0	10,000,000
Year 2023	0	0	0	0	0	0	0	0
Year 2024	0	0	0	0	0	0	17,000,000	17,000,000
Measure 14: Financial support for Roma entrepreneurs								
Year 2022	990,000	0	0	0	990,000	0	0	1,980,000
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
Measure 15: Establishment of Management Information System on State Aid								
Year 2022	0	0	0	0	0	2,000,000	0	2,000,000
Year 2023	0	0	0	0	0	1,500,000	0	1,500,000
Year 2024	0	0	0	0	0	0	0	0
Measure 16: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities								
Year 2022	0	0	0	180,000	80,000	0		260,000
Year 2023	0	0	0	0	80,000	0	0	80,000
Year 2024	0	0	0	0	0	0	0	0
Measure 17: Enhancing cooperation between the academy and the industry – STP								
Year 2022	700,000	0	0	0	0	0	0	700,000
Year 2023	1,000,000	0	0	0	0	0	0	1,000,000
Year 2024	2,000,000	0	0	0	0	0	0	2,000,000
Measure 18: Strengthening the market rules in the Republic of North Macedonia								
Year 2022	0	0	0	1,000,000	0	0	0	1,000,000

⁸⁴ The funds are intended for activities of the market operator

Year 2023	0	0	0	1,000,000	0	0	0	1,000,000
Year 2024	0	0	0	0	0	0	0	0
Measure 19: Modernisation of the postharvest management of the agricultural products								
Year 2022	0	0	0	0	0	3,200,211	0	3,200,211
Year 2023	0	0	0	350,000	0	15,392,954	0	15,742,954
Year 2024	0	0	0	350,000	0	14,587,507	0	14,937,507
Measure 20: Establishing Integrated tax information system in PRO								
Year 2022	2,500,000	0	0	0	0	0	0	2,500,000
Year 2023	1,350,000	0	0	0	0	0	0	1,350,000
Year 2024	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 2021-2023

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) ⁸⁵
	Measure 1: Increasing the competitiveness of the electricity market	Stage of reform implementation (1-5)
Activities planned for 2021	1. Activities related to day ahead market coupling between IBEX (Bulgaria) and MEMO (North Macedonia).	
	- Amendment and approval of the new Project Roadmap	4
	- Finalisation of the selection of Service provider for LTS and PCR associate membership	4
	- HLMD (High level market design) drafting and approval (electricity market connection between EU and non EU connection)	3
	- Full CACM (legislation) adoption in North Macedonia	3
	- Local Macedonian day ahead market Go-live	3
	- Drafting and submission of the SDAC procedures amendments for inclusion of BG-MKD border of electricity	3
	2. Training materials preparation and members' training organisation	3
Description of implementation and explanation if partial or no implementation	3. Amendments to the Energy Law and bylaws arising from the recommendations of the Study on the opportunities for increased use of guarantees of origin	4
	1. - A new operational memorandum of understanding has been signed for the project between 4 operators. - The procurement of a trading platform by MEMO is ongoing. - A draft of HDLM is ongoing and is closely related to the chosen trading platform and will be completed after the selection of the most favorable economic operator.	
	2. MEMO joined the SDAC (Single day ahead couplig) 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.	
	3. Draft Law amending the Law on Energy has been prepared and will be submitted in a government procedure.	
	Measure 2: Promotion of renewable energy sources	Stage of reform implementation (1-5)
Activities planned for 2021	1. Preparation and adoption of the programme for implementation of the Energy Development Strategy until 2040	4
	2. Assessment of main barriers for promoting of the prosumers in the electricity market and relevant legislation amended regarding the role of prosumers	5
	3. Assessment of current situation of heating and cooling sector in the country with measures for improvement	5
	4. Assessment for electrification of the transport, with focus of the public transport	5
	5. Conducting of the SEIA for the NECP	5
	6. Adoption of the Integrated National Energy and Climate Plan	1
	7. Adoption of the programme for Promotion of Renewable Energy Sources and Promotion of Energy Efficiency in Households	5
	8. Adoption of the Law on biofuels	4

⁸⁵0=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

	9. Payment of feed-in premiums for operational PV power plants	5
	10. Public call for granting the right to use premium for construction of photovoltaic powerplants	5
	11. Adoption of programme for protection of vulnerable energy consumers	5
Description of implementation and explanation if partial or no implementation	1. The programme for realisation of the Strategy for energy development has been prepared, the Report for strategic environmental impact assessment of the programme for realisation of the Strategy for energy development 2021-2025 has been prepared and a public debate has been held for these two documents. Upon completion of the consultation process, the programme will be submitted to the Government for adoption.	
	6. The final draft Energy and Climate Plan is prepared with technical assistance together with consultation with relevant stakeholders. The Strategic Environmental Impact Assessment Report of the Energy and Climate Plan has also been prepared. Upon completion of the consultation process, the programme will be submitted to the Government.	
	8. The final text of the Law on Biofuels has been prepared, public debates have been held and it will be submitted to the government in the coming period.	
	Measure 3: Improvement of energy efficiency	Stage of reform implementation (1-5)
Activities planned for 2021	1. Adoption of bylaws arising from the Energy Efficiency Law Decree for establishing a binding energy efficiency scheme, Decree regulating the energy service contracts, Rulebook regulating the methodology for determining the level of energy efficiency in the conduct of public procurement procedures, Rulebook on Energy Audit of Large Traders, Rulebook on high efficiency cogeneration plants), Comprehensive assessment of the potential for applying highly efficient combined energy generation and efficient central heating and air conditioning systems.	3
	2. Preparation of typology of buildings needed for adoption of the Strategy for reconstruction of buildings by 2030,	3
	3. Adoption of amendments of Energy Efficiency Law and regarding the establishment of Energy Efficiency Fund.	3
	4. Starting preparation of Inventory for energy performance for public buildings on the territory of Republic of North Macedonia.	2
Description of implementation and explanation if partial or no implementation	1. The bylaws are under preparation, the initial findings and draft versions for most of the acts have been prepared. It is expected that some of the Rulebooks on energy control for large traders and buildings, the Rulebook on energy performance of buildings and the Rulebook on marking energy consumption and other resources that use energy will be adopted in the coming period..	
	2. The initial findings for the preparation of the Typology are presented to the Ministry of Economy by the consultants	
	3. The selection of consultants who will prepare the amendments to the Law on Energy Efficiency in connection with the establishment of the Energy Efficiency Fund is ongoing.	
	4. In the phase of approval of funds for technical assistance for preparation of the Inventory	
	Measure 4: Implementation of an Intelligent Transport System (ITS) along Corridor 10	Stage of reform implementation (1-5)
Activities planned for 2021	1. Commencement of preparation of the ITS strategy.	1
	2. Starting the process of selecting a contractor and supervisor engineer of the ITS.	1
	3. Signing contracts for construction and with supervisor engineer. Estimated duration of the contracts is 12 months for construction and 18 months for supervision.	0
	4. Start of installation and supervision activities at the end of 2021.	0
Description of implementation and explanation if partial or no implementation	1. Consultant for preparation of National ITS Strategy has been selected and the activities have started at the end of 2021.	
	2. Selection of the contractor for construction and selection of supervision of construction is expected in the Q3 of 2022.	
	3. Signing of contracts expected in Q3-Q4 2022.	
	4. Expected start of ITS deployment is Q4 of 2022.	

	Measure 5: Improving the irrigation systems	Stage of reform implementation (1-5)
Activities planned for 2021	1. Continuing construction works of dam Konsko.	4
	2. Continuing construction works of dam Rechani.	4
	3. Continuing construction works of irrigation system Raven – Rechica.	4
	4. Starting procedure for providing construction license for construction of dam on Slupchanska River.	1
	5. Second and third phase on HS Zletovica - Finishing negotiations with EIB for financing of project and starting with tender preparation.	1
	6. Second phase of South Vardar irrigation system - Continuing construction works.	4
	7. IPA small irrigation systems - Finishing construction of 3 irrigation systems started in 2019. Finishing with technical documentation preparation for other 5 irrigation systems.	4
Description of implementation and explanation if partial or no implementation	The capital investments in construction of dams and irrigation systems have been realised according to the Investment Plan for Water Management Master Infrastructure 2015-2025. Taking into consideration that this measure refers to construction works on irrigation systems that are continuous activity, it will be withdrawn from ERP.	
	Measure 6: Consolidation and defragmentation of agricultural land	Stage of reform implementation (1-5)
Activities planned for 2021	1. Finalised re-allotment plans for 7 land consolidation projects	5
	2. Finalised implementation phase (registration of new ownership for 7 projects)	5
	3. Finalised construction of infrastructure in 1 land consolidation project	5
	4. Initiated re-allotment phase for 2 projects	5
Description of implementation and explanation if partial or no implementation	In the past period, all legal and institutional foundations have been laid towards implementing the policies through the adoption of a Law on land consolidation and its by-laws, as well as the formation of a special unit for consolidation as part of the Ministry of Agriculture, Forestry and Water Economy (MAFWE). The implementation of the first consolidation projects in accordance with the new law began in Egri, Bitola Municipality and Konče Municipality in 2014 with the support provided by UN's Food and Agriculture Organisation (FAO). The second phase of the National strategy on consolidation of agricultural land is underway, and it foresees the start of a large number of more complex consolidation projects at larger areas and in more places of the country with the involvement of serious interventions in field infrastructure. The implementation of this phase is financially and technically supported by EU's IPA funds and FAO through the project "Mainstreaming of the National Land Consolidation Programme" (MAINLAND). This project has to aid the start of a concrete consolidation projects in selected areas of the preliminary identified 24 potential locations. These are long-term activities and given that there are already legal and institutional conditions for implementing the measure, it will be withdrawn from ERP.	
	Measure 7: Agricultural cooperatives	Stage of reform implementation (1-5)
Activities planned for 2021	1. Providing continued financial support for cooperatives (continues from the previous period).	5
	2. Revising the legal framework for agricultural cooperatives in the way that cooperative principles are better fulfilled.	5
	3. Developed monitoring system for agricultural cooperatives functioning and effectiveness of national support measures.	5
	4. Encouraging the process of market-oriented association of farmers into cooperatives.	5
	5. Support for investments in processing, finalisation and placement of agricultural products.	5

Description of implementation and explanation if partial or no implementation	Within EU's project "Support for the development of agricultural cooperatives", which ended 2021, efforts were made to improve the legal framework which regulates the formation and functioning of agricultural cooperatives; enhance the role of the "umbrella" organisation of agricultural cooperatives; improve the role of the MAFWE to monitor the performance of the agricultural cooperatives through the creation of specialised software; prepare MAFWE's strategy for development of the agricultural cooperatives (2022-2028) and investment included in the grant-making scheme for 18 agricultural cooperatives across the country. The IPARD III programme is set to start soon, which will open new opportunities and make additional funds available.	
	Measure 8: Farm Road (re)construction	Stage of reform implementation (1-5)
Activities planned for 2021	1. Funding projects of rural infrastructure	5
	2. Construction and reconstruction of rural farm roads infrastructure	4
Description of implementation and explanation if partial or no implementation	In continuity, every year a public call for proposals is published for subsidised projects aimed at improvement of the access to arable land in areas of intensive agricultural activity, and eligible applicants are Centers for development of the planning regions. The funded rural infrastructure projects are to be implemented within 12 months period. Taking into consideration that this measure refers to construction works related to rural infrastructure and are continuous activity, it will be withdrawn from ERP. These construction works are taken into consideration within the second phase of the National strategy for agricultural land consolidation that foresees start of larger number of more complicated consolidation projects of larger areas in number of places in the country, by including serious intervention in rural infrastructure.	
	Measure 9: E-market place for low-value procurement	Stage of reform implementation (1-5)
Activities planned for 2021	1. Upgrade of public procurement software	5
Description of implementation and explanation if partial or no implementation	1. The software solution for the e-Market application is fully developed and tested. It is deployed online and the Economic operators have already started with creating and publishing the e-catalogues. At the end of 2021, few trial purchases/procedures were conducted and they showed that the system is operational and working properly.	
	Measure 10: Streamline the use of para-fiscal charges	Stage of reform implementation (1-5)
Activities planned for 2021	1. To established inter-institutional dialogue and consultation process pertinent to parafiscal charges	5
	2. To analyse the services which are identified to have characteristics of parafiscal charges through identification of those that need to be eliminated, remodelled or streamlined, using the current List of mapped parafiscal charges and to propose their optimisation and digitalisation	0
	3. To raise awareness about the parafiscal charges among business representatives and citizens	0
Description of implementation and explanation if partial or no implementation	1. Working group has been established with representatives from relevant state institutions and chambers of commerce, and first meeting organised. 2. The EUD is to publish a call for consultancy services to be financed by IPA funds. The Terms of reference was prepared in cooperation with Ministry of Economy. 3. The EUD is to publish a call for consultancy services to be financed by IPA funds. The Terms of reference was prepared in cooperation with Ministry of Economy.	
	Measure 11: Support start-ups and SEMs in selected less-developed regions of the country to grow, produce added value and create a local living economy	Stage of reform implementation (1-5)
Activities planned for 2021	1. Carrying out analysis of the business opportunities and economic potential in each of the less developed regions;	5
	2. Preparation of catalogue of advanced services for SMEs;	1
	3. Setting up and/or developing at least 1 accelerator in each of the target areas;	0

	4. Designing and implementing a financial support grant scheme for start-ups and/or SMEs high-value added business initiatives	0
Description of implementation and explanation if partial or no implementation	<p>The analysis of the business opportunities and economic potential in each of the less developed regions has been completed, and the preparation of the catalogue has started. Activities related to setting up of accelerators and grant scheme support rescheduled for the 2nd year of the Project implementation (2022). Having in mind that the measure does not tackle regulatory issues related to obstacles to business environment, the measure is withdrawn from ERP.</p> <p>In relation to support of start-ups and SME, so far, the Fund for Innovation and Technological Development (FITD) has implemented number of instruments (see Annex 6 of ERP 2021-2023 - https://finance.gov.mk/wp-content/uploads/2021/01/Economic-Reform-programme-2021-2023.pdf) of co-financed grants, whereof 51% of the FITD portfolio are start-up companies, mainly established by young people (total investments are about EUR 85 million, of which FITD has provided around EUR 48 million). In 2021, the National start-up council has been established, chaired by the Vice-primeminister for economic affairs, coordination of economic sectors and investments, Fatmir Butuqi, and members are the director of FITD, the president of the ICT Chamber of Commerce - MASIT, as well as representatives of the start-up communities in the country. The National start-up council in cooperation with the institutions and various stakeholders, and based on detailed analysis has adopted measures aimed at improving the legal framework for development of innovation, improving the business environment for start-ups and improving the access to finance.</p>	
	Measure 12: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities	Stage of reform implementation (1-5)
Activities planned for 2021	1. In-depth analysis of good practices and modes for formalising undeclared employment in different countries	4
	2. Designing model and mechanism which promote formal employment in selected sectors with high incidents of undeclared activities	2
	3. Performing cost-benefits analysis from implementation of the proposed model	0
	4. Developing legal framework, institutional and administrative mechanisms to implement	0
	5. Implementing preparatory activities for rolling-out the agreed model, including definition of procedures, forms, training of staff	0
Description of implementation and explanation if partial or no implementation	1. In-depth analysis of good practices and ways of formalising undeclared work in different countries was prepared within the IPA project and is in the stage of being reviewed by the MLSP. The document will be further presented to members of the Working Group for Formalisation of the Grey Economy.	
	2. Preparations for designing the model are underway. A methodology for conducting a survey of employers and persons engaged in the informal economy in the sectors of hospitality, tourism and household services was prepared. The survey will be conducted in the fourth quarter of 2021. Definition of the elements of the voucher model has been initiated.	
	3. The start of activity number 3 is conditioned by the completion of the activity number 2. According to the dynamics of the IPA project, this activity would be implemented in the first quarter of 2022.	
	4. The start of activity number 3 is conditioned by the completion of the activity number 2. According to the dynamics of the IPA project, this activity would be implemented in the second quarter of 2022.	
	5. The start of activity number 3 is conditioned by the completion of the activity number 2. According to the dynamics of the IPA project this activity would be implemented in the first quarter of 2022.	
	Measure 13: Enhancing cooperation between the academy and the industry	Stage of reform implementation (1-5)
Activities planned for 2021	1. Development of bylaws for establishment of the STP	3
Description of implementation and explanation if partial or no implementation	In 2021, the preparation of basic documents for STP has started, in accordance with the provisions of the Law on Innovative Activity, STP will be established as a legal entity in accordance with the Law on Trade Companies.	
	Measure 14: Development of a National E-Services Portal	Stage of reform implementation (1-5)

Activities planned for 2021	1. Upgrading the Portal for businesses and with proxy agent functionality	4
	2. Business analysis of the service delivery processes	3
	3. Mapping of the necessary registers for delivering a specific service	3
	4. Building capacities for process reengineering	1
	5. Technical specification of the required equipment for deployment of the solution	4
	6. Integration of existing e-services on the National portal	2
Description of implementation and explanation if partial or no implementation	1. The proxy agent functionality has been deployed on the Portal; the business profiles are in advanced stage of implementation	
	2. The analysis of the delivery processes for services is performed continuously, institution by institution	
	3. The necessary registers for providing specific services are mapped continuously, institution by institution	
	4. Postponed for 2022	
	5. The technical specification from IPA funds is complete, the technical specification for procurement of equipment financed from budget funds is in advanced implementation	
	6. Postponed 2022	
	Measure 15: Trade facilitation	Stage of reform implementation (1-5)
Activities planned for 2021	1. Purchase of a new server with appropriate storage for incoming SEED + data and a new Firewall / Router to improve the current and to establish additional VPN links for processing of increased flow of messages and creating active network security equipment (Customs Administration).	5
	2. Develop transparent tools for extending the TRACEE Certificate of Veterinary Application with an appropriate warehouse for hosting a new software module to support the workflow of issuing certificates and Firewall equipment (Food and Veterinary Agency).	5
	3. Create system for phytosanitary certificates for which a new central server will be procured with adequate storage of a national phytosanitary software application and a firewall/router to establish VPN links to remote locations with permanent licenses for VPN clients (Phytosanitary Directorate).	5
Description of implementation and explanation if partial or no implementation	The WB countries have swiftly and efficiently established green lanes at critical border crossing points, thus enabling unobstructed flow of goods throughout the covid crisis. It is expected the countries to continue using the functionalities of SEED+ system aimed at speeding up the procedures conducted by different agencies at border crossings, especially by electronic exchange of information. Having said that, the measure is withdrawn from ERP.	
	Measure 16: Facilitating North Macedonia-Serbia cross-border crossing	Stage of reform implementation (1-5)
Activities planned for 2021	1. Tendering procedure for Works and Supervision Engineering.	1
Description of implementation and explanation if partial or no implementation	1. In 2019, WBIF approved 50% of the total investment needed for construction of the JBS as well as for the access road. The remaining portion of the funds is still not secured, thus the activity is not implemented/ start with implementation. The agreement to set up a joint border crossing was signed in February 2015 and protocols between the relevant services (police, customs, inspection services, etc) of both countries signed in June 2016. Considering that the remaining 50% of the funds have not been secured yet, due to which the construction works have not started, the measure is withdrawn from the ERP. During 2021, activities have been undertaken for their provision and having in mind that all preparatory activities for construction have been completed, it is expected that in 2022, after securing the funds, the construction works will start.	

	Measure 17: Strengthening the internal market in the Republic of North Macedonia	Stage of reform implementation (1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Consolidating and updating strategic documents for further alignment of the country in the area of free movement of goods and Supporting MoE and other relevant national authorities to achieve alignment of the national legal framework in "new and old approach" product legislation. 2. Improving the strategic, legislative, and institutional framework in area of free movement of services. 3. Capacity building for efficient and effective market surveillance and consumer protection. 4. Capacity building to bom to efficiently execute testing, verification and calibration services including Improving capacity of the MoE – Bureau of Metrology to undertake quality control and testing of petroleum and petroleum products. 	1
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. Drafting new legislation or amending existing legislation and developing ToC and RIA were key activity in 2021. Two important parts of legislation, the Law on General Product Safety and the Law on Technical Requirements and Conformity Assessment have been prepared. Law on General Product Safety was already published in the Official Gazette, while the Law on Technical Requirements and Conformity Assessment has been sent to the EC for review and opinion. Following the needs of the MoE - State Market Inspectorate, activities are undertaken related to the transposition of the Regulation (EU) 2019/1020 and Regulation (EU) 2019/515, and risk assessment in market surveillance. 2. Activities of establishing a Single Point of Contact has started. 3. The work on introducing the concept of risk-based assessment and preparing a methodology for the later has been initiated. 4. Methods for extension of the accreditation scope were prepared for fuel manual sampling methods, Diesel fuel lubricity assessment by use of HFRR, hydrocarbon and oxygenates in gasoline, taking into consideration requirement of EN ISO/IEC 17025:2017 standards. All necessary documentation required for accreditation of test and sampling methods were prepared, including the Report of internal audit for manual fuel sampling; Validation reports for methods nominated for the extension of the accreditation scope; Measurement uncertainty assessment reports for methods nominated for the extension of the accreditation scope. We organised three training programmes for the personnel of the BoM on newly introduced methods on measurement uncertainty and training on use of newly received equipment. 	
	Measure 18: Further development of the qualification system	Stage of reform implementation (1-5)
Activities planned for 2021	<ol style="list-style-type: none"> 1. Development of 5 qualifications required by employers and flexible access to their acquisition 2. Development of training programmes and trainings for specific workplaces for further qualification 3. Piloting phase for establishing the VNIL system, with two qualifications: facade worker and waiter. 4. Adopting a new law for VET. 	4 4 4 1
Description of implementation and explanation if partial or no implementation	<ol style="list-style-type: none"> 1. Within the work of the National Qualifications Framework Board and the Sectoral Commissions in 2021, 11 qualifications have been developed and adopted, from the following sectors: agriculture, fisheries and winemaking (1), health and social protection (3), chemistry and technology (1), hospitality and tourism (1) and 5 qualifications are from the sector of economy, law and trade. So far, 91 qualification standards have been adopted. In 2022, it is planned to evaluate 39 qualification standards. In 2021, the sectoral commission for traffic, transport and storage was established. Currently operates 11 sectoral commissions and in the beginning of 2022, 2 more sectoral commissions for geology, mining and metallurgy and art will be established, thus the number of established sectoral commissions will be 13, out of 16 sectors. In order to ensure quality, it is planned to adopt a Methodology for evaluation of the standards of qualifications whose validity is 4 years. At the 23rd Session, the Board discussed the ERC Record for Exploring Complementary Routes to Certification, which resulted in the Recommendation on Data Transparency Certificate, and the need to ensure the availability and transparency of information on qualifications and their learning outcomes. The same can be achieved through the content of the certificate by including data on availability and transparency. To this end, the board adopted recommendations for a Certificate of Data Transparency, which was adopted at the 25th Session, held on 9.9.2021, and was submitted to the Government of the Republic of North Macedonia, MES, AEC and all higher education institutions. In September 2021, the realisation of the Twinning project "Further support for the implementation of the 	

	<p>National Qualifications Framework" (Further support to the implementation of the National Qualifications Framework) with reference number MK IPA 17 SO 01 21 and with a duration of 30 months will begin. The goal is through the 4 components to achieve further implementation of the NQF which will be a good basis for achieving a coordinated and more efficient quality assurance system of the process for developing qualifications, validation and accreditation. According to the Law on Higher Education the Agency for Quality Assurance was established in 2020. Within the Quality Agency, the Board for accreditation of higher education and the Board for evaluation of higher education were formed. Also, a National Council for Higher Education and Scientific Research was constituted and started working on June 10, 2021. During its regular sessions, the Rules of Procedure, the Code of Ethics, as well as all necessary acts related to the financial operations of the Council were adopted. The Council has established a Commission to be in charge for preparation of one and four-year work programmes for the Council, as well as commissions and working groups related to all other points of the Law for higher education under responsibility of the Council. The Council, at the proposal of the Accreditation Board, adopted a Rulebook on the methodology, standards and procedure for accreditation of higher education institutions and for accreditation of study programmes. At the proposal of the Evaluation Board, the Council adopted a Rulebook on standards and procedure for external evaluation and self-evaluation.</p>	
	<p>1. Special adult education programmes are currently being verified in accordance with established procedures. By September 2021, the Centre for Adult Education has verified a total of 642 programmes.</p>	
	<p>3. The Centre for Adult Education continued the pilot phase for the establishment of the system for validation of non-formal and informal learning - VNFIL, in two qualifications: facade worker and waiter. Pilot vocational schools have been selected: Zdravko Cvetkovski as a facade worker in the construction sector and Lazar Tanev vocational school as a waiter in the catering sector. Eight candidates applied for the validation of the waiter qualification, of which 7 completed the process and obtained a certificate. Six candidates applied for the qualification of facade worker, but due to overcrowding, the candidates did not complete the entire validation process.</p>	
	<p>4. Starting from 2021, three Regional VET Centres are officially functioning. An analysis of the training needs of the employees in the three centers was made, and standards were developed for the space and equipment for schools. Additionally, 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.</p> <p>In the period January - March 2021, a campaign "Learn smart, work professionally" was conducted through local meetings in 19 municipalities in which all relevant stakeholders and companies participated. At the meetings were presented the analyses of the questionnaire which was completed by 450 companies, of which 85% expressed willingness to cooperate with secondary vocational schools to improve vocational education, such as: apprenticeship, work-based learning, etc.). From the meetings arose the needs for introduction of new professions, new profiles / qualifications, as well as change of certain curricula and modules according to the needs of the companies. Thus, in the new competition for enrolment in secondary education, 2001 student places were announced for 97 classes in which students will have an increased volume of practical education in a company (dual model). Out of these 97 classes, a total of 11 are from the existing programmes, and 86 are new classes in which an increased volume of practical education in the company will be applied (dual model), based on Memoranda of Cooperation signed in the past period. For all students who will enrol in these classes, scholarships are provided in an increased amount compared to last year (3,500 denars).</p> <p>A new educational profile was introduced (pharmaceutical technician in the pharmaceutical industry) based on an initiative by a private pharmaceutical entity (Alkaloid), and it was adopted and piloted in secondary medical school D-r Pance Karagjozov from the academic year 2021/2022.</p>	
	Measure 19: Strengthening the system for social inclusion of the vulnerable categories of people	Stage of reform implementation (1-5)
Activities planned for 2021	1. Monitoring and evaluation of the activities for activation of GMA users on the labour market;	3
	2. Creation of a legal framework conducive to delivery of social services for supported employment (e.g., mentoring, counselling, etc.) by various providers;	3
	3. Provision of financial and technical support for setting up or running of social enterprises leading to job creation and integration of the most disadvantaged categories into the labour market, including persons with disabilities.	3

	4. Provision of financial and technical support for development and thus expanding the social services network in local communities;	3
	5. Strengthening the capacity of existing and potential social service providers, including institutional stakeholders for high quality and effective service provision;	4
	6. Enhancement of local government involvement for the improvement of the availability of community based social services;	2
	7. Implementation of awareness-raising activities aimed at national and local level towards the general public (brochures, videos, brief documentaries, social media information activities, etc.) on the benefits of community based social services;	3
	8. Development and testing of new software integrating both social protection benefits and services.	1
Description of implementation and explanation if partial or no implementation	1. The centres for employment and the centres for social work have started to cooperate more intensively towards activating GMA beneficiaries in the labour market. Through joint work, individual activation plans are prepared for those selected as the most easily employable in the household, and as such potential candidates for inclusion in the labour market. As of June 2021, an electronic exchange of information between the two services was also enabled to facilitate mutual communication while preparing individual activation plans. So far, activation plans have been developed for more than 2,100 people. By 31 August 2021, a total of 282 GMA beneficiaries participated in active employment programmes and measures (in 2020, a total of 602 participated). With the legal changes to facilitate access to GMA in pandemic conditions, GMA beneficiaries were exempted from the obligation to report regularly to the Employment Service Agency as active job seekers, which affected the behaviour of GMA beneficiaries and their willingness to seek and accept participation in an active employment measure or job offer. Consultations and preparations are underway for training the staff of the centres for employment and the social work centres in order to promote mutual cooperation, and in particular with regard to profiling the users of both services in order to identify persons who are <i>de facto</i> inactive and in need of support.	
	2. A gap analysis of the existing Law on Employment and Insurance in Case of Unemployment has been prepared, which takes into account the experience of implementing the Law in practice and includes a comparison with the relevant law and practice in the Republic of Slovenia. The analysis provides recommendations for the preparation of a new Law on Employment and Insurance in Case of Unemployment, planned for 2022.	
	3. The first National Strategy for the Development of Social Enterprises was adopted by the Government in September 2021. The Strategy defines the basic objectives and key activities for the period 2021-2027, together with the Action Plan 2021-2023, whose implementation will create an appropriate legal, financial, and institutional framework for the development of social enterprises. The Centre for Social Enterprises started with work in November 2021, and it is providing technical and professional support in the establishment or development of social enterprises. (IPA project "Support of Social Enterprises"). In order to improve access to funding for social entrepreneurs, the Fund for Innovations and Technology Development has for the first time issued a call for awarding grants to promote social entrepreneurship. In addition, two projects have received IPA grants, among other things, to provide financial assistance to organisations acting as social enterprises is in the final phase.	
	4. As of September 2021, in compliance with the Law on Social Protection, there are 50 licensed social service providers (compared to 20 in 2020) in Skopje and in over 20 other municipalities in the country, which provide services to about 2,300 beneficiaries. Out of the 30 licensed service providers in 2021, 77% are financially supported by the Budget. Specifically, during 2021, 19 are being implemented for developing social services in a total of 24 municipalities that were selected with a public call in 2020 and are based on previously mapped top priority needs of the citizens in these municipalities. 16 projects support the development of home-based care services, while the remaining three projects support the development of the day-care centre service for the elderly, the day-care service for children with disabilities and the rehabilitation and reintegration service for persons with disabilities. 17 out of 19 providers of newly developed services have already received a license to work in social protection and have started with service provision. In the first half of 2022, a new public call for awarding grants to municipalities for the development of new social services is expected to be published.	
	5. In order to prepare service providers to meet the prescribed norms and standards for service provision and based on that to obtain a license for work in social protection, activities to establish the service in the first five months of the implementation of the project were financed by grants. These activities include the preparation of the premises, the provision of equipment and the training of the personnel needed to provide the service. About 300 caregivers for home based	

	<p>services and 12 specialists for the other services are trained and ready to work on the provision of the service. Part of the service providers received support through the "Project for supporting modernisation and de-institutionalisation of social services" under IPA.</p> <p>6. A Guidebook on strengthening the capacity of social protection at the local level and a Guideline on the functioning of municipal councils for social protection have been prepared. Eight informative meetings of the statistical regions were organised with the participation of over a hundred representatives from municipalities, centres for employment, centres for social work, citizen associations and statistical regions. Action plans for advancing social protection were prepared and adopted, with a focus on social services, in twelve municipalities. 24 municipalities are partners in all 19 projects financed by a loan from the World Bank for the development of social services.</p> <p>7. The public is informed about social services within a campaign under the logo "WE CARE". Citizens' information and multimedia content are published on the website of the Ministry of Labour and Social Policy and on social media.</p> <p>8. An unsuccessful tender procedure for the selection of a contractor for the new software solution was carried out. The procedure will be repeated in 2022. (the tender will be published in the first quarter of 2022).</p>	
	Measure 20: Strengthening the quality of the Primary Health Care	Stage of reform implementation (1-5)
Activities planned for 2021	1. Preparation of protocols for selected primary care physicians for the five most common non-communicable diseases (diabetes, asthma, COPD, hypertension, hypothyroidism);	0
	2. Preparation of protocols for selected gynaecologists for prenatal care, cervical cancer, family planning	0
	3. Preparation of protocols for the selected paediatricians for: prevention of obesity in children, deformities of the spine.	0
	4. Preparation of a code for interventions that can be provided by the selected doctors;	2
	5. Providing specialisation in family medicine for at least 20 doctors who already work as selected doctors;	0
	6. Amendments to laws and bylaws;	0
	7. Upgrading of software modules in the system of 'My term' for code of interventions, protocols and forms that should be filled in by the selected doctors when providing health services	1
	8. Conducting a public campaign in order to acquaint the population with the innovations in PHC;	0
	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	0
Description of implementation and explanation if partial or no implementation	1. Human and financial resources have been reallocated to dealing with health crisis caused by COVID-19.	
	2. Human and financial resources have been reallocated to dealing with health crisis caused by COVID-19.	
	3. Human and financial resources have been reallocated to dealing with health crisis caused by COVID-19.	
	4. The code for interventions is prepared by HIF and delivered to the medical chambers for further elaboration	
	5. Human and financial resources have been reallocated to dealing with health crisis caused by COVID-19.	
	6. Human and financial resources have been reallocated to dealing with health crisis caused by COVID-19.	
	7. The upgrade of the portal has started	
	8. Human and financial resources have been reallocated to dealing with health crisis caused by COVID-19.	
	9. Human and financial resources have been reallocated to dealing with health crisis caused by COVID-19.	

Annex 2: Links between reform areas and relevant policy documents

Reform measures ERP 2022-2024	Key structural challenges (Commission assessment of ERP 2021-2023)	ERP Policy Guidance 2021	Enlargement Package 2021	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 mismatches	Linked to 6th Policy guidance -Develop a new formula for the financing of the VET system and of higher education with a focus on the functioning of the Regional VET Centres. -Strengthen access to active labour market policies, particularly for low-skilled unemployed and people in vulnerable situations. -Increase the capacity of and cooperation between the employment agencies and centres for social work to provide integrated services and measures for improvement of inclusion in the labour market	Chapter 3.26 Recommendations: →implement the strategic framework for education and particularly the targets for pre school education and the Vocational Education and Training (VET) reform; → improve support for teachers' training and professional development and ensure that an effective assessment process is in place; → improve access to quality education for all, in particular children with disabilities and children from Roma communities, and increase pre-school enrolment.	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.	Within the activities related to "green jobs" and green qualifications, in 2020 the Board for the national qualifications framework has adopted a conclusion for preparation and development for the methodology for greening the existing qualifications as well as the new qualification standards and occupational standards and determining learning outcomes related to green qualifications. http://registar.mrk.mk/wp-content/uploads/2021/04/Godisen-izvestaj-za-rabota-na-odbor-2020.pdf	Ministry of Education and science adopted a concept for development of a distance learning system in primary and secondary schools and a national distance learning platform as a result of the measures to restrict movement due to the Covid 19 pandemic.	-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.

Measure 2 Increasing the flexibility of the labour market 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 mismatches	Linked to 6th Policy guidance:- Strengthen access to active labour market policies, especially for the low-skilled unemployed and people in vulnerable situations.	Chapter 19- Social policy and employment Recommendations: → the country should continue to implement activation measures for long-term and low-skilled unemployed people, including women, persons with disabilities and Roma, and ensure proper monitoring and evaluation of such measures.	SDG 8 - Decent work and economic growth SDG 5 - Gender equality SDG 1 - No poverty	/	/	/
Measure 3: Enhancing the system for social inclusion of vulnerable groups The goal of this 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.	Key challenge 1: Improving the quality and relevance of the education system to increase employment and mitigate skills mismatches	Linked to 6th Policy guidance -Strengthen access to active labour market policies, especially for the low-skilled unemployed and people in vulnerable situation -Increase the capacity of and cooperation between the employment agencies and centres for social work to provide integrated services and measures for improvement of inclusion in the labour market	Chapter 19- Social policy and employment Recommendations: →the country should continue the provision of assistance to all vulnerable groups and support for, and reform of, the social protection system with stronger links to both employment activation measures and social inclusion	SDG 1 - No poverty, SDG 5 - Gender equality, SDG 8 - Decent work and economic growth - The reform is directly linked through the activities for decreasing the poverty rate - Securing employment of vulnerable groups.	/	Increasing the effectiveness and efficiency of the centers of social work and the employment centers by implementing the new software solution for social protection rights and services.	2022 Action Document "EU for Improved Health and Social Protection and Gender Equality", "Strengthened monitoring and quality assurance of social services at all levels", Budget: 1 million EUR

<p>Measure 4: Strengthening the quality of the Primary Health Care</p> <p>The measure has a goal to improve the primary health care through reform of the payment method of the primary 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.</p>	<p>Key challenge 1: Improving the quality and relevance of the education system to increase employment and mitigate skills mismatches</p> <p>Good healthcare protection is directly linked to the human capital of the country.</p>	/	<p>Chapter 28: Consumer and health protection</p> <p>Recommendations:</p> <p>→ intensify efforts on tobacco control; → publish reports on registers for cancer and individual rare diseases and ensure adequate funding and specialised knowledge for early detection and treatment, based on data from the registers</p>	<p>SDG 3 - Ensure healthy lives and promote well-being for all at all ages</p> <p>SDG 5 - Achieve gender equality and empower women and girls</p> <p>-5.6 Ensure universal access to sexual and reproductive health and reproductive rights</p>	/	<p>-Sophisticated information system for healthcare management "My appointment" is implemented which includes individual electronic files of patients, referrals from primary healthcare to higher levels of care and diagnostic services.</p> <p>- E- prescription of medications and drugs, system that connects the services of the primary healthcare and the pharmacies.</p>	/
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Measure 5: Promotion of renewable energy sources The implementation of the measure will ensure: 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	Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains.	/	Chapter 15- Energy, regarding the Renewable Energy Sources, especially to sustainability of biofuels and electricity prosumers. Recommendation: -increase the number of staff and the technical/engineering capacity of the Energy Department in the Ministry of Economy and the Energy Agency	SDG 7 – Affordable and clean energy - Increased renewable energy sources and improving energy efficiency as well as reducing the 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	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.	/	/
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	Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains	/	Chapter 15- Energy, regarding energy efficiency, developing and implementation secondary legislation and financing for energy efficiency development support.	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	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 reconstruction, use and building energy efficient buildings	/	/

2030 and establishment of Energy Efficiency Fund.							
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	/	/	Chapter 27: Environment and climate change Recommendations →improve inter-sectoral coordination and increase financial resources for the reduction of air pollution at the local and national level; → make significant steps to establish a regional waste management system; → implement the Paris Agreement, including by adopting a comprehensive climate Strategy and a Law, consistent with the EU 2030 framework.	SDG 6 –Ensure availability and sustainable management of water and sanitation for all SDG 11 - Make cities inclusive, safe, resilient and sustainable	The measure is in line with the goals for waste water collection and treatment, including treatment of nutrients.	/	IPA II
Measure 8: Establishing an Integrated and financially self-sustainable waste management system This measure will ensure establishment of a functional	/	/	Chapter 27: Environment and climate change Recommendations →improve inter-sectoral coordination and increase financial resources for the reduction of air pollution at the local and national level; → make significant steps	SDG 11 - Make cities inclusive, safe, resilient and sustainable SDG 12 - Sustainable consumption and production	The measure is in line with the goals for waste prevention, modern waste management and recycling.	/	IPA II

system for regional waste management based on harmonised waste legislation in 2021.			to establish a regional waste management system; → implement the Paris Agreement, including by adopting a comprehensive climate Strategy and a Law, consistent with the EU 2030 framework				
Measure 9: Increasing the competitiveness of the electricity market This measure will enable liquid electricity market and creation of conditions for increased competition in the energy supply to consumers, as well as increase in number of companies that will participate on the open energy market. The adoption of the new Energy Law enabled for establishment of organised electricity market, as well as full liberalisation of the energy	Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains	/	Chapter 15-Energy Recommendations: → finish unbundling (certification) the gas transmission systems, → 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 energy efficiency legislation.	SDG 7 – Affordable and clean energy - Investment in low-carbon energy infrastructure, reduction of greenhouse emissions and improving energy efficiency.	The measure is in line with the goals for decarbonising the energy system from the European Green Deal.	/	/

market, which had started from January 2019.							
<p>Measure 10: Implementation of an Intelligent Transport System (ITS) along Corridor X</p> <p>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</p>	<p>Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains</p>	/	<p>Chapter 14: Transport policy Recommendations: → strengthen the operational and 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</p>	<p>SDG 9 – Industry, Innovation and infrastructure The use of ITS in the field of transport, related to infrastructure, vehicles or users improves network capacity, traveller mobility and therefore enhance economic productivity. The use of this technologies promotes sustainable infrastructure and industrialisation.</p>	<p>This measure is in line with the Green agenda for Western Balkans with focus on the deployment of Intelligent Transport System solutions (ITS) aimed at making transport operations more efficient, and reducing CO2 emissions. Wide availability and use of data technologies in public transport systems has the potential to make them smarter, less polluting and customer friendly..</p>	<p>The measure is in line with the goals for digitalisation of the industry from the European Digital Strategy.</p>	<p>WBTF (WB project)</p>

expected to be an increase in safety and in saving travel time.							
Measure 11: 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 and integration in global value chains	Linked to 6thPolicy guidance -To continue with the digitalisation of public services for business entities and citizens.	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 - Building sustainable digital infrastructure promotes inclusive growth and industrialisation. - The E-service portal is expected to reduce the administrative and financial burden not only for the citizens, but also for the companies which will increase the efficiency of businesses.	The measure is in line with the goals for mobilisation of research and innovation through digitalisation of the processes according to European Green Deal. 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 12: Streamline the use of parafiscal charges The goal of the measure is to simplify the system of non-tax duties and parafiscal fees, improve their	Key challenge 2: Improvingthe competitiveness ofdomestic companies andintegration in global valuechains& Key challenge 3: Formalisation of the economy	Linked to 4thPolicy guidance -Use the list of mapped para-fiscal charges to clarify the public services provided through the proceeds of individual charges and identify those that need to be eliminated,	Economic criteria - Functioning of market economy - Functioning of product markets - Business environment	SDG 8 - Decent work and economic growth SDG 9 – Industry, Innovation and infrastructure SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to	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	IPA - Technical assistance through the project "Streamline the use of parafiscal charges"

transparency and predictability, and thus contribute to a more favourable business environment		remodelled, or streamlined.		<p>justice for all and build effective, accountable and inclusive institutions at all levels</p> <ul style="list-style-type: none"> - Reducing the administrative and financial burden on companies and increasing their competitiveness. - Create more favourable environment for establishment of new businesses, which will further increase the entrepreneurship incentives among all citizens including youth and woman. - Digitalisation of the services for reducing both costs and time for business operations. - Increase trust in public institutions and transparency. 		from the same strategy. Strengthening digital economy and society as per DAWB.	
Measure 13: Hybrid investment fund for start-ups and innovative micro, small and medium enterprises:	Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains	/	Economic criteria - Functioning of market economy - Functioning of financial markets - Access to finance	SDG 8 – Decent work and economic growth: This measure is expected to increase the productivity of enterprises, as well as diversify the	This measure will target business activities in accordance with the EU Green Plan in order to move towards a green economy, i.e. companies strongly	The measure is in line with the goals for digitalisation of the industry from the European Digital Strategy	/

<p>The establishment of this fund will enable diversification of the economy, improvement of productivity, as well as closing the financial gap in investment capital and early growth and quasi-capital financing for green and digital start-ups and innovative SMEs through the use of private investment.</p>				<p>economy and export to more value-added sectors.</p>	<p>committed to enhancing resource efficiency by focusing on the circular economy and reducing pollution, i.e. moving towards zero pollution and zero waste.</p>		
<p>Measure 14: Financial support for Roma entrepreneurs</p> <p>The measure foresees establishing of a matching fund as to promote the development of entrepreneurship and to increase access to financing of Roma entrepreneurs</p>	<p>Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains & Key challenge 3: Formalisation of the economy</p>	/	<p>Economic criteria - Functioning of market economy - Functioning of financial markets - Business environment, Access to finance</p>	<p>SDG 8 - Decent work and economic growth</p>	/	/	/

<p>Measure 15: Increasing the State Aid transparency</p> <p>The measure foresees establishing of a comprehensive and transparent state aid registry aimed at close monitoring the state aid schemes, their cost-effectiveness, including strengthening the capacities of the Commission for protection of competition.</p>	<p>Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains</p>	<p>Linked to 2nd Policy guidance</p> <p>-Improve transparency and evaluation of firm-level subsidies by setting up a state aid registry.</p>	<p>Economic criteria - Functioning of market economy - Functioning of financial markets - Business environment</p> <p>Chapter 8: Competition policy Recommendations: →strengthen the capacity of the national competition authority; →increase the transparency of State aid granted by the government; →further align implementing legislation in the area of State aid and antitrust</p>	<p>SDG 8 - Decent work and economic growth</p>	/	/	/
<p>Measure 16: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities</p> <p>The measure foresees designing voucher-based system or equivalent mechanisms</p>	<p>Key challenge 3: Formalisation of the economy</p>	<p>Linked to 5th Policy guidance</p> <p>Recommendation: -Ensure high-level political commitment by all institutions relevant for the coordination and implementation of the Strategy and the Action Plan for formalisation of the informal economy. -Assess the implementation of the 2018-2020 Action Plan and</p>	<p>Economic criteria - Functioning of market economy - Functioning of financial markets - Business environment</p> <p>Chapter 20 - Enterprise and industrial policy Recommendation: →continue implementing, assess and renew the strategy and action plan to formalise the informal economy,</p>	<p>SDG 8 - Decent work and economic growth</p>	/	In line with the goal for strengthening the digital economy and society	IPA – project "Improving working conditions"

which promote better working conditions and formal employment in sectors with high incidents of undeclared activities, such as agriculture and households services.		identify gaps, in particular related to tax policy and administration. -Develop and implement the new 2021-2022 Action Plan.	with specific attention to its business environment component.				
Measure 17: Enhancing cooperation between the academy and the industry – 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	Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains	/	Economic criteria - Capacity to cope with 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 This measure will provide better education and increased number of young people who will have relevant job skills for decent employment. - 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.	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	/

higher education institutions				The STP will facilitate access to financial services and markets in an inclusive manner; contribute to upgrading industries and infrastructures for sustainability; enhance research and upgrade industrial technologies by enhancing transfer of technologies.			
Measure 18: Strengthening the internal market 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	Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains	/	Chapter 1 - Free movement of goods: →complete alignment with the EU General Products Safety Directive, →strengthen administrative capacity to enforce the legal framework. Chapter 3 - Right of establishment and freedom to provide services: →continue aligning national legislation with the EU acquis, notably on services and mutual recognition of professional qualifications, →establish a Point of Single Contact,	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

standards and services.			including for company registration, in line with the Services Directive.				
Measure 19 Modernisation of the postharvest management of Macedonian agricultural products The measure aims to increase competitiveness of the agricultural sector by implementing appropriate quality standards and Common market organisation measures.	Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains	/	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	The measure is closely related with EU Green Deal where the main EU's goals in the field of agriculture are to ensure food security in the face of climate change and biodiversity loss, reduce the environmental and climate footprint of the EU food system, strengthen the EU food system's resilience and lead a global transition towards competitive sustainability from farm to fork.	/	/
Measure 20: Establishing Integrated Tax Information System (ITIS) The new ITIS aims to improve the operational efficiency of tax administration functions, strengthen compliance monitoring and	Key challenge 2: Improving the competitiveness of domestic companies and integration in global value chains	/	Chapter 16-Taxation Recommendation: →further improve the 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	SDG 8 Decent work and economic growth - 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	According to the Tax System Reform Strategy 2021-2025 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	Measures is in line with the Digital Agenda for the Western Balkans:e-Government	/

improve taxpayer services.			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.	thus reducing poverty.	from carbon taxation should be higher in mid and long term.		
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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
					PVOslomej 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	27,0
		Investing in clean energy (wind renewable energy sources)			Wind Park Miravci	88,0
					Wind Park Bogdanci II	18,0
		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	57,8	Gas Interconnection North Macedonia - Kosovo	12,0
			Electricity interconnection North Macedonia- Albania	49,0	Gas Interconnection North Macedonia - Serbia	14,0

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
		Investing in clean energy (modernisation of district heating)	District heating of Bitola	39,0		
Improvement of energy efficiency		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	126,0	Water Supply and Waste Water Collection II	50,0
			Water Supply and Waste Water Collection	50,0	Improvement of the Wastewater Collection Infrastructure in the City of Skopje	9,7
					Rehabilitation and expansion of the sewerage network in the municipality of Kicevo	10,7
					Wastewater treatment plant in the Municipality of Bitola	26,6
					Wastewater treatment plant in the Municipality of Tetovo	26,9
					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	70,0	Solid Waste Treatment Project (landfills) Skopjeregion	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 Transport		Digital Transformation		Western Balkan Trade and Transport Facilitation Project	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
System (ITS) along Corridor X		Investing in sustainable transport (digital technologies for improved information systems and road safety)	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)			North Macedonia Digital Economy Project	30,0
Streamline the use of para-fiscal charges	<i>Business environment and reduction of the informal economy</i>	Boosting a private sector	Covid-19 response North Macedonia	100,0		
Hybrid investment fund for start-ups and innovative micro, small and medium enterprises						
Financial support for Roma entrepreneurs						
Establishment of a state aid management information system						
Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities						
Encouraging collaboration between academia and industry						
Strengthening the market rules in the Republic of North Macedonia						
Increasing the competitiveness of the electricity market	<i>Energy market reforms</i>	Investing in clean energy (regional energy market and further integration with EU energy market)				
Modernisation of the postharvest management	<i>Agriculture, industry and services</i>	Greening the Western Balkan – Investing in the environment and climate (farming and food production –	Agriculture Sector Modernisation project	46,0		

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
of the agricultural products		sustainable production patterns and food systems)	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 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	83,0	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 (Bukojchani -Kicevo)	130,0	Joint Border Station Tabanovce	5,2
			Motorway Corridor VIII Kicevo - Ohrid	638,0	Rail Corridor VIII (eastern part) section III	405,0
			Rail Corridor X Project	17,6	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 - Deljadrovce	50,0
			Rail Corridor VIII (eastern part) section II	145,0	Replacement of protective fences according to EN	9,6

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
		Comprehensive transport network – not included in EIP			standards on Corridor 10 highways	
			Project for municipal-local roads	70,0	Motorway Interchange Stenkovec - BC Blace	97,2
			Road Stip – Radovis	64,0	Roads Prilep – bridge Leniska river and Quarry Mavrovo - Belovodica	8,0
			Road A2 rehabilitation section Kumanovo - Stracin	4,7	Installation of signalisation of the railway level crossings	2,1
			Road section Gradsko - Interchange Drenovo as part of road Corridor X-d	23,0	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 Finance management				IFMIS + ITIS	15,0
			Second Municipal Service Improvement Project	25,0		
			Ongoing:	2.366	Planned:	2.944
			Total million EUR 5.310			

Annex 3: External contribution to the ERP 2022-2024

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	24.12.2021, official letter We would first like to congratulate you on the improved quality and relevance of the ERP for articulating the structural reform agenda critical for improving sustainable and inclusive growth in North Macedonia. We would also like to acknowledge the alignment with the World Bank analytical and project work and recommendations.	World Bank, Bojana Naceva, bnaceva@worldbank.org	-	-
PUBLIC FINANCIAL MANAGEMENT	24.12.2021, official letter We concur with the inclusion of Measure 1 (PFM) in the reform program. You might consider adding	World Bank, Bojana Naceva, bnaceva@worldbank	accepted	IFMIS-related reform is part of item 4.9 Fiscal Management and Budget Frameworks, Chapter 4

	IFMIS-related reform in addition to the ITIS and the PRO-related reforms.			<p>Fiscal Framework. This was also discussed during the advisory mission with the European Commission in November 2021, and it was concluded that this integrated system belongs to the part of improving fiscal management.</p> <p>The IFMIS project is also listed in Annex 2a - Relationships between the reform measures in the areas of ERP and the investments in the areas of the Economic Investment Plan for the Western Balkans, IPA and the Single List of projects.</p>
Measure: Promotion of renewable energy sources	<p>24.12.2021, official letter</p> <p>The document is silent regarding energy price shocks affecting the energy affordability of households in North Macedonia, which could be contemplated in the document. In connection to the previous point, Measure 2 of table 11 mentions the Adoption of Programme for protection of vulnerable energy consumers as a completed activity. The World Bank stands ready to work on the strengthening of this program given its criticality for addressing the energy crisis impact on the most vulnerable. Further, you may review references to the market liberalization (sometimes the documents says "market is fully liberalized," and then in some places "market is being gradually liberalized").</p> <p>In the section of "Green Transition" there is no discussion on facilitating companies moving toward green production. Can the term "prosumer" (p.15) be expanded to include large consumers that can produce their own electricity from RES such as industrial zones and production facilities? It is in the economic interest of production companies to produce their own electricity to reduce and stabilize electricity costs, as well as to secure renewable energy certificates required for export and</p>	<p>World Bank, Bojana Naceva, bnaceva@worlbank</p>	accepted	<p>Measure 2 from Table 11 mentions the Adoption of the Program for protection of vulnerable energy consumers as a completed activity, because this is an activity for 2021 and this program was adopted in 2021.</p> <p>For 2022, the Ministry of Economy prepared a new Program for protection of vulnerable energy consumers, in order to provide financial support to low-income households in North Macedonia.</p> <p>The Ministry of Economy has communications with the World Bank and welcomes their efforts to support the Ministry on this subject.</p> <p>In order to promote the important role of the "prosumers" (producer-consumers), the Ministry of Economy with technical assistance conducted an assessment of the main barriers (legal, administrative, regulatory,</p>

	<p>integration into global value chains. The greening of the operations of large companies and new investments (including industrial zones) will be supported by the Green Strategic Investment Fund contemplated by the Directorate for Technological and industrial Development Zones, but this is not included in the ERP, even though it is one of the instruments in the Accelerated Growth Plan.</p>			<p>financial, technical, customer awareness, social acceptance, etc.). The Ministry of Economy in 2022 will prepare a detailed analysis that will be in accordance with the guidelines of the Secretariat of the Energy Community and based on the outcome of this analysis will propose amendments to the relevant laws and bylaws. Regarding the certificates for renewable energy sources (guarantees of origin), we inform that the Ministry of Economy has prepared amendments to the Law on Energy (published on ENER), where the issuer will be MEMO, instead of the Energy Agency, and this activity will be facilitated by the Secretariat of the Energy Community and an international platform should be established by the end of 2022.</p>
<p>Measure: Improvement of energy efficiency</p>	<p>24.12.2021, official letter</p> <p>The program seems quite aligned with the Bank current and past program. We are glad to see the Energy Efficiency Fund being included under Measure 3. We would propose to add in this section the launch of the Bank-financed Public Sector Energy Efficiency Project, which already started preparing energy efficiency investments for municipal buildings under the project managed by the Ministry of Finance. A first call for proposals was published mid-2021 and 67 project applications were submitted from 18 municipalities. This project will directly support reaching the target of more than 50 energy efficiency investments in municipal public buildings, as stated in the results indicator.</p>	<p>World Bank, Bojana Naceva, bnaceva@worldbank</p>	<p>accepted</p>	<p>The Public Sector Energy Efficiency Project is listed in Annex 2a - Relationships between the reform measures in the areas of ERP and the investments in the areas of the Economic Investment Plan for the Western Balkans, IPA and the Single List of Projects. This is an investment project, and according to the EU Guidance, investment projects can't be a part of a reform measure in ERP.</p> <p>Regarding the capitalization of the Development Bank, it was</p>

	Further, the document refers to the DBNM seeking capitalization from the Bank and the EU. You may correct this as follows: "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 capitalize its start-up"			clarified that the World Bank and the EU will be asked to help.
Measure: Increasing the competitiveness of the electricity market	24.12.2021,official letter An indicator for "consumers in the liberalized market" seems unrealistic (at 70%) if by liberalized market you mean any other supplier but the Universal Supplier (also an important participant of a "liberalized market"). The energy price shock will definitely favor the Universal supplier.	World Bank, Bojana Naceva, bnaceva@worlbank	rejected	The indicator is defined having in mind that the market is liberalized.
DIGITAL TRANSFORMATION	24.12.2021,official letter In addition to the existing Measure for an introduction of Intelligent Transport System, a new measure could be included capturing the digitalization of customs clearance process through the adoption and implementation of National Single Window (NSW), which is funded with USD5 million under the World Bank-funded project (Regional Trade and Transport Facilitation). The NSW solution will improve transparency and integrity, lower trade transaction costs, improve inter agency coordination and reduce the time taken to clear goods for export or import. NSW should be completed and operational by the end of 2024.	World Bank, Bojana Naceva, bnaceva@worlbank	accepted	The suggestion for a National Single Window (NSW) is accepted and it will be taken into account in the preparation of the ERP 2023-2025.
Measure: Implementation of an Intelligent Transport System (ITS) along Corridor X	24.12.2021,official letter Given that the implementation of an intelligent transport system (ITS) along Corridor X is expected to decrease the number of road accidents, the resulting health care cost reduction can be used to increase access to health care (and this can be added as an expected outcome of the measure).	World Bank, Bojana Naceva, bnaceva@worlbank	rejected	We agree that reducing the number of accidents leads to reduced health care costs, which can then contribute to increased access to health care. However, to monitor the success of the measure, the listed indicators are relevant and show the direct effects of the measure.

Measure: Broadening the scope of digital services provided on National E-service Portal	24.12.2021, official letter The list of results indicators can be broadened to include a quality-related indicator (for ex. number of successfully completed e-services)	World Bank, Bojana Naceva, bnaceva@worlbank	rejected	According to the EU Guidance for ERP, preference is given to quantitative indicators. Hence the Measure contains a result indicator "Number of available e-services".
BUSINES ENVIRONMENT AND REDUCTION OF THE INFORMAL ECONOMY	24.12.2021, E-mail In the area of integration of domestic companies in the global supply chains, there is a lack of explanation and measures for connecting foreign investments in the country. In that direction, it is necessary to identify what are the key factors for higher added value that contribute to the economy, and thus to make a smart attraction of foreign investment, but also to strengthen those factors in domestic companies. Comment 1: Foreign investments in the country are neglected, as the first opportunity for domestic companies to become their suppliers and to become part of the global supply chains. For that purpose, in the future in attracting investments, it is necessary to attract companies that will have greater added value and will be able to more easily connect with domestic companies. Also is important, to design measures that will strengthen the capacities of domestic companies to become more competitive (standardization, technology park were some of the key results). In the part of the Measures - it is necessary to identify the factors that contribute to greater added value for the economy. Comment 2: The pandemic has affected companies, and competitiveness has proven to be significant to sustainability. More competitive exporters (with greater profitability and increased output) lostless in terms of their revenue, profit, and employment during Covid-19. https://www.financethink.mk/wp-content/uploads/2021/01/The-potential-of-export-oriented-companies-to-contribute-to-post-COVID-	Finance Think Phd. Blagica Petrevski blagica.petreski@financethink.mk	accepted	Regarding the suggestion to design measures that will strengthen the capacities of domestic companies to become more competitive (standardization, technology park), ERP 2022-2024 includes the following measures: -Enhancing the cooperation between the academic community and the business sector, within which is envisaged establishment of a Science and Technology Park, and -Strengthening the market rules in the Republic of North Macedonia which envisages improvement of the compliance with the health, safety and environmental requirements in accordance with the EU legislation in the area of free movement of goods and services. This will improve the competitiveness of domestic companies and their inclusion in global value chains.

	19-economic-recovery-in-North-Macedonia-1-4.pdf			
Measure: Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities	<p>24.12.2021, e-mail</p> <p>The Center for Research and Policy Making welcomes and supports the commitments of the Economic Reform Program (ERP) 2022-2024, especially in the part of the measure - Introducing mechanisms for formalising informal work in sectors with high incidents of undeclared activities (page 48). It is also particularly gratifying that the agricultural sector occupies an important place in ERP 2022-2024 which emphasizes its potential for modernization and development that can contribute to job creation and greater economic growth which is one of the most important priorities of the country. We have been working on these issues with the support of the German Society for International Cooperation (GIZ GmbH) for the past few years and our comment is aimed at a positive assessment of the commitment of the institutions seen through our cooperation so far, as well as informing you about the current project entitled "Better conditions for employment of seasonal workers in MK". This project is in line with the MLSP and other active projects dedicated to this issue, such as "Improving working conditions" funded through IPA EU.</p> <p>Our research focus in recent years has been on the agricultural sector, where we have identified a high degree of undeclared seasonal work that is largely tied to small employers. There was a need to formalize seasonal labor to protect workers in the event of injury at work or illness, but also to</p>	<p>Center for Research and Policy Making,</p> <p>KristijanAleksoski aleksoski@crpm.org.mk, KristijanTrajkovski trajkovski@crpm.org.mk</p>	accepted	<p>The measure included in the ERP - "Introducing mechanisms for formalizing informal work in sectors with high incidents of undeclared activities"respectively covers the activities of the two projects: Project for improvement of working conditions and Better conditions for employment of seasonal workers in MK,</p>

	<p>stimulate their inclusion in the formal economy, in order to facilitate their access to employment and decent work. Based on the research in the agricultural sector, a study was prepared in which all the findings are documented, and appropriate solutions are proposed. Namely, in accordance with the strategic goals described in the Strategy for formalization of the informal economy in the Republic of North Macedonia, 2018-2022, it was proposed to introduce a new system for electronic registration of seasonal workers in agriculture which will simplify the procedure, and will serve as a mechanism to formalize undeclared work. The software solution (portal) will enable the use of a flexible model for hiring seasonal workers through the use of digital tools (smartphone, tablet, laptop, computer, etc.). The undertaken research activities and the developed models were presented to the working group at the Ministry of Labor and Social Policy, and then the process for the application of this model and the IT specification was developed by renowned companies such as KPMG.</p> <p>The activities in that direction and in constant coordination with the MLSP continued in 2021. Thus, the main goal of the new project entitled "Better conditions for employment of seasonal workers in MK" is to initiate, support and facilitate the process of reforming the system for registration of seasonal workers by adopting new or supplementing existing legal solutions for the use of software solution that will simplify the procedure, thus contributing to the formalization of seasonal labor in agriculture. The new project envisages EUR 100,000 for the software solution, which includes complete harmonization with the existing systems and its operability. The project activities are planned to last until December 2023 and in this framework the set goals are expected to be completed. Intensification of work activities in terms of the legal framework is expected from January 2022.</p>			
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Measure: Establishment of Management Information System on State Aid	24.12.2021, official letter establishment of the State Aid MIS. According to the World Bank estimate, the establishment of the system would cost EUR 1 million as opposed to 3.5 million referred to in the ERP. While we appreciate the inclusion of this activity into the ERP, please note that the request for financing from the World Bank resources has not yet been submitted to the World Bank. We would also propose that you include the strengthening of the competition policy legal framework as well as the Competition Agency capacity for the policy enforcement. We would draw your attention to the analysis on competition policy delivered under the World Bank Growth and Jobs report for North Macedonia.	World Bank, BojanaNaceva, bnaceva@worlbank	accepted	The request for financing the establishment of MIS for state aid was submitted to the World Bank on 31.12.2021. The proposal to include the strengthening of the competition policy legal framework as well as the Commission for Protection of Competition capacity for the policy enforcement, will be taken into account in the preparation of ERP 2023 – 2025.
Measure: Strengthening the market rules in the Republic of North Macedonia	24.12.2021, official letter You may also want to mention the adoption of the new insolvency law that would ensure the market exit of non-viable firms and accelerate the process of reorganization. Also, the first result indicator for strengthening the market rules refers to new legislation drafted and has 20 as a target for 2023 – does it refer to the number of legislative documents that are expected to be adopted?	World Bank, BojanaNaceva, bnaceva@worlbank	rejected	The measure covers only legal acts related to the chapters of the EU Legislation for free movement of goods and services. The measure covers only the preparation of 20 legal acts.
Measure: Streamline the use of parafiscal charges	24.12.2021 година, E-mail Finance Think asks for an adequate quote. The analysis was done by Finance Think, and the Ministry of Economy was the beneficiary. And the analysis as such is published: https://www.financethink.mk/wp-content/uploads/2020/10/Parafiskalni-studija.pdf , The list needs to be revised. This list does not include parafiscal duties at the local level, and it is from two or three years ago and the basic number may not be 377. Therefore, instead of using a number, the list of parafiscal duties should be used as baseline scenario. Then the indicators should be used as a percent of that baseline scenario. We are currently working with the municipalities, and we have seen that when a target is set as a	Finance Think Phd. BlagicaPetrevski blagica.petreski@financethink.mk	rejected	The Ministry of Economy as a user owns the analysis and Finance Think was hired to prepare the analysis. The list of 377 parafiscal duties is derived from the mapping made within the analysis prepared by Finance Think, and commissioned by the Ministry of Economy and it currently serves as a starting point for all further activities. Based on this list, technical assistance was requested from the EUD in 2020 for consulting services for rationalization of

	number, it is difficult to achieve. And if it is used as a percent of the baseline target, it is more realistic. 2022 is a very optimistic goal. There is currently no optimization methodology, which is essential. And the implementation process is laborious and lengthy.			parafiscal duties. The technical assistance has been approved, the selection of a consultant is in progress. According to the methodology of preparing the ERP, the indicators should be quantified, consequently the starting point should be expressed in numbers.
RESEARCH DEVELOPMENT AND INNOVATION				
Measure: Enhancing cooperation between the academy and the industry - STP	24.12.2021, official letter Improving cooperation between academia and industry through a Science and Technology Park that includes establishment of National Technology Transfer Office (NTTO was part of the Skills Development and Innovation Support project but was not completed for its duration) is welcome. However, Smart Specialization Strategy should be mentioned more explicitly (maybe even as a standalone measure) including activities like "conducting the Entrepreneurial Discovery Process for the identified domains with high research and innovation" and "adoption of the Smart Specialization Strategy" in 2022 and "implementation of pilot measures from the strategy" in 2022 or 2023.	World Bank, Bojana Naceva, bnaceva@worldbank	rejected	Regarding the inclusion of the Smart Specialization Strategy - S3 as a stand-alone measure, the Strategy is an strategic document and not a reform measure. Also, the development process of S3 was initiated in 2018-2019, due to which it can not be qualified as a new initiative. The development of S3 can not be included in the ERP because it is not in line with the guidelines of the EU Guidance for identification and formulation of measures in the ERP. Once S3 has been adopted, measures that are an integral part of S3 can be proposed as part of the future ERP update. At this stage of S3 development there is still no defined policy mix due to which the ERP measures that will potentially arise from S3 can not be included.
	Also, you may want to clearly distinguish the operational work of FITR and the Science and Technology park in order to avoid unnecessary duplication of efforts.		accepted	A clarification has been added to the description of the measure.

ECONOMIC INTEGRATION RERORMS	24.12.2021, official letter When discussing the North Macedonia–Serbia border crossing, please expand it with the discussion on improvements of the Kafasan border crossing with Albania and Deve Bair border crossing with Bulgaria. The infrastructure and equipment improvements of these border crossings are financed by the Regional Trade and Transport Project with USD 4.7 million. The technical designs of the infrastructure upgrades of the two border crossings should be completed by the end of 2022, and the actual civil works should be completed and new equipment to be installed by the end of 2023.	World Bank, BojanaNaceva, bnaceva@worlbank	rejected	Having in mind that the construction works for the North Macedonia–Serbia border crossing are long-delayed, the measure was withdrawn from the ERP, but the construction works are expected to be completed after securing the funds. The Western Balkans Trade and Transport Facilitation Project is listed in Annex 2a - Links between PER reform measures and investments in the Western Balkans Economic Investment Plan, IPA and the Single List of projects.
AGRICULTURE INDUSTRY AND SERVICES				
Measure: Farm road (re)construction	24.12.2021, official letter As the main goal of this measure is to upgrade rural infrastructure and increase access to arable land, through which the regional development will be targeted, the list of results indicators can be potentially extended to include indicators that measure the (gradual) improvement in regional development that would be achieved (for ex. listing a target for the reduction in poverty per regions; for the increase in farmers' income per regions; for the reduced outward migration etc.).	World Bank, BojanaNaceva, bnaceva@worlbank	rejected	The measure is withdrawn from the ERP, explanation is given more detail in Table 11.
EDUCATION AND SKILLS				
Measure: Further development of qualification system Measure: Establishment of a new financing model- block	24.12.2021, official letter We concur with the proposal of the Ministry of Education and Science to consider the TVET reform supported through the World Bank-funded project "Skills Development and Innovation Support", as well as several other World Bank-funded reforms under the Measures 20 and 21 i.e. Rulebooks for accreditation and evaluation, the new funding formulas, consolidation of the school networks, etc. While the funding formulas for the primary	World Bank, BojanaNaceva, bnaceva@worlbank	rejected	The measure for establishment of a new financing model is withdrawn from the ERP, but more information for the new financing model are included in Chapter 2.

granting formula based on input parameters	(supported through the Primary Education Improvement project) and secondary education are well elaborated including tables with activities and expected results, there is no such detailed planning for the Higher Education funding model which was developed through the Skills and Innovation World Bank-funded project.			
EMPLOYMENT AND LABOUR MARKETS	<p>24.12.2021, e-mail</p> <p>In the part of the labor market - the gaps in the labor market should be treated locally and from the aspect of occupation. Second, there are specifics in terms of classification by education. Not all with a certain education are in the same group (for example, in category primary education there is a shortage of labor, only those without qualifications remain unemployed).</p> <p>Comment 1: It is correct to write that people with primary education, without occupation are more likely to be unemployed. https://www.financethink.mk/wp-content/uploads/2021/09/Zbirka-na-analiticki-izvestai-1.pdf</p> <p>Because there are deficit gaps everywhere among people with primary education and general worker occupations.</p> <p>Comment 2: Qualification of persons without occupation and with primary education in general workers.</p> <p>In the medium term, it is necessary to rethink the programs / directions and the skills created by the degree obtained:</p> <ul style="list-style-type: none"> -The programs and directions of the educational institutions to be designed in accordance with the necessary occupations on the labor market; -Curricula to reflect the required skills of the 21st century (eg, skills related to STEAM -sciences, analytical skills, critical thinking, etc.) -Career counseling and guidance of young people in choosing a profession, based on the needs of the labor market. 	<p>Finance Think Phd. BlagicaPetrevski blagica.petreski@financethink.mk</p>	accepted	<p>Regarding the part for the challenges for strengthening the human capital for inclusive development, it was pointed out that "students without basic skills find it difficult to get a better paid and more profitable job", as well as that "people with primary education are more likely to be unemployed and are higher risk of being employed in the informal sector." Qualification and retraining of unemployed persons takes place within the Operational Plan of active programs and measures for employment and labor market services, which is regularly implemented by the Employment Agency.</p> <p>In the measure Further development of the qualification system, there are activities that are envisaged foreg. methodology for evaluation of qualification standards, as well as development of standards for higher education qualifications, transversal skills training at the request of employers, establishment of a system for validation of non-formal education for obtaining specific qualifications, etc.</p>

Measure: Increasing the flexibility of the labour market and expanding the coverage of active employment measure	24.12.2021, official letter While the title references change to the labor law and expansion of active labor market programs, the ERP does not discuss ALMPs. It would be sensible to introduce activities to support the expansion of ALMPs, and steps to ensure that their design and delivery is based on evidence (and monitored). Additionally, the capacity of the Employment Agency to profile job seekers and manage the ALMPs has been stretched in recent years.	World Bank, BojanaNaceva, bnaceva@worlbank	-	In the first draft version, the Measure was included in the Operational Plan for Active Employment Programs and Measures and labour market services. Having in mind that the Operational Program is a regular activity that is adopted every year, it is withdrawn from the ERP because, according to the EU Guidance, it doesn't represent a reform measure. We will correct the measure's title.
	Given all employment and labor market issues faced by the country, it is welcome that the document includes measures to address some of these issues. The recently published World Bank Growth and Jobs diagnostic suggests a list of additional interventions on the supply side of the labor market that could also be considered in the ERP. Further, the OECD Employment Protection Index, calculated by the World Bank in 2019, points to quite a rigidity in labor regulation when it comes to temporary contracts. You may want to consult the document and the comments by the World Bank submitted in 2019 when discussing the amendments to the Labor Law.		accepted	Growth and Jobs Diagnostics of the World Bank and OECD The Employment Protection Index, calculated by the World Bank in 2019, will be taken into account.
	For the results indicators for increasing the flexibility of the labor market and expanding the coverage of active employment measures, is there any particular reason why the intermediate (and sometimes the final) target for employment rates is below the baseline for 2020 (or the intermediate target)? The target for the total employment rate in 2023 is 59.0 (the baseline is 59.1) and the target for the employment rate of young people for the final target in 2025 is 24.0 (the intermediate target for 2023 is 27.0).		accepted	corrected
SOCIAL PROTECION AND INCLUSION				

Measure: Enhancing the system for social inclusion of vulnerable groups	24.12.2021, official letter The document reports the At-risk-of-poverty rate in page 67: 21.9% in 2020. However, the SSO only reports At-risk-of-poverty rate up to 2019 (21.6%). How is the 2020 rate computed in the document? In addition, the At-risk-of-poverty rate is based on SILC surveys. Since the SILC surveys contemplate incomes from previous years, the 2020 At-risk-of-poverty rate refers to 2019 income, which could be clarified in the document.	World Bank, BojanaNaceva, bnaceva@worldbank.org	accepted	corrected
	The Measure reflects the planned activities under the Social Services Improvement Project. We would propose that a review of the performance of social assistance (GMA and other programs) to assess if they are meeting the objectives set out in the 2019 Law is included, particularly the program for energy affordability. Staffing of Centers for Social Work will also require attention to support the reform of social services, as set out in the ERP		rejected	There is no need to add a new activity - Review of the performance of social assistance, because an activity is already planned - Monitoring and evaluation of the activities for activation of the beneficiaries of the minimum guaranteed assistance on the labor market.
	24.12.2021, e-mail Gender sensitive indicators have not been developed	Association of the units of local self – government of the Republic of North Macedonia, BlagorodnaShopova blagorodna.shopova@zels.org.mk	accepted	It will be taken into consideration for the preparation of the new ERP 2023-2025
HEALTHCARE	24.12.2021, official letter We would suggest that in addition to Measure on strengthening the quality of primary care, you consider adding the pharmaceutical reform to the health sector reform agenda. Given the pressing needs to respond to the pandemics, the government needs to optimize the use of resources allocated to the health sector. Potential efficiency gains in the existing system are concentrated in pharmaceuticals, in particular through centralized procurement of off-patent hospital medicines that is currently decentralized at the facility level foregoing efficiency gains through standardization and economies of scale.	World Bank, BojanaNaceva, bnaceva@worldbank.org	accepted	It will be taken into consideration for the preparation of the new ERP 2023-2025

Annex 4: Result Indicators of the structural reform measures per areas

i. PUBLIC FINANCIAL MANAGEMENT						
Measure 20	Indicators	Baseline (2021)	2023	2024	/	/
Establishing ITISin PRO	Percentage of 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 institutions with which the Integrated Tax Information System is exchanging data	15	At least 25	At least 30		
	Percentage of data transferred 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)	2022	2023	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	2022- 2024	/	/	/	/
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)		2024		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 (2021)		2024		2028		/	/
Establishing an Integrated and financially self-sustainable waste management system	Number of regional landfills	0		1		5			
	Percentage of the population covered by the regional integrated waste systems	0		370,901		2,000,000			
	Number of closed dumpsites	0		115		1,000			
	Number of closed noncompliant landfills	0		18		54			
	Number of prepared Plans for implementation of the Extended Producer Responsibility Schemes and circular economy 2020-2030	0		It will be determined after the assessment phase within the IPA project					
iii. DIGITAL TRANSFORMATION									
Measure 10	Indicators	Baseline (2018)		2024		/		/	/
Implementation of an Intelligent Transport System (ITS) along Corridor X	Reduced number of traffic accidents expressed in% along Corridor 10	No. of accidents	% decreased	No. of accidents	% decreased				
		67	0%	56	16,6%				

	Reduce travel time in% along Corridor 10	No. of accidents 103	% decreased 0%	No. of accidents 85,5	% decreased 17%			
Measure 11	Indicators	Baseline(2020)		2022		2023	2025	/
Broadening the scope of digital services provided on National E-service Portal	Number of registered users of the National Portal	25.000		80.000		150.000	300.000	
	Number of e-services offered	137		220		280	300	
	Number of applications submitted through the National Portal	12.200		100.000		250.000	500.000	
iv. BUSINESSES ENVIRONMENT AND REDUCTION OF THE INFORMAL ECONOMY								
Measure 12	Indicators	Baseline(2020)		2022		2024	/	/
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 13	Indicators	Baseline(2021)		2022		2023	/	/
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 14	Indicators	Baseline(2021)		2022		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)	0		50		150		
	Number of supported new employments through supported businesses under the measure of favourable and affordable credit funds for existing businesses run by Roma (cumulative)	0		50		150		
Measure 15	Indicators	Baseline(2021)		2022		2023	/	/
	SA MIS established	0		1		0		

Establishment of Management Information System on State Aid	Number of state aid providers included in SA MIS	0	0	5+ ⁸⁶		
	Number of SA Schemes/ programmes registered in the SA MIS	0	0	5+ ⁸⁷		
Measure 16	Indicators	Baseline(2020)	2023	2025	/	/
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))	13.6%	13.0%	10.0%		
v. RESEARCH DEVELOPMENT AND INNOVATION						
Measure 17	Indicators	Baseline(2022)	2023	2024	/	/
Enhancing cooperation between the academy and the industry - STP	Number of active contracts for business & academia innovation cooperation	0	0	10		
vi. ECONOMIC INTEGRATION REFORMS						
Measure 18	Indicators	Baseline (2021)	2022	2023	/	/
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						
Measure 9	Indicators	Baseline(2020)	Intermediate target	2022	/	/
Increasing the competitiveness of the electricity market	Electricity consumption in isolated regime via organised day-ahead market	-	-	at least 10%		
	Consumers on free electricity market	-	-	70%		
viii. AGRICULTURE INDUSTRY AND SERVICES						

⁸⁶ The number of institutions that provide/manage one or more State Aid alike programmes or schemes.

⁸⁷ 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.

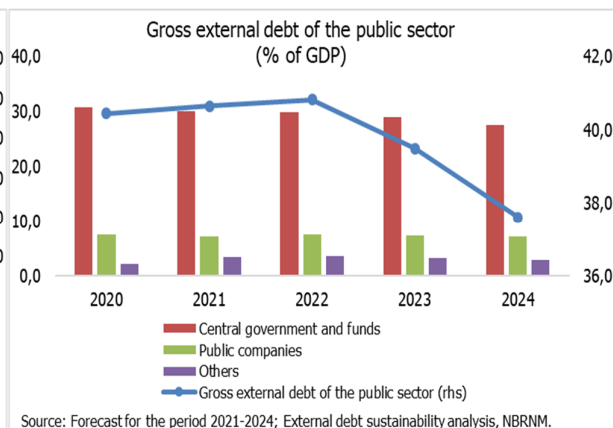
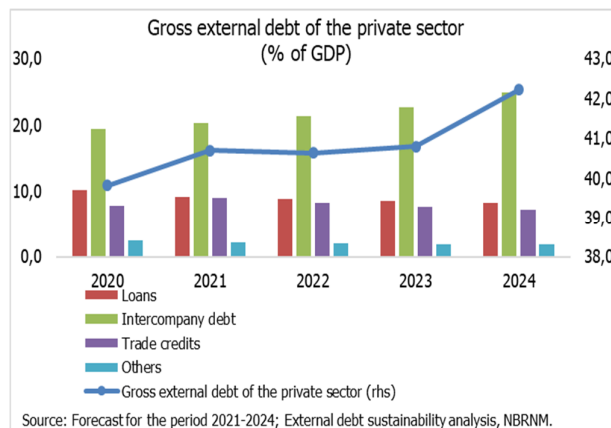
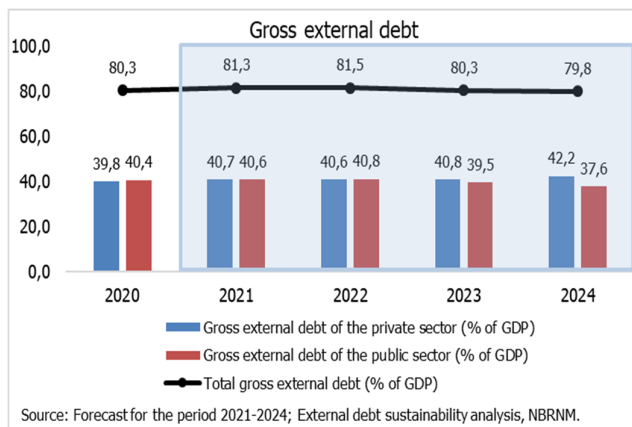
Measure 19	Indicators	Baseline (2018)	Intermediate target	2025	/	/
Modernisation of the postharvest management of the Macedonian agricultural products	Percentage of agricultural products marketed in compliance with quality standards*	40	/	75		
	Percentage of loss in postharvest production**	30	/	20		
	Expected new employment	0	/	200 new jobs		
ix. EDUCATION AND SKILLS						
Measure 1	Indicators	Baseline (2020)	2021	2022	2023	2024
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%
	System for VNIL	-	Piloting 1	Piloting 2	Established system for validation	Efficient system for validation
	Number of established Regional VET Centres	Adoption of changes in the Law	Refurbishment and Transforming 3 VET schools	Fully functional 3 Regional VET centres	Purchase of equipment and development of programmes for 3 regional VET Centres	New 2 Regional VET centres established
	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
	Ration of early leavers from education and training at age 18 – 24 (%)	7.1	7.0	7.0	6.9	6.8
x. EMPLOYMENT AND LABOUR MARKETS						
Measure 2	Indicators	Baseline (2020)	2023	2025	/	/
Increasing the flexibility of the labour market	Employment rate (20-64) - TOTAL	59.1%	59.0%	61.0%		
	Employment rate (20-64) - MEN	68.9%	69.0%	71.3%		
	Employment rate (20-64) - WOMEN	49.0%	49.6%	50.0%		
	Employment rate (15+)	47.2%	48.4%	49.5%		
	Employment rate of young people (15-29)	26.7%	27.0%	24.0%		
	Long-term unemployment rate	12.4%	12.0%	10.0%		

xi. SOCIAL PROTECTION AND INCLUSION						
Measure 3	Indicators	Baseline	2024	2025	/	/
Enhancing the system for social inclusion of vulnerable groups	At-risk-of-poverty rate	21,9% (2020)	21%	20,5%		
	% of people living in households with very low work intensity (0-59)	16,4% ⁸⁸ (2020)	15,3%	15,1%		
	% of social assistance/GMA beneficiaries in employment after termination of use of services and measures for labour market activation	-	25%	25%		
	% of severely materially deprived people	30,5% (2020)	-	28%		
	Number of licensed services provided (by type of service; home based, community based, extra-familial care)	50 (2021)	65	70		
xii. HEALTHCARE						
Measure4	Indicators	Baseline (2021)	2023	2024	/	/
Straightening the quality of the Primary Health Care	Referral to a higher level of health care	-	Reduction by 10% compared to 2019	Reduction by 20% compared to 2019		
	Percentage of patients with chronic non-communicable diseases (diabetes, hypertension, asthma/COPD 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 envisaged with the developed protocols	0	30%	60%		

⁸⁸https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=sdg_01_40&plugin=1

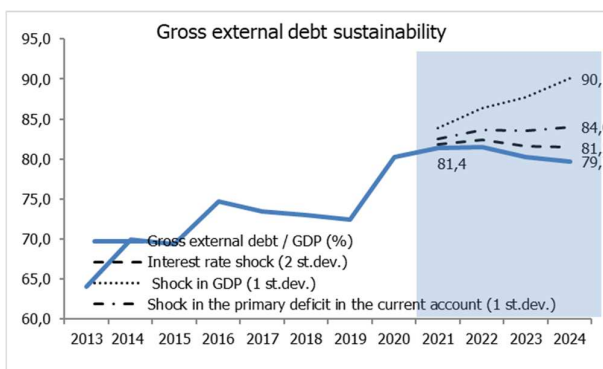
Annex 5: External debt sustainability analysis

According to the analysis of the external debt sustainability⁸⁹, the gross external debt at the end of 2021 is estimated at 81.3% of GDP, which indicates an increase relative to the previous year by 1.1 p.p. of GDP. The estimated increase of the external debt in 2021 mainly reflects the assessment for higher private sector debt by 0.9 p.p. of GDP, due to the higher trade credits, as well as the increase of the intercompany lending. Additionally, an increase by 0.2 p.p. is estimated for the external debt of the public sector, amid the allocation of the additional IMF quota in form of Special drawing rights (SDRs). In 2022, a minimal increase of the external debt is estimated, in accordance with the expected external public debt increase, while minimal reduction of the private sector external debt is expected. In the following two years, the external debt is expected to decrease, stabilizing at a level of 79.8% by the end of 2024, amid decrease of the public sector debt, but also higher private debt due to the intercompany debt. Thus, the level of external debt in 2024 is expected to be lower than the actual in 2020 by 0.4 p.p., due to the decrease in the public sector debt by 2.8 p.p. amid the increase of the private sector debt by 2.4 p.p. of GDP.



On average within the analyzed period, the flow that affects the increase of the external debt is the deficit in the primary 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 analyzed period, 2021-2024, an increase in the foreign exchange reserves is expected as well as their maintenance at the adequate level.

Within the external public debt, in 2024 relative to 2020 the share of debt to GDP is expected to decline in most of the sectors, although most notably in the central government (by 3.3 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 only the intercompany debt relative to GDP is expected to increase by 2024 compared to 2020 (by 5.5 p.p. of GDP), which would be partly offset by the decline at the other categories.



⁸⁹Source: Calculations and analysis of NBRNM, based on the IMF approach. The basic scenario assumes average GDP growth in the period 2021-2024 of 4% and it is based on NBRNM October 2021 medium term projections for the period 2021-2024 and the presented balance of payments forecast (October, 2021). The projections were prepared prior to the publication of the medium term fiscal strategy published in December 2021.

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 38.6% during the overall forecasting horizon, as more flexible and less risky types of debt.

Annex 6: Institutions involved in the preparation of ERP 2022 - 2024

The Economic Reform Programme 2022-2024 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
i. Introduction	Ministry of Finance	Kiril Simeonovski
1. Overall Policy Framework and Objectives	Ministry of Finance	Kiril Simeonovski
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	Nexhati Kurtishi Aneta Krstevska
3.2. Medium-term macroeconomic scenario	Ministry of Finance National Bank	Nexhati Kurtishi Lenche Tagasovska Aneta Krstevska
3.3. Alternative scenario and risks	Ministry of Finance National Bank	Nexhati Kurtishi Aneta Krstevska
4. Fiscal framework		
4.1. Fiscal strategy and medium-term objectives	Ministry of Finance	Tanja Kostovska Anica Ivanoska Alen Kalach
4.2. Budget implementation in 2020	Ministry of Finance	Biljana Minoska Branko Dimchevski Viktorija Hristovska
4.3 Budget plans for 2021	Ministry of Finance	Tanja Kostovska Anica Ivanoska Alen Kalach
4.4. Medium-term budgetary outlook	Ministry of Finance	Tanja Kostovska Anica Ivanoska Alen Kalach
4.5. Structural deficit	Ministry of Finance	Nexhati Kurtishi
4.6. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments	Ministry of Finance	Sanja M. Mancheva Alev Sulejman
4.7. Sensitivity analysis and comparison with the previous programme	Ministry of Finance	Nexhati Kurtishi Sanja M. Mancheva
4.8 Quality of public finances	Ministry of Finance	Tanja Kostovska Anica Ivanoska Danail Karov Kiril Simeonovski
4.9. Fiscal governance and budgetary frameworks	Ministry of Finance	Tanja Kostovska Anica Ivanoska Kiril Simeonovski
4.10. Sustainability of public finances	Ministry of Finance	Nexhati Kurtishi
5. Structural reform priorities in 2022 - 2024		
5.1. Identification of the three main obstacles to competitiveness and inclusive growth and related reform measures	Ministry of Finance	Kiril Simeonovski
5.1.1 Green transition	Ministry of Economy Ministry of Environment and Physical Planning	Magdalena Bilbilovska Valentina Stardelova Elena Markova Velinova

		Jasmina Trajanoska Filoreta Kamberi Vesna Indova Tochko Teodora Obradovikj Grncharovska
		Vesna Cvetanova, MoF Irena Rashovikj, MoF
5.1.2 Digital transformation	Ministry of Transport and Communication Ministry for Information Society and Administration	Biljana Zdraveva Jasmina Kirkova Goran Temovski Mevludin Shabani Makedonka Dimitrioska Rozalinda Stojova Solza Kovachevska Dimitar Bukovalov
		Vesna Cvetanova, MoF Aleksandra Velkova, 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 Maja Barikj Tanja Ilievska Sonja Andova Katarina Krecheva Nina Fiti Elvis Memeti Mladen Frchkovski Aleksandra Slavkovska
		Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.1.4 Research, development and innovation	Fund for Innovation and Technology Development	Tanja Ilievska Sonja Andova Katarina Krecheva
		Vesna Cvetanova, MoF Irena Rashovikj, MoF
5.1.5 Economic integration reforms	Cabinet of the DPM in charge of economic affairs	Maja Barikj
		Vesna Cvetanova, MoF Irena Rashovikj, MoF
5.1.6 Energy market reforms	Ministry of Economy	Elena Markova Velinova Magdalena Bilbilovska Valentina Stardelova Jasmina Trajanoska Filoreta Kamberi
		Vesna Cvetanova, MoF Irena Rashovikj, MoF
5.1.7 Transport market reforms	Ministry of Transport and Communication	Biljana Zdraveva Jasmina Kirkova Goran Temovski Mevludin Shabani Makedonka Dimitrioska
		Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.1.8 Agriculture, industry and services	Ministry of Agriculture, Forestry and Water Economy	Maja Laszareska Larisa Kitanov Acevska Igor Despotovski Aleksandar Musalevski
		Vesna Cvetanova, MoF Irena Rashovikj, MoF
5.1.9 Education and skills	Ministry of Education and Science	Nadica Kostovska Dushan Tomshikj

		Vesna Cvetanova, MoF Irena Rashovikj, MoF
5.1.10 Employment and labour markets	Ministry of Labour and Social Policy	Mladen Frchkovski Aleksandra Slavkovska Sofija Spasovska
		Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.1.11 Social protection and inclusion	Ministry of Labour and Social Policy	Mladen Frchkovski Aleksandra Slavkovska Sofija Spasovska
		Vesna Cvetanova, MoF Aleksandra Velkova, MoF
5.1.12 Healthcare	Ministry of Health	Elena Petrovska Despina Srbinovska Shandulovska
		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 Kiril Simeonovski
5.2.1 Public Financial Management	Public Revenue Office	Marjan Mihajlovski
		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