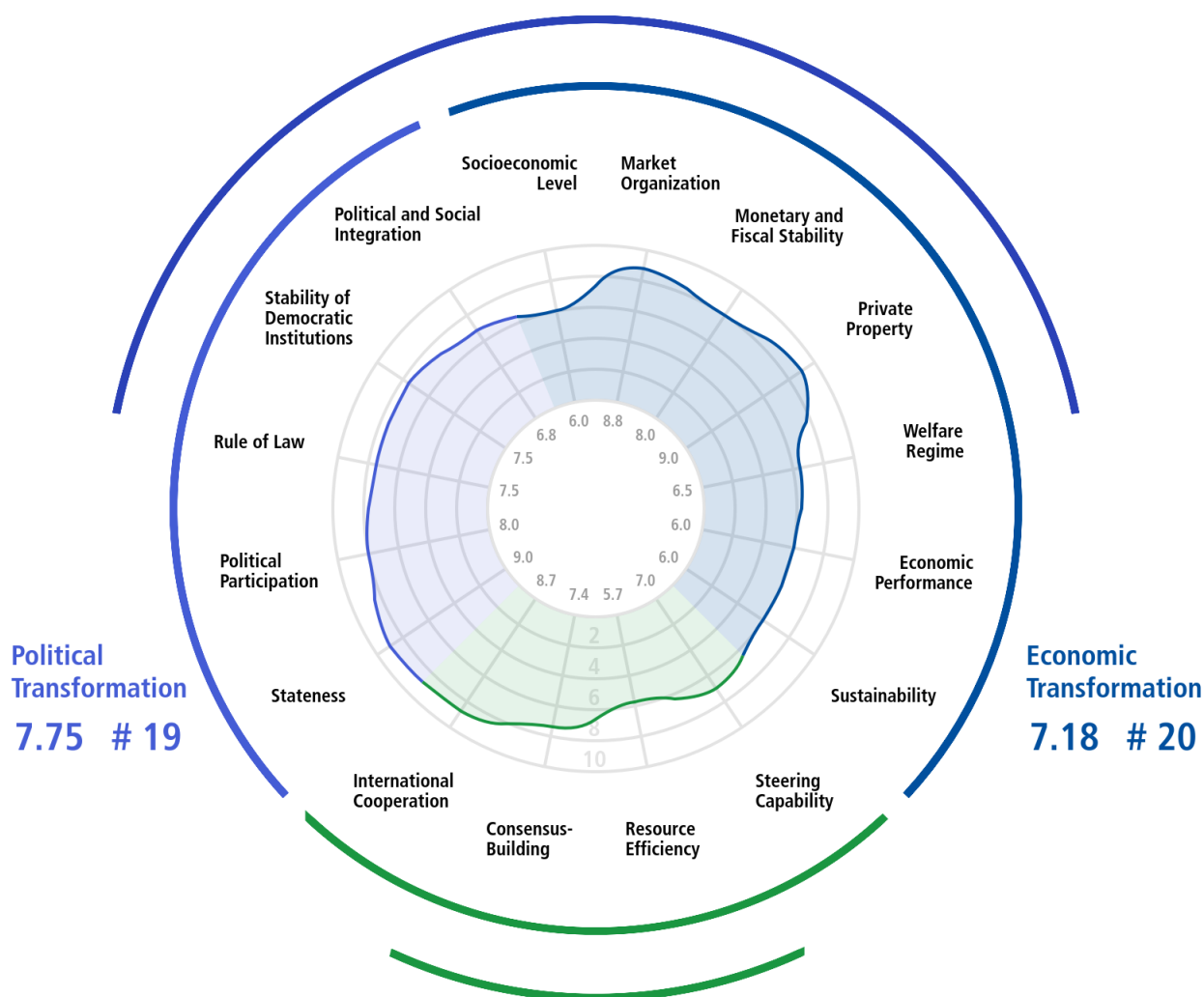


North Macedonia

Status Index

7.46 # 17

on 1-10 scale out of 137



Governance Index

6.27 # 19

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

Population	M	2.1	HDI	0.770	GDP p.c., PPP \$	20162
Pop. growth ¹	% p.a.	-0.4	HDI rank of 189	78	Gini Index	33.5
Life expectancy	years	74.5	UN Education Index	0.719	Poverty ³	% 7.5
Urban population	%	59.1	Gender inequality ²	0.134	Aid per capita \$	163.3

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

North Macedonia launched its accession talks with the European Union on July 19, 2022, by holding the inaugural EU-Macedonian intergovernmental conference. The first step of the talks – the explanatory and bilateral screening of Macedonian and EU legislation – began in September 2022 and is expected to be concluded by November 2023. However, continued progress toward EU membership is threatened by an ongoing dispute with neighboring Bulgaria, which does not recognize the Macedonian language and questions the representation of common historical events for the two nations in Macedonian history textbooks. While there are efforts to solve the dispute through the work of a bilateral expert commission, Bulgaria opposed North Macedonia’s opening of accession talks with the European Union until the ratification of the so-called French proposal by the Macedonian parliament on July 4, 2022. Designed by France during its EU presidency in the first half of 2022, the French proposal incorporated the Macedonian-Bulgarian dispute into North Macedonia’s negotiating framework for membership in the EU.

While conditionally allowing the government in Skopje to launch accession talks, the French proposal also reaffirmed Bulgaria’s right to block them at any stage if it is not satisfied with the steps taken toward resolving the bilateral dispute. The French proposal also requires North Macedonia to acknowledge in its constitution the “community of Bulgarians” living on its territory. According to the population census in 2021, there are 3,504 self-declared Bulgarians in North Macedonia, but the government in Sofia considers all Macedonian citizens who hold a Bulgarian passport (typically to benefit from the right to work and live in the EU) to be Bulgarians.

The French proposal was approved by the Macedonian parliament with a slim majority consisting of the senior governing party, the Social Democratic Union of Macedonia (SDSM), and all ethnic Albanian parties, but without the support of the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE), the largest opposition party. The lead-up to the parliamentary vote triggered nationwide protests against the French proposal, which drew crowds of tens of thousands of people but quickly subsided after the vote.

Partly due to the slow progress of EU accession and the perception of a somewhat lenient stance toward the Bulgarian dispute, as well as a variety of domestic governance mistakes, including a sluggish COVID-19 vaccination rollout in the spring of 2021, support for the governing SDSM decreased in 2021 and 2022. During the months of September and October 2021, the party suffered significant defeats in local elections across the country. VMRO-DPMNE secured victory in 42 out of the country's 80 municipalities, including the capital city of Skopje, while SDSM only managed to win in 17 – a stark contrast compared to the previous local election in 2017. The election results led to the resignation of Prime Minister Zoran Zaev, along with several other prominent ministers and party officials, from their positions within both the government and the party. In January 2022, Dimitar Kovachevski, a former deputy finance minister with a relatively low public profile, assumed the role of prime minister. Under Kovachevski's leadership, the government initiated a reshuffle of ministerial positions and formed a coalition with two ethnic Albanian partners. SDSM continued its coalition with the Democratic Union for Integration (DUI), but replaced its second coalition partner, Besa, with the Alternative party. However, in February 2023, the Alternative party gave way to another ethnic Albanian party, the Alliance for Albanians.

In March 2022, North Macedonia announced the results of its national population census held in September 2021, which revealed a total count of 1,836,713 citizens residing in North Macedonia. This marked a decrease from the previous census in 2002, which recorded a count of 2,022,547 individuals. These figures confirmed long-standing concerns regarding population decline attributed to low birth rates and, particularly, significant emigration.

Since February 2022, North Macedonia has also been severely affected by Russia's invasion of Ukraine. With the year-on-year inflation rate reaching 18.8% at the end of 2022, the government has drawn heavy criticism for its limited and generally poorly targeted or belated anti-inflation measures. However, the government also scored political points by increasing the minimum wage in March 2022 and eventually freezing the prices of key food products for large parts of 2022, as well as concluding several infrastructure and trade collaborations with neighboring governments. From a geopolitical point of view, all major political actors in the country, with the exception of the nationalist party Levica, approved the decision to send military aid to Ukraine and to introduce sanctions against Russia. Overshadowed by geopolitical, electoral and financial turbulence, domestic reform in critical areas such as the judiciary, anti-corruption policy, the economy and the environment has mostly stagnated since 2021.

History and Characteristics of Transformation

The statehood of the Republic of (North) Macedonia within its current borders can be traced back to August 1944, when it became one of six constituent republics of the Socialist Federal Republic of Yugoslavia. Independence was declared on Sept. 8, 1991, after the collapse of Yugoslavia. According to the 2021 census results, ethnic Macedonians constitute a majority, making up 58% of the total population, while Albanians form the largest minority at 24%. The country has been governed by large, ethnically mixed governing coalitions, with the current center-left incumbent SDSM alternating as a senior coalition member with its main political adversary, VMRO-DPMNE, a nationalist center-right party. Since 2002, the party formed by the leaders of the former National Liberation Army in the aftermath of the armed conflict in 2001 – the Democratic Union for Integration – has been a nearly constant coalition partner in power, with the exception of the period from 2006 to 2008.

In 2001, long-standing grievances and demands for a wide range of collective rights among ethnic Albanians, along with deteriorations in security capabilities after the Kosovo crisis in 1999, resulted in a limited armed conflict between Albanian rebels and government forces, causing several hundred casualties. The European Union and the United States played a role in mediating a prompt resolution to the conflict, resulting in an agreement between the warring parties signed in August 2001. This agreement, known as the Ohrid Framework Agreement (OFA), aimed to address the demands raised by ethnic Albanians through political and constitutional reforms. The OFA introduced power-sharing measures, including the double majority principle (requiring consent from minorities represented in parliament) for key parliamentary decisions, municipal decentralization, official recognition of minority languages, representation of minorities in public administration and confidence-building initiatives.

To prevent further conflicts, the government signed a stabilization and association agreement (SAA) with the European Union in 2001, with the goal of liberalizing trade and establishing an institutional framework for cooperation. In December 2005, North Macedonia officially became a candidate for EU membership. However, the integration of North Macedonia into the European Union still faces challenges domestically, as there is a need for reforms and the establishment of an efficient rule of law. Externally, there are ongoing debates within the European Union regarding enlargement, as well as a bilateral dispute with neighboring Bulgaria that poses additional obstacles to North Macedonia's EU membership.

The long-standing name dispute with Greece, another major bilateral conflict that impeded EU and NATO integration, was resolved on June 12, 2018, with the Prespa Agreement. The country agreed to change its constitutional name to the Republic of North Macedonia, define its citizens as "Macedonians/citizens of the Republic of North Macedonia," and continue calling its language Macedonian. These changes were translated into constitutional amendments, which were approved by two-thirds of the parliament. As a result of the successful ratification of the agreement by the parliaments in both countries, North Macedonia joined NATO as its 30th member state on March 27, 2020, after the Accession Protocol for North Macedonia to NATO was ratified in all NATO member states.

A controversial privatization process in the 1990s set the stage for a free market economy but left many people unemployed and socially excluded and decimated the country's already weak industry. It also paved the way for large-scale corruption and severe economic inequality. Despite basic macroeconomic stability, the country struggled with low growth rates until the mid-2000s.

The main economic strategy of successive Macedonian governments has been to attract (largely foreign) investment through a combination of relatively low taxes, straightforward legal procedures for the launch and operation of (foreign and domestic) businesses, and cheap labor. However, these efforts have seen mixed success. Even though the government was able to soften the negative impact of the financial and economic crisis in 2008 and continued to make considerable efforts to promote North Macedonia as an investment destination, failures to ensure the rule of law have endangered the viability of economic reforms. Additionally, internal and external debt increased along with unproductive public spending and flawed tax collection capabilities, which called into question the sustainability of the economic model.

While most of these challenges persist, some negative trends have been reversed since the change of government in 2017, putting an end to the controversial 11-year period of governance by VMRO-DPMNE. This period was eventually characterized by the European Union and many international observers as "state capture."

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

Transformation Status

I. Political Transformation

1 | Stateness

The Republic of North Macedonia currently has a monopoly over the use of force on its territory. In the past, however, government institutions have been challenged by organized armed groups from within and outside of the country's borders, typically on an ethnic basis. The implementation of the Ohrid Framework Agreement (OFA), which brought a peaceful resolution to the armed conflict in 2001, largely subdued interethnic conflict and contributed to the consolidation of the state's monopoly over the use of force. In general, interethnic relations are still fragile and remain an easy target for politicization, not least because of the lack of reconciliation and post-conflict justice, as all war crime cases at the national level have ended in amnesties. The most recent violent incident occurred in May 2015 when the Macedonian Special Police confronted an internationally wanted ethnic Albanian armed terrorist group in the city of Kumanovo, leading to 18 fatalities (including eight policemen) and seven life sentences in the eventual verdict handed down in 2017. Border control is fairly stable, partly because of declining refugee flows since the closure of the so-called Balkan route and the start of the COVID-19 pandemic.

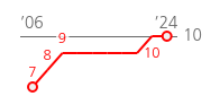
Overall, the legitimacy of the nation-state is rarely challenged, even though internal national and ethnic divisions remain prominent. While the scale and nature of interethnic violence have certainly dwindled, non-lethal interethnic confrontations remain common, especially in areas in (mainly) the western part of the country that are inhabited by ethnic Albanian majorities. Ethnic identification is strong, and the vast majority of ethnic Albanians continue to vote for ethnic Albanian parties, which have almost no discernible ideological identity beyond their commitment to advancing the overall well-being of ethnic Albanians.

This trend was partly (and briefly) interrupted in the parliamentary election of December 2016 when SDSM attracted an estimated 40,000 to 50,000 ethnic Albanian votes, but most of these voters have returned to ethnic Albanian parties in subsequent elections, partly because of the unique nature of the 2016 election but also because

Question
Score

Monopoly on the
use of force

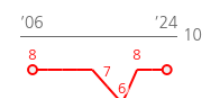
10



1

State identity

8



1

of disillusionment with SDSM. Other ethnic parties representing minorities, such as Turks, Bosniaks, Roma and Serbs, tend to contest parliamentary elections as part of larger pre-electoral coalitions led by an ethnic Macedonian party and typically remain loyal to this party upon entering parliament.

Another indication of the divide between predominantly Macedonian and Albanian ethnic groups arises from contrasting geopolitical attitudes and priorities. Most recently, the unity of the Macedonian nation was severely undermined by the French proposal regarding the inclusion of ethnic Bulgarians in the Macedonian constitution, which aimed at resolving Bulgaria's opposition to North Macedonia's EU membership. This proposal, which faced widespread opposition among ethnic Macedonians but substantial support from ethnic Albanians, had a significant impact on societal cohesion. In July 2022, an armed ethnic Albanian man attacked a group of ethnic Macedonians protesting against the French proposal, pointing a gun at them and firing it into the air.

Public surveys also reveal differences in geopolitical affiliations between ethnic groups. Ethnic Macedonians typically regard the European Union (and, in recent years, Serbia) as their most trusted foreign country/bloc, while ethnic Albanians tend to favor the United States. Additionally, attitudes toward relations with Russia, although generally cautious even among ethnic Macedonians, exhibit notable divergence. Overall, there is no evidence of separatist inclinations among minority-group politicians, including ethnic Albanians. However, if the prospects for EU accession continue to diminish, this situation may change.

By law, all citizens enjoy the same civil rights and liberties. The country's various ethnic, religious and cultural minorities are not excluded, either in theory or in practice, from citizenship. However, certain minorities, such as the Roma, still experience significant discrimination in reality. The implementation of the Ohrid Framework Agreement (OFA) involves legal provisions to ensure the inclusion of ethnic minorities. One such provision is the double ("Badinter") majority principle, which requires that laws directly impacting culture, language usage, education, personal documentation and the use of symbols must receive the support of the majority of members of parliament representing minority communities. At the close of the review period, six out of the 16 government ministers were ethnically Albanian, in addition to two out of the four deputy prime ministers and the speaker of the parliament.

However, there are strong concerns that the employment of minorities is politicized and still used to nurture clientelistic linkages with voters. The principle of "equitable representation," intended to guarantee employment quotas for representatives of ethnic minorities in public institutions, has undermined the meritocracy of public administration employment. Ethnic Albanian employees have tended to exhibit much higher rates of work absenteeism, and various scandals related to nepotism and preferential treatment of card-carrying party members of ethnic Albanian parties in

hiring procedures have been recorded. Finally, ethnic tension also resurfaced, albeit somewhat briefly, after the announcement of the 2021 census results in March 2022, which showed a smaller difference between the number of ethnic Macedonians and ethnic Albanians compared to the previous census in 2002, leading to some inflammatory rhetoric by far-right policy actors and opinion makers, including (unsubstantiated) accusations that the census results had been manipulated.

The constitution stipulates the separation of church and state, establishing the legal status of churches, religious organizations and religious groups. However, in practice, religious communities face unequal treatment. The Macedonian Orthodox Church and the Islamic religious communities are given preferential treatment and often have close ties to those in power. New Christian and Islamic denominations, particularly those that challenge the dominance of established religious organizations, encounter obstacles in the registration process and in carrying out their activities. In general, numerous Macedonian citizens, regardless of their ethnic group, consider themselves to be religious.

Church officials continue to be actively involved in public affairs, which has generated significant controversy due to their failure to endorse social distancing measures during the COVID-19 pandemic. Specifically, the sudden lifting of a months-long lockdown during Orthodox Easter in 2020, despite a high number of COVID-19 cases, led to suspicions of religious influence over government actions, particularly regarding crucial decisions on public health policies. Both former Prime Minister Zoran Zaev and the current Interior Minister Oliver Spasovski have openly acknowledged their religious affiliation and frequently appeared in public alongside religious officials. They have publicly shown reverence by bowing or kissing the hands of these religious officials as a gesture of respect.

In May 2022, the Macedonian Orthodox Church scored a major legal and reputational victory by receiving recognition from the Ecumenical Patriarchate of Constantinople as a canonical church independent from the Serbian Orthodox Church. Prime Minister Dimitar Kovachevski characterized this event as a major success for North Macedonia and highlighted his government's role in lobbying for the decision.

However, the influence of religious organizations on legislation and policy appears to be rather low. To name just one example, an annual Pride Parade has been held in Skopje for several years and has frequently been attended by high-level government officials, despite objections from religious communities.

No interference of religious dogmas

9



1

The public administration provides most basic services throughout North Macedonia, although sometimes with less success outside the capital and especially in rural areas. About 98% to 99% of the population has access to sanitation facilities and water sources. Over the years, the country has made limited efforts to downsize and reform its public administration, which comprises several hundred thousand full-time employees. Many state institutions are still filled with card-carrying members of one of the governing parties, who are often disproportionately likely to engage in work absenteeism. The public perception aligns with reports from various international organizations indicating that the country has failed to establish a merit-based system for its public administration and that employment remains based on party affiliation. There is also a strong public perception of corruption in public administration.

While basic services remain available, sporadic scandals emerge. In August 2022, the national electricity agency reported that approximately 5% of all electricity delivered at the national level is stolen annually. Electricity theft is particularly concerning in several ethnic Albanian-majority municipalities, such as the Skopje suburb of Arachinovo, where the share of electricity lost to theft is estimated to be between 56% and 96%. Challenges also persist with regard to tax collection, as the size of the informal economy is estimated to be around €2.5 billion – a staggering 21% to 40% of the country's GDP, according to a 2022 analysis by Finance Think.

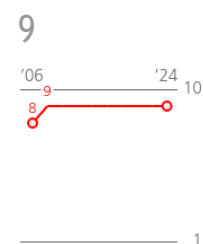
Efforts to enhance the quality of public service provision in vital areas such as social security continue. However, the extensive scale of the public administration remains a major burden on the state budget and hinders harmonization with pertinent EU laws in this area.

2 | Political Participation

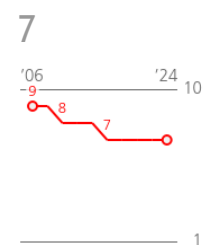
Local elections were held in North Macedonia in September and October of 2021. The opposition VMRO-DPMNE emerged as the biggest winner, securing 42 out of the country's 80 municipalities. This was a significant increase from the mere five municipalities it had won in the previous local election in 2017. On the other hand, the incumbent SDSM suffered a major setback, winning only 16 municipalities compared to the 57 it had held in 2017. A similar pattern was observed in the municipality councils, which are now predominantly led by VMRO-DPMNE.

In the capital city of Skopje, the independent candidate Danela Arsovska, who was supported by VMRO-DPMNE, comfortably defeated the SDSM incumbent Petre Shilegov in the October run-off. Despite a last-minute allegation by SDSM that Arsovska held a Bulgarian passport, which Arsovska denied, she emerged victorious. It is worth noting that although dual citizenship does not disqualify Macedonian citizens from running for office, SDSM hoped that this allegation would tarnish Arsovska's patriotic credentials.

Basic administration



Free and fair elections



In addition to Skopje, SDSM also lost control of several other major cities, such as Bitola and Prilep, as well as its traditional strongholds like Strumica and Kumanovo. Meanwhile, although BDI won 11 mayoral races, including those in Struga, Debar, Chair and Kichevo, it suffered defeat in two of the largest municipalities with a majority ethnic Albanian population, Tetovo and Gostivar.

The turnout was 57.1% in the first round and 49.2% in the runoff. The election administration was professional, transparent and impartial, earning the confidence of most stakeholders. Just a little over a year after a major hacking incident during the 2020 parliamentary election, the information systems of the State Electoral Commission (SEC) proved largely reliable, and all votes were counted and announced in the majority of municipalities soon after election day.

Both rounds of the election were calm and well-administered, and all candidates accepted the results. The overall assessment of the election by international observers was positive, as key procedures were followed. As in previous elections, the country continued to suffer from an outdated electoral register, as the results of the 2021 census had not yet become available. This might have resulted in undercounted turnout, which had to be calculated out of an unrealistically high total electorate size (given the high rates of net emigration every year). The outdated nature of the electoral rolls has also raised some suspicions of irregularities, as this could potentially make electoral manipulation easier. Moreover, some concerning indications of vote-buying and group voting were sporadically observed, especially in small and rural municipalities. A limited number of instances of employer pressure in favor of voting for SDSM and (especially) DUI were also observed. The media coverage of candidates and parties was generally fair and equal.

The next parliamentary election (unless there is an early election) is scheduled to take place in 2024, which is also when the next presidential election is scheduled.

Democratically elected political representatives have the effective power to govern. North Macedonia has no military, clergy or political groups with veto powers that can undermine democratic procedures. However, it is believed that business elites hold substantial influence over political processes. Several prominent businessmen, including the wealthiest person in North Macedonia, Orce Kamchev, have been implicated in corruption scandals involving the VMRO-DPMNE-led government prior to 2017. Kamchev served time in prison in 2021 and 2022.

Moreover, external actors, particularly major Western governments, are perceived as having significant influence on government decision-making. A notable recent example includes the July 2022 acceptance by the Macedonian government and parliament of a largely unaltered version of the French proposal relating to the dispute with Bulgaria, which came amid strong international pressure only weeks after Prime Minister Kovachevski's rejection of an earlier draft.

Effective power to govern

8



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

However, the close alignments between the NGOs and political parties still persist from the political crisis of 2015 to 2017, when numerous civil society representatives assumed high-ranking positions in the cabinet of the prime minister and other institutions upon the change of government in 2017. Some of them maintain their government positions today, which occasionally sparks suspicion regarding the sector's role as a corrective to the government and leaves the sector's independence in question. The vast majority of the sector is financed with grants from foreign embassies and multilateral organizations, and funding sources are generally acknowledged transparently. Crucially, the pressure on and stigmatization of civil society, which characterized the late period of the VMRO-DPMNE government and included attacks by pro-government media and senior politicians, have diminished considerably since 2017.

In 2021 and 2022, the COVID-19-related restrictions on assembly rights that were implemented in 2020 were lifted. The annual Pride event, advocating for LGBTQ+ rights, occurred in both years with a moderate police presence and without any significant incidents.

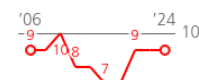
Campaign rallies for the September and October 2021 local elections were held with little regard for social distancing, albeit at a time when most of the population had been vaccinated twice. Protests in June and July of 2022 against the French proposal relating to the dispute with Bulgaria were largely peaceful and occurred without any significant obstruction from the government. Finally, no major instances of police brutality toward protesters – an area of considerable concern before 2017 – have been observed recently.

The constitution guarantees the freedom of speech, and a legal framework is in place to protect the freedom of expression. Government control of the media has decreased compared to the period of rule by VMRO-DPMNE and Prime Minister Nikola Gruevski. There is no systematic control of the media, although there are occasional instances of pressure and legal threats against journalists. In several cases, the Agency for Audio and Audiovisual Media Services has strongly responded when government officials have threatened the media with lawsuits, labeling such actions as pressure on the media.

The media landscape remains polarized, although the situation has improved slightly. Government pressure on journalists has significantly decreased, and independent media is mostly able to function without restrictions, although occasional reports of self-censorship on the part of media editors and owners afraid of alienating the government persist. Disinformation is relatively common and skyrocketed in

Association / assembly rights

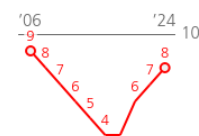
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1

Freedom of expression

8



1

connection with the dispute with Bulgaria and Russia's invasion of Ukraine, when a limited number of nationalist web portals continuously published unverified content intended to depict the Bulgarian and Ukrainian governments in a negative light. Hate speech remains present and is seldom addressed by relevant institutions, although freedom of information legislation is in place and is generally effective. Online media remains highly underregulated.

3 | Rule of Law

In North Macedonia, power is divided among the three branches of government: the parliament, the executive (the prime minister, his ministers and the president), and the judiciary. The president can veto legislation once but must accept it if the same bill passes again. The executive dominates over the legislature, with parliamentarians almost invariably voting along party lines. A rare (albeit very partial) exception occurred in July 2022 when two legislators in the governing majority did not vote for the French proposal relating to the Bulgarian dispute when it came up in parliament. Similarly, allegations that the executive tends to influence the judiciary persist.

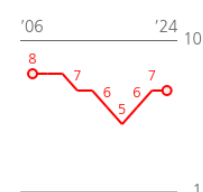
The president holds a mainly ceremonial role with limited substantive powers, such as serving as commander in chief and appointing ambassadors. Cooperation between the government and the president has been relatively smooth in recent years, with the incumbent president, Stevo Pendarovski, having been nominated by SDSM for the 2019 presidential election. North Macedonia has a notable history of poor cooperation between the president and the prime minister during periods of interparty cohabitation, such as from 2006 to 2009 and 2017 to 2019.

The parliament is functional but still highly polarized. Given the slim governing majority, the quorum requirement can easily be politically instrumentalized by the opposition. The opposition parties VMRO-DPMNE, The Left (Levica, a new parliamentary group) and the Alliance for Albanians have all used filibusters to block some government proposals, most recently the nomination of judges to the Constitutional Court. That has occasionally stalled the work of the legislature.

The brief political crisis after the local elections of September and October 2021 posed a particular test for the independence of the legislative branch of government. Delegitimized by its overwhelming defeat, SDSM faced the danger of losing its parliamentary majority, with the ethnic Albanian party Besa hinting at the possibility that it might leave its coalition with SDSM and form one with VMRO-DPMNE instead. However, Besa's attempt failed after one of its legislators, Kastriot Rexhepi, left the party and remained loyal to the SDSM-led parliamentary majority.

Separation of powers

7



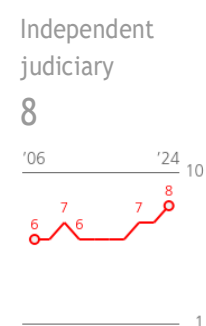
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Despite widespread speculation that behind-the-scenes horse-trading between Rexhepi and SDSM had taken place, the decision by an individual parliamentarian to end his association with an incumbent party in the middle of his term in office strengthened the impression of legislative independence. Moreover, the fact that the parliament was able to produce a new parliamentary majority (with another ethnic Albanian party, Alternative, replacing Besa in the governing coalition) in a period of crisis, rather than calling for a snap parliamentary election, was another indicator of its institutional fragility.

North Macedonia's judiciary is significantly more independent than it was before the political crisis from 2015 to 2017, during which executive interference with the judiciary stood out as one of the most prominent examples of the abuses of power revealed in the major leaks of wiretapped conversations involving high-level government officials in 2015. To this day, the judiciary is frequently derogatorily referred to in public discourse as a “Swarovski judiciary,” referencing the VMRO-DPMNE government's alleged attempt to bribe a judge with Swarovski jewelry.

The independence of the judiciary is formally guaranteed by the country's legal framework. There is a court budget council, an academy for judges and prosecutors, and judicial and public prosecutor councils that appoint and dismiss judges and prosecutors, with members of these latter bodies elected by their professional peers. As noted by the European Commission's progress report for 2022, new rules have been set for the appointment, promotion, discipline and dismissal of judges and prosecutors. These rules have been consistently implemented by judicial institutions. However, political infighting in parliament caused severe delays in the appointment of new judges to the Constitutional Court in the autumn of 2022. Two new judges were finally confirmed in October 2022 after their nominations had been stalled for months. However, the fact that the prospects of several unfilled posts and an accompanying constitutional crisis after the retirement of one of the constitutional judges were very real does not bode well for the future of the court. Concerns have also been raised about the relatively slow implementation of the EU-mandated automated system for court case management (ACCMIS).

The two most prominent recent verdicts by the Macedonian judiciary – widely hailed as signs of its independence – occurred in 2021 when Sasho Mijalokov, former head of the intelligence services, and Orce Kamchev, a prominent businessman, were sentenced to prison for the abuse of power and financial crime, respectively. These crimes were committed before 2017, under the previous government.



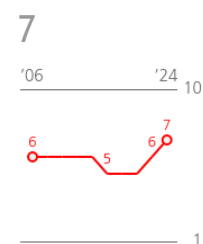
The legal framework for the prosecution of office abuse is largely in place. However, the relevant institutions lack resources. These bodies need to increase their capacities and improve their horizontal cooperation, such as that between the anti-corruption agency and the public prosecutor. At the same time, corruption remains a concern, and only a limited number of cases raised by the State Commission for Prevention of Corruption (SCPC) are picked up by the public prosecutor and result in legal verdicts, although this ratio has been improving recently. In 2021 and 2022, some high-profile abuse of power indictments were handed down against incumbent officials in the top government echelons, such as (now former) General Secretary of the Government Dragi Rashkovski and his successor in the same role, Muhamed Zeqiri (who has since been dismissed and placed under house arrest). As the review period ended, legal proceedings against them were ongoing, with each charged with interfering in public procurement contracts and causing presumed damages of hundreds of thousands of euros to the state budget.

Civil rights are guaranteed by the constitution, and in principle, there are institutions in place to protect them, such as the ombudsman, the Commission for Prevention and Protection against Discrimination, and the Directorate for Personal Data Protection. However, some of these independent bodies are staffed by high-profile former or current politicians. The most prominent example is Naser Ziberi, a former official of the Democratic Union for Integration (DUI), who serves as the national ombudsman. The Anti-Discrimination Commission is the only partial exception in this regard, although there have been controversies around the naming of its members as well.

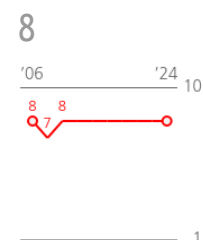
Some vulnerable groups often face discrimination and the denial of basic liberties. This is especially true for the Roma community, whose fundamental rights to education and health, as well as its children's rights to be protected from forced labor, are frequently disregarded. In March 2022, a significant civil rights legal ruling was issued regarding the "Public Room" scandal, which involved a clandestine group sharing explicit images of women, including underage girls, without their consent on the Telegram messaging app. The founder and moderator of the group each received four-year prison sentences.

Discrimination based on sexual orientation, race, religion and political preference, as well as the protection of privacy, mostly falls under the remit of the ombudsman and is generally prosecuted. However, there have been few publicly notable cases recently.

Prosecution of office abuse



Civil rights



4 | Stability of Democratic Institutions

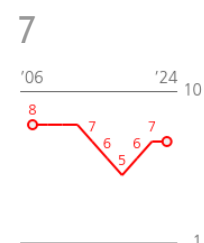
After the October 2021 local elections and the January 2022 reshuffle of the government, the parliamentary majority led by the Social Democratic Union of Macedonia (SDSM) consists of 63 members of parliament (SDSM, Democratic Union for Integration (BDI), and Alternative) in the 120-member parliament, which is just two seats above the minimum threshold required for a simple majority. This narrow margin often presents challenges in obtaining consensus during parliamentary voting. Parliamentary debates tend to be highly polarized, resulting in very few laws being passed unanimously. Furthermore, the opposition has resorted to boycotting parliamentary procedures, as seen in the case of the crucial July 2022 vote on the French proposal regarding the Bulgarian dispute, when members of parliament from the VMRO-DPMNE and Levica parties left the chamber prior to the vote.

More serious issues can be observed at the local level, including severe deadlocks in the functioning of city councils due to blockades by opposition parties. These deadlocks have even escalated into physical violence on a few occasions. One ongoing example is the deadlock in the city council of the capital city of Skopje. The mayor, Danela Arsovska, has had serious disagreements with VMRO-DPMNE, the party that nominated her for the mayoral race in 2021. Since VMRO-DPMNE holds the majority in the council, major decisions have often been delayed or completely blocked. As a result, key local services, such as public transportation, have been severely impacted.

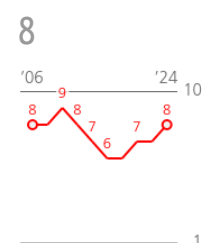
The functioning of the judiciary and public administration is generally unimpeded by constraints of this nature.

In principle, all relevant actors, including political parties, associations, civil society organizations and the military, tend to accept democratic institutions as legitimate. The opposition continues to oppose the use of the new constitutional name of the country for symbolic and political purposes, while nonetheless fully participating in the political life of the country and in democratic institutions such as the parliament.

Performance of democratic institutions



Commitment to democratic institutions



5 | Political and Social Integration

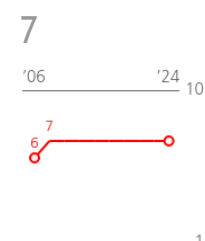
The Social Democratic Union of Macedonia (SDSM) and the Internal Macedonian Revolutionary Organization – Democratic Party for Macedonian National Unity (VMRO-DPMNE) are the primary political parties in North Macedonia. SDSM is a reformed social democratic successor of the League of Communists of Macedonia. For VMRO-DPMNE, VMRO refers to an anti-Ottoman Macedonian revolutionary movement in the early 20th century, while DPMNE alludes to the party’s alleged central objective of “Macedonian national unity,” with “Macedonian” typically understood by key party officials as referring primarily to ethnic Macedonians. Although smaller new and splinter parties have emerged, these two parties have taken turns in power and remain the most significant players.

Since the electoral system changed to proportional representation in 2002, SDSM and VMRO-DPMNE have led coalition blocs in elections. Ethnic Albanian parties have sought political reforms to improve the status of their community. The Democratic Union for Integration (BDI), founded by the leaders of the National Liberation Army, a rebel group involved in the 2001 conflict, has been part of ruling coalitions from 2002 to 2006 and again from 2008 to the present. BDI’s dominance among ethnic Albanians has been contested by the Alliance for Albanians (AA), which promotes Albanian nationalism and mainly mobilizes former supporters of the now-defunct Democratic Party of Albanians; the Besa movement (a conservative ethnic Albanian party); and Alternative (a small ethnic Albanian party that split off from Besa in March 2019). Alternative participated in the ruling coalition alongside SDSM and BDI from late 2021 to early 2023, after which it was replaced by the Alliance for Albanians.

Ethnicity is the primary political division, and ethnic nationalism remains a significant driver of political mobilization, although political adversaries within ethnic groups are also intensely divided. In the 2020 parliamentary election, SDSM established a pre-election alliance with an ethnic Albanian party (Besa) for the first time. In 2016, SDSM was able to secure an estimated 40,000 to 70,000 ethnic Albanian votes thanks to an unprecedented multiethnic political platform and candidate list. However, voting largely continues to align along ethnic lines, as SDSM’s coalition with BDI since 2017 has compromised the party in the eyes of many anti-establishment ethnic Albanians.

In the ethnic Macedonian party bloc, a new anti-establishment party, The Left (Levica), entered the parliament in 2020, combining a progressive, economically left platform with a nationalist and latently Albanophobic agenda. It opposes the Prespa agreement and the agreement with Bulgaria and expresses skepticism toward European integration and ambivalence toward the war in Ukraine. With its eclectic ideological platform, Levica has managed to attract a non-negligible number of votes

Party system



from each of the two big parties and is poised to increase its number of members of parliament in future elections, according to most opinion polls. Other small parties continue to exist but have largely stayed loyal to one of the two big parties. They usually contest elections together with their larger partners in return for a small number of (guaranteed) parliamentary seats, which they might not win should they contest elections independently.

Clientelism plays an important role in party support. After coming to power, all major political parties find various ways to extend public goods to targeted groups. For example, the public administration workforce remains large, and subsidies for farmers and pensions are high. In return, the parties expect political and voter support, although not as explicitly as during the period of VMRO-DPMNE governance.

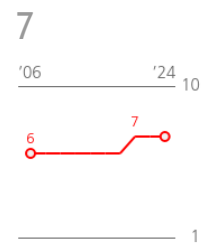
The two main parties, SDSM and VMRO-DPMNE, are highly centralized and loyal to their party leaders, Prime Minister Dimitar Kovachevski and opposition leader Hristijan Mickoski, respectively. Party officials and individual legislators rarely express disagreement with their party's political course. The ongoing dispute with Bulgaria constitutes a rare exception, as a considerable number of SDSM party officials – mainly former ministers and high-level functionaries (currently rank-and-file members), especially those considered close to the former prime minister and party leader, Branko Crvenkovski – have openly accused the SDSM-led government of being too soft.

Broadly speaking, parties in North Macedonia do represent societal interests. All of the parties discussed here (except Levica) are pro-EU and pro-NATO, which aligns with the high levels of support for these institutions among the population. Moreover, while SDSM and VMRO-DPMNE nominally occupy diametrically opposed positions on the two-dimensional ideological spectrum – economically and socially – both parties have in the past mostly governed within the confines of an economically neoliberal consensus.

While, in principle, there has been more communication between the government and the NGO sector in recent years, and certainly more openness in this regard from the SDSM-led government than was the case under the previous ruling coalition, the impact of civil society organizations has been limited. The government often acts reactively, correcting its course after adverse civil society reactions to its plans.

While the government has declared the establishment of a strong national tripartite social dialogue between the government, workers and employers to discuss public policies and laws, it has not functioned well in practice. Legal provisions for social dialogue are adequate, but the participation of social partners in formulating policy and in decision-making remains inadequate. Most of the bigger unions remain ineffective and largely reactive, which is perhaps unsurprising considering that the largest union is traditionally close to the party in power. Collective agreements are either lacking or not binding. However, the National Workers Trade Union played an

Interest groups



important part in a decision to increase the national minimum wage in February 2022. This decision was strongly opposed by the National Association of Employers, which pointed to the potential risks of layoffs and diminished economic growth. A particularly active section of the labor unions is the education branch, which has organized teachers' strikes paralyzing the school system on several occasions in recent years, thus securing (limited) pay increases.

The new minimum wage was set at about 58% of the median wage, making it relatively higher than similar figures in most EU countries. This indicates the limited influence of businesses in persuading the government to help them reduce labor costs. As of the end of the review period, the anticipated wave of layoffs in response to the minimum wage increase had not yet happened. In fact, the unemployment rate at the end of 2022 was a full percentage point lower (14.4%) than at the end of 2021. It is important to note, however, that the government has generally been more responsive to foreign businesses. This can be seen in the constant reports of labor rights violations, particularly in the textile industry, which is predominantly foreign-owned.

Nevertheless, the general perception remains that the government nurtures close ties to – and is influenced by – the business community, especially as prominent present and former cabinet members in the SDSM-led government are associated with business leaders or originate from the private sector themselves.

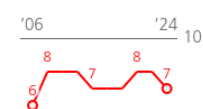
In January 2023, cultural workers took on an unusually prominent interest-group role in light of allegations of a clientelistic appointment to the directorial post at the National Youth Cultural Center. After thousands of citizens took to the streets in Skopje, the appointment was reversed.

An October 2022 opinion poll conducted by the International Republican Institute (IRI) shows that 51% of citizens believe democracy is the best system of government, while only 27% regard it as being inferior to other systems. However, the 51% figure is down from 61% in 2021 and is inflated by older respondents, with only a minority of people aged 18 to 55 (48%) agreeing with the statement. The same poll also shows extremely low (and generally declining) levels of confidence in key public sectors such as public health care (10% expressing confidence), police (10%) and especially the judiciary (4%).

Social capital has increased over the past decade, with family and interpersonal relationships characterized by relatively high levels of trust. Nevertheless, during the COVID-19 pandemic, some analysts have speculated that low levels of interpersonal trust were paradoxically beneficial to the societal response to the pandemic. Citizens' mistrust in their fellow citizens' ability and willingness to comply with social distancing recommendations may have led them to tolerate severe lockdowns and other anti-pandemic measures.

Approval of democracy

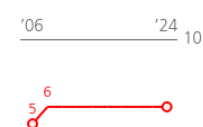
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Social capital

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In terms of grassroots cultural and other civic associations, North Macedonia follows the broader post-socialist trend toward informal relations, with citizens mostly socializing privately and outside formal membership in groups or organizations. Moreover, the NGO sector is predominantly funded by international donors rather than by local citizen groups or local funders.

II. Economic Transformation

6 | Level of Socioeconomic Development

The 2021 Human Development Index ranks North Macedonia 78th among 189 countries, with a score of 0.770. This represents a slight decline in points from 2018 (0.774), but a slight improvement from its previous ranking of 83. The country's ranking is lower than that of Albania and all the other Yugoslav successor states except for Kosovo. However, when it comes to the Gini coefficient of inequality, where lower scores indicate less inequality, North Macedonia outperforms most of the region, with a relatively low score of 33 as of 2018 (the latest available data). It is important to note that wealth inequality in the country is generally perceived as being worse than income inequality, largely due to the absence of an inheritance tax and low property taxes.

The poverty rate – that is, the share of the population with household incomes lower than 60% of estimated expenditure needs – was estimated to be 21.8% (625,000 people) in 2020 (last available data). This was a slight increase from 21.6% in 2019, according to the National Statistics Agency. Among children and teenagers under 17, the poverty rate jumps to 30.3%. The discontinuation of most pandemic-related relief measures in late 2020 and the socioeconomic effects of the war in Ukraine in 2022 might have contributed to the increase in poverty.

In terms of gender, 40.5% of adult women achieve at least a secondary level of education, compared to 56% of men. Another discrepancy can be observed in the labor market figures. Female labor force participation was only 40.7% in 2019, in contrast to 57.7% for men. This is primarily because women are expected to care for children and the elderly – especially when public services are not available or accessible – and because many women engage in informal, often unpaid work on family farms. The situation is particularly alarming in rural areas. Additionally, the economy is characterized by gender-segregated industries. For instance, female workers dominate in the textile, leather and shoe industries, where workers' rights are most blatantly disregarded. Gender inequality also intersects with place of

Question
Score

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residence and ethnicity – for example, rural and Roma women are particularly at risk of social, economic and political exclusion. Overall, North Macedonia’s score on the Gender Inequality Index was 0.134 in 2021, representing a slight decrease from previous years.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	12606.3	12363.6	13825.0	13563.1
GDP growth	%	3.9	-6.1	5.5	2.1
Inflation (CPI)	%	0.8	1.2	3.2	14.2
Unemployment	%	17.4	16.6	15.8	15.1
Foreign direct investment	% of GDP	4.4	0.1	5.0	6.4
Export growth	%	8.9	-10.9	11.7	13.4
Import growth	%	10.1	-10.9	11.9	16.1
Current account balance	\$ M	-376.5	-360.4	-420.2	-840.4
Public debt	% of GDP	40.4	50.8	53.4	52.1
External debt	\$ M	9000.2	10526.3	10839.5	-
Total debt service	\$ M	721.9	1158.2	1501.5	-
Net lending/borrowing	% of GDP	-2.0	-8.0	-5.4	-
Tax revenue	% of GDP	17.1	16.1	17.6	-
Government consumption	% of GDP	14.0	16.7	16.0	15.8
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	4.3	4.8	-	-
R&D expenditure	% of GDP	0.4	0.4	0.4	-
Military expenditure	% of GDP	1.2	1.3	1.5	1.6

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The legal foundations for a competitive market economy are, by and large, established in North Macedonia. The market economy is more firmly established than in most Western Balkan countries, with the exception of Albania. Business regulations in the country are relatively efficient, with administrative reforms in place that have cut red tape and shortened bankruptcy and company registration procedures. Prices are mostly determined by market forces. Cross-border mobility of labor and capital is largely unimpeded.

As part of its bid to attract foreign direct investment (FDI), the country offers a range of favorable conditions, including 100% foreign ownership; 0% corporate and income tax; a rebate of 10% of investment cost in construction, machines and equipment; and land lease rates of €0.10 per m²/year. Additionally, a streamlined regulatory framework facilitates investment in the country.

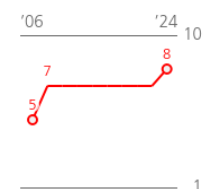
However, structural challenges to investment and innovation, such as political instability and corruption, remain. According to the International Labor Organization, the informal sector has shrunk significantly in recent years and accounted for just 9.9% of employment as of 2021 – lower than in much of the rest of the region.

Anti-monopoly institutions and legislation are in place in North Macedonia. The Commission for Protection of Competition (CPC) is responsible for anti-monopoly measures. Recent legislative changes, which include aligning the Criminal Code with the Law on Protection of Competition, permit leniency procedures. The CPC has sufficient staff; however, it lacks expertise and a stable source of funding. Moreover, stakeholders have limited knowledge of the rules and procedures. The CPC's enforcement policy must be strengthened by increasing the number of on-site inspections and actively implementing the EU's leniency policy. Concerns persist regarding the independence and capacity of the courts to handle antitrust cases. Companies facing capacity issues can choose to seek an exemption from horizontal and vertical agreements by engaging in self-assessment.

Overall, in its latest progress report on the country (2022), the European Union rated the country's preparedness in the realms of intellectual property, competition policy, financial services and the free movement of goods, services and capital as merely moderate. It particularly criticized the lack of progress made since the previous report in the realm of competition policy.

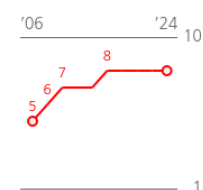
Market organization

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Competition policy

8



Foreign trade has been extensively deregulated, and there is no fundamental state intervention in free trade. North Macedonia is a member of the World Trade Organization and the Central European Free Trade Agreement (CEFTA). The country is highly integrated into international trade, with a total trade-to-GDP ratio of 147.81% in 2021, marking a 16.96% increase from 2020, according to the World Bank. As of 2021, the simple average most-favored-nation (MFN) applied tariff rate was 6.7%.

The country has liberalized trade with the European Union, according to the Stabilization and Association Agreement signed in 2001, which entered into full force in 2014. There are no restrictions or controls on payments, transactions, transfers or repatriation of profits. Its main trading partners for exports are Germany, Serbia and Bulgaria, while most imported goods come from Germany, the United Kingdom, Greece or Serbia.

According to the National Statistics Office, in November 2022 (the latest available data), the country exported goods worth \$731 million and imported goods worth \$1.02 billion. Unsurprisingly, given its traditional reliance on imports, North Macedonia's overall trade deficit for 2022 reached 3.67% (as estimated by The Economist Intelligence Unit), up from 2.79% in 2021. However, North Macedonia's exports also saw some benefits from the Ukraine war, including increased steel imports into the European Union due to the ban on imports from Russia and Belarus. This development resulted in an 18% boost in steel imports from North Macedonia.

North Macedonia has a strong capital market characterized by significant foreign ownership of banks (75%). According to the World Bank, North Macedonia's financial stability indicators outperform those of its peers. There are 14 commercial banks operating in the country, but as of 2021, the three largest banks – Komercijalna Banka, Stopanska Banka Skopje and NLB Tutunska Banka – still held a total market share of more than 58%. The fastest-growing bank in recent years has been Sparkasse, which almost quadrupled its market share (to 11.5%) between 2020 and 2021. North Macedonia's banks have followed the Basel banking framework since 2016.

The capital adequacy ratio was high at 17.3% in June 2022, up from 17% in March 2022. The share of non-performing loans (NPLs) stood at 3.3% in 2020 – lower than the Western Balkan average and down almost threefold since 2011. NPLs are mostly corporate and are highly concentrated in some specific banks. The bank capital-to-assets ratio was 10.4% in 2020, which is similar to other countries in the region. This ratio has been generally stable or has even shown slight increases over the last decade. The performance of individual banks varies widely, and several small banks have struggled. Overall, it is a positive indication that banks are the single most trusted institution in the country – ahead of any other public or private institutions – with 56% of citizens reporting that they trust them either “somewhat” or “a great deal” as of October 2022, according to the International Republican Institute.

Liberalization of foreign trade

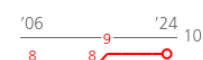
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Banking system

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8 | Monetary and fiscal stability

Monetary policy and anti-inflation measures are under the purview of the National Bank of the Republic of North Macedonia (NBRM). NBRM is an independent institution that is mandated to have a strong governor. The inflation rate, which reached double digits in the early 1990s, subsequently remained remarkably low until 2022, consistently aligning with patterns observed in the European Union, North Macedonia's principal trading partner.

The national currency, the Macedonian denar, is de facto pegged to the euro at an exchange rate of 61.5. This is because the NBRM buys or sells foreign exchange to keep the denar trading in a very narrow band around this exchange rate. The real effective exchange rate index was 100.3 in 2021 – the highest it has been since 2014.

In monetary terms, 2022 was the worst year in recent memory for North Macedonia. It ended the year with a year-to-year inflation rate of 18.8% – one of the highest in Europe. Remarkably, the rise in consumer prices dwarfed even the rise in producer prices (17.4%). While much of the increase was attributable to global supply shocks caused by Russia's invasion of Ukraine, which has disproportionately hurt North Macedonia given its highly globally integrated economy, a non-negligible part was also due to the government's refusal to freeze food prices for most of the year. Inflation would likely have been much higher if the National Bank of the Republic of North Macedonia (NBRM) had not increased interest rates on several occasions. The timing and magnitude of the increases were largely in line with the policy of the European Central Bank.

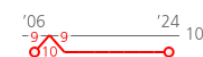
According to the Economist Intelligence Unit, North Macedonia's current account deficit rose to \$810 million in 2022, up from a deficit of \$420 million in 2021. As recently as 2018, the country showed a surplus of \$18 million. Total reserves fell to \$4 billion in 2022 from \$4.3 billion in 2021 but are still significantly higher than the \$3.3 billion in 2018.

Successive Macedonian governments have focused on securing price stability and external balance through macroeconomic policies, given the de facto currency peg to the euro. The country's fiscal discipline and well-functioning coordination between fiscal and monetary policy have been confirmed by international financial institutions. Until the COVID-19 pandemic, public debt had hovered around 40% of GDP. In 2020, however, it rose rapidly to 51.9% and has continued to increase since then (reaching 52.5% of GDP as of September 2022). Estimated record-high tax collections of \$2.9 billion are expected in 2023, partly due to the high inflation rate.

Despite strong political pressure from parts of its electorate to introduce a progressive income tax in line with its social-democratic credentials, SDSM has chosen to maintain the country's flat and relatively low personal income tax of 10%. According to Finance Think, a local research institute, tax revenues should actually contribute more than twice as much to the country's GDP, considering that the size of the

Monetary stability

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Fiscal stability

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informal (gray) economy could account for 21% to 40% of GDP. Lastly, the fiscal deficit was estimated to have increased to 4.2% of GDP in 2022 due to measures aimed at mitigating the impact of the food and energy price shock during Russia's invasion of Ukraine.

9 | Private Property

The constitution guarantees property rights to citizens and investors. Foreign investors can acquire property if they register a company in North Macedonia. In general, property rights are adequately defined with regard to the acquisition, use, benefits and sale of property.

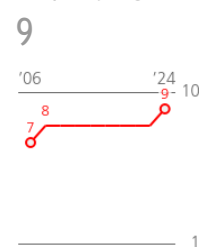
The Agency for Real Estate Cadaster has aimed to determine the property rights of every cadastral parcel in North Macedonia. To achieve this goal, amendments were made to the Law on Real Estate Cadaster in 2014, enabling property to be registered free of charge in select municipalities. Subsequent governments have further extended these initiatives, allowing both citizens and legal entities to register their property without a fee. As a result, over 100,000 cadastral parcels, 60,000 parcels of agricultural land and 40,000 parcels of construction land were registered between 2014 and 2021.

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

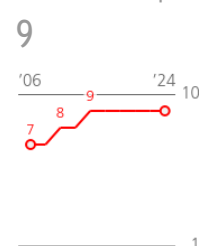
The share of state-owned enterprises (SOEs) remains high, particularly in the energy, banking, water supply, communal utility and public transportation sectors. Numerous state-owned enterprises are unprofitable, and various governments have undertaken efforts to privatize or find private partners for several that have accumulated losses for the past decade. A noteworthy example is the National Post Office, which operates at an annual loss of €3 million, but continues to be publicly owned as of January 2023 despite a series of privatization attempts over the years. Progress in this area could enhance market competition and efficiency in certain sectors.

Private companies are given functioning legal safeguards. The privatization of state companies has consistently followed market principles in recent years. However, in the aftermath of the fall of the planned economy in 1991, privatization efforts were marked by a number of suspicious and harmful decisions, resulting in the loss of jobs for many workers. Some parties have raised the issue of changing the statute of limitations for the privatization period, implying that criminal activities have taken place in certain cases. Nevertheless, no recent developments have occurred regarding this matter.

Property rights



Private enterprise



10 | Welfare Regime

Social safety nets exist, and approximately one-third of the annual budget goes to social transfers such as pensions, social protection and child protection. However, due to the country's relatively poor overall economic performance, the safety net does not fully mitigate poverty or address risks associated with old age, illness, unemployment and disability. The public health care system, which primarily operates on an insurance basis, typically requires only modest copayments in limited situations. However, the quality of the system was revealed to be suboptimal during the COVID-19 pandemic, with North Macedonia experiencing one of the world's highest rates of excess mortality. Pensions in the country are adjusted to reflect salary growth, amounting to 41% of the average salary. Unemployment benefits total 50% of the recipient's average salary over the previous two years, and the duration of the benefits is contingent upon the length of employment, with a maximum duration of 12 months for individuals who have worked for 25 years or more.

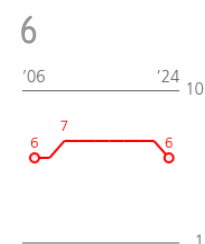
The family policy record is mixed. While fully remunerated maternal and parental leave (with nonmandatory father days) is currently available for nine months, child benefits are scarce. These benefits are almost exclusively focused on low-income households, and public childcare facilities are overburdened and frequently suffer from long waitlists for enrollment.

In terms of social protection in response to Russia's invasion of Ukraine, the government did not freeze food prices but instead capped retailers' profit margins at 5% for large retailers and 10% for small ones. Electricity prices were also not frozen, but domestic food companies were provided with subsidized electricity. Households received reduced-voltage electricity to maintain affordable prices and stable supplies. Despite these measures, electricity and particularly food prices rose significantly in 2022, placing a heavier burden on poorer households and resulting in higher poverty rates.

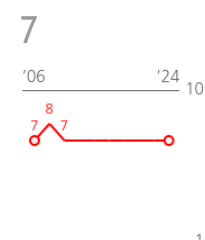
Equal opportunity is constitutionally guaranteed and has been reinforced by the adoption of the Law on Prevention of and Protection Against Discrimination in 2019. Primary education enrollment rates remain high (98.2%), with no significant differences by gender. According to the World Bank, as of 2022, enrollment ratios in secondary and tertiary education are respectively 80% (even though secondary education is mandatory) and 43.1%, with women outnumbering men in tertiary education by a ratio of 1.2 to 1. In the past, governments led by VMRO-DPMNE supported the opening of new decentralized universities around the country to ease access to higher education; however, this came at the expense of the quality of education.

Women have the same legal status as men but do not enjoy the same rights in practice. For example, they are under-represented in senior positions in the private and public sectors and own less property. While a gender quota of 40% is in place for party lists in parliamentary elections, women remain severely under-represented in mayoral and

Social safety nets



Equal opportunity



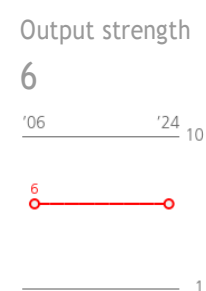
ministerial positions. In 2020 (last available data), women comprised only 39.3% of the total labor force, and the female inactivity rate remains among the region's highest. This is primarily due to the expectation that women will provide unpaid domestic care, a lack of institutional support, and unpaid work in family businesses and farming. Some progress was made on gender equality, notably through the ratification of the Council of Europe's Istanbul Convention in December 2017. The existing laws on gender equality are adequate but often poorly implemented. Legal changes from January 2019 guarantee women the right to an abortion, removing obstacles introduced by law in 2013.

11 | Economic Performance

Real (inflation-adjusted) GDP per capita growth returned to positive values after a rare decline in 2020, rising by 3.9% in 2021 and an estimated 2% in 2022, with GDP overall reaching \$13.8 billion. Growth is projected to slow in 2023 while still remaining positive. However, these rates are still well below the last pre-pandemic figure of 3.9% in 2019.

Net foreign direct investment is estimated by the Economist Intelligence Unit to have totaled 4.9% of GDP in 2022 and is forecast at 4.6% of GDP in 2023, up from 3.8% of GDP in 2019. Until the COVID-19 pandemic, public debt had hovered around 40% of GDP. In 2020, however, it rose rapidly to 51.9% and has continued to increase since then, reaching 52.5% as of September 2022. Estimated record-high tax revenues of \$2.9 billion are expected in 2023, partly due to the high inflation rate. The current account deficit increased to \$810 million in 2022, up from \$420 million in 2021. North Macedonia ended 2022 with a year-to-year inflation rate of 18.8% – one of the highest such figures in Europe.

The official unemployment rate was 14.5% in the second half of 2022. Throughout 2021 and 2022, the service economy rebounded as the country largely avoided lockdowns or other disruptive anti-pandemic measures in the late stages of the pandemic. It is still too early to determine if the increase in the national minimum wage in February 2022 will lead to higher unemployment rates, but this outcome appears unlikely given the relatively small size of the increase. Another potential hindrance to employment may have been created by the imposition of mandatory nonworking Sundays for most industries, with employers required to pay double wages if they choose to operate on those days.



12 | Sustainability

The government is increasingly interested in addressing environmental concerns. By offering various subsidies, the government encourages businesses and private policy enterprises to transition to renewable energy sources. A program is currently underway to replace outdated heating systems in schools with more efficient and environmentally friendly alternatives. The country has also taken steps to reduce its dependence on coal for energy. However, the primary source of electricity continues to be the notorious REK Bitola coal-fired power plant, which has been fined by authorities and has faced criticism from experts and activists numerous times over the years due to its inadequate compliance with environmental standards.

The current government endorsed the Green Agenda for the Western Balkans in November 2020 as part of the EU-Western Balkans Berlin Process. However, implementation has been limited, according to the European Union's 2022 progress report on the country. Nevertheless, the same report also characterizes the country as better prepared to join the European Union in terms of its environmental legislation than in most other policy areas.

Air pollution is a significant problem in major cities. According to the World Health Organization, Skopje and Tetovo have the highest level of air pollution in Europe after Sarajevo in Bosnia and Herzegovina. Several factors contribute to air pollution: the use of wood for heating (64% of households, according to the World Bank in 2019), traffic and outdated metal industry facilities. In 2019, a Clean Air Plan (€2 million) was introduced, which included measures to reduce pollution, raise public awareness, and improve regulatory and administrative capacities. However, air pollution levels have shown little improvement. At the national level, the Democratic Renewal of Macedonia (DOM), the only green party, is a small party that consistently participates in elections as part of pre-electoral coalitions with one of the two largest parties rather than running independently.

An important illustration of the country's flawed environmental protection can be derived from recent developments around Lake Ohrid, as the lack of regard for environmental issues in the urban planning of the nearby city of Ohrid prompted UNESCO to add the lake to its list of world heritage sites in danger in 2019. Efforts by the Ohrid Municipality managed to remove the lake from the list in 2021, but concerns remain.

Environmental
policy

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North Macedonia ranks below most other southeastern European countries in the U.N. Education Index (with a score of 0.719 in 2021, only slightly up from 0.714 in 2019). However, the literacy rate is quite high (97% to 98%), and enrollment rates have improved over the past two decades, mainly because secondary education was made compulsory in 2008 (despite imperfect enforcement), and access to higher education has improved through decentralized university programs. The education system has been slow to address the mismatch between the skills demanded in the job market and what is taught, partly due to an excessive number of mandatory subjects and a limited number of optional courses, as well as limited on-the-job training for teachers, although efforts are underway to modernize vocational education.

The quality of education has stagnated over the years. Public expenditure on education is about 4% of GDP, which is lower than the EU average. Enrollment and completion rates in secondary education are about 87%. These have slowly increased, as have tertiary enrollment rates, but remain below the EU average. Approximately 12% of students drop out of school or university, and this rate has remained relatively constant over the past decade. According to the World Bank's economic report for the Western Balkans in 2017, two-thirds of North Macedonia's young population are functionally illiterate, with severely limited critical thinking skills. Efforts to adapt primary and secondary education to the needs of digitalization were made due to the COVID-19 pandemic, but these initiatives were suboptimal and have been partly abandoned since the pandemic. The country consistently performs poorly in the Program for International Student Assessment (PISA) rankings. In 2019, North Macedonia was ranked 67th for verbal and numerical skills and 63rd for science among 77 high- and middle-income countries.

Educational infrastructure, resources and capacities need significant improvement and investment. R&D expenditure remains critically low, accounting for only 0.08% of the country's 2023 budget – a significant decrease from 0.45% in 2014. The government has continued to stimulate investments through the National Innovation Fund in order to provide support to SMEs. However, there are concerns about this sector's weak absorption capacities, and there have been serious indications of funds being granted to individuals close to high-ranking government officials.

The functioning and management of public education institutions, including universities, are far from optimal. None of the public or private universities in the country were ranked among the 1,000 best universities in the world according to the Shanghai Rankings in 2022.

Education policy /
R&D

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Governance

I. Level of Difficulty

The structural constraints on governance are fairly high in North Macedonia. Although the overall unemployment rate has mostly been falling over the years, it remained relatively high at 14.5% as of late 2022, coupled with one of the highest youth unemployment rates in Europe, with about a third of young citizens lacking work. A large part of the population, particularly women, is officially economically inactive due to traditional norms, a lack of childcare institutions, and informal work on family farms and businesses. Moreover, a high proportion of the population (over 40%) is at risk of social exclusion. GDP per capita is rising but still hovers at a little over a third of the EU average.

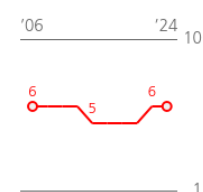
The country does not have strategically important natural resources. Significant portions of the country, especially in the east, remain poorly connected, and the number and length of highways remain insufficient. Several major transport infrastructure projects are ongoing, but some of these have been delayed because of abuses by the VMRO-DPMNE-led governments in the early 2010s.

The country has faced structural problems since independence (and even before), such as poor infrastructure, high unemployment rates, and a lack of the technology and general skills needed for a rapid economic transformation. Moreover, poor management of the transition in the 1990s contributed to the painful adjustment to a market-based economy. The economic embargo by Greece in the aftermath of independence also significantly harmed this landlocked country.

North Macedonia is situated in a region historically troubled by political instability. The country experienced a brief interethnic armed conflict in 2001, which was peacefully resolved after intervention by the international community. However, ethnic divisions remain significant, and ethnic tensions occasionally flare up. Despite these challenges, a wide range of policies was implemented to improve the position and rights of minority communities following the armed conflict. It is anticipated that much of the country's socioeconomic development, including its interethnic relations, would improve with EU accession. However, progress toward this goal has been hindered mostly by external constraints beyond the government's control. These include the past blockade by Greece over the name dispute, as well as the ongoing obstruction by Bulgaria over common linguistic and historical legacies.

Structural
constraints

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Since independence, North Macedonia has enjoyed some elements of a functional civil society, with many civil society organizations (CSOs), social movements and various associations. This is due to the legacy of the Yugoslav period, when neighborhood associations were very active and promoted political engagement at the local level. Additionally, there were numerous civic organizations, including women's associations, youth organizations, fire brigades, and cultural and sports clubs. This tradition of civil society has continued in the post-independence period. The number of registered CSOs is estimated to be between 5,000 and 6,000. However, these organizations have mainly relied on donor support, and most lack significant institutional capacities because donors tend to focus on specific short- or medium-term projects rather than long-term organizational strengthening. There are few CSOs that operate on a membership basis.

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

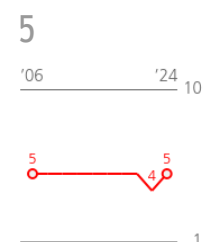
In terms of social trust, personal and family relationships, as well as social networks, remain an integral part of social life. However, political polarization has been increasing, and voter turnout has decreased since the 2016 elections, with a 52% turnout rate in the latest parliamentary elections in 2020.

A significant positive example in terms of the impact of civil society occurred in August 2022 when the Investigative Reporting Lab, a non-profit media organization, aired a shocking one-hour documentary called "Dirty Blood" on the COVID-19 treatment at a leading private hospital in Skopje. The documentary exposed the widespread use of an uncertified yet highly expensive blood filtration technique that jeopardized the health of many patients with a severe form of COVID-19. The scandal has resulted in an ongoing criminal investigation against the owner of the hospital. In general, the public has demonstrated vigilance and has responded through public demonstrations to various scandals in both the government and private sector over the past few years.

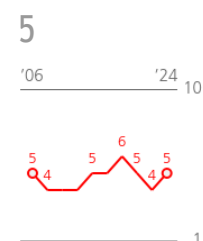
Political tensions continue, although conflicts between members of the political elite no longer involve violence or hostilities. Physical contact between members of parliament during general parliamentary sessions and meetings of parliamentary commissions can occur sporadically, but it generally does not escalate in most situations.

However, society remains highly divided along social, ethnic, political and religious lines. Government and opposition parties alike exploit the "ethnic card" to drive policy proposals, which in turn further polarizes matters. Most parties in the country define themselves along ethnic lines, although for most ethnic Macedonian parties,

Civil society traditions



Conflict intensity



this is largely implicit rather than explicit. The implementation of the Prespa Agreement, including the changing of the country's name, and the 2022 French proposal regarding the ongoing dispute with Bulgaria have contributed to further political polarization in the country. In July 2022, a group of ethnic Macedonian protesters against the French proposal was attacked by an armed ethnic Albanian man who pointed a gun at them and fired it in the air.

II. Governance Performance

14 | Steering Capability

Each year, the government decides on its strategic priorities and develops corresponding annual work plans, in accordance with an adopted methodology for strategic planning and the preparation of the annual plans. Additionally, many ministries have their own strategic planning units to determine the course within their specific sectors.

The government has identified EU and NATO membership (with the latter already achieved) as its main strategic priorities, alongside building “one society for all.” By this, it means developing the economy, improving living standards, building a just and multicultural society, and enhancing institutions and the rule of law for all citizens regardless of ethnic background.

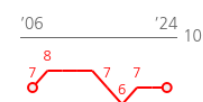
Since 2017, successive governments led by the Social Democratic Union of Macedonia (SDSM) have also emphasized the fight against corruption as a priority. They have additionally adopted a set of popular measures to ease the cost of living for the poorest, for instance by boosting the minimum wage. However, the personal income tax remains flat amidst strong pressure from business elites, despite multiple commitments to change the model.

The political capability to take a longer-term policy perspective, especially on key domestic issues such as the judiciary and the fight against corruption, is determined by coalition interests. The compromises that are made prioritize party interests and clientelistic practices. Strategic priorities are followed mainly when necessary for a positive assessment in the European Commission's annual progress reports. Efforts to solicit expert advice typically take place on an ad hoc basis and are normally initiated – and financed – by international organizations, which lend experts to specific government institutions for a limited period of time to help formulate long-term national strategies and evaluate current progress.

Question
Score

Prioritization

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The government fails to implement some of its policies and strategies, while also launching ad hoc initiatives, as noted in the 2022 progress report by the European Commission. Overall, a more comprehensive and systematic approach is needed to implement the existing policies and strategies. For example, although there has been progress in the judiciary, thanks to the steady implementation of the judicial reform strategy, the implementation of human resources strategies for the judiciary and prosecution services has been slow. This is particularly problematic considering the upcoming EU accession talks, as Chapter 23 on the judiciary is typically one of the first to be opened. Generally, in its recent progress reports, the European Commission has commended the country for increasing its compliance with European laws and practices in terms of foreign policy, but there are still gaps in other areas.

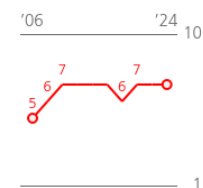
On paper, the government takes policy learning seriously, as it develops and updates policy strategies at regular intervals. However, the public often ridicules the persistent publication of multiple policy strategies that are frequently not implemented, making it difficult to regard this trend as meaningful policy learning. Foreign expertise, mainly in the form of EU experts from the European Commission, is openly welcomed and sporadically utilized in various fields.

Academic expertise (domestic and foreign) is often procured on behalf of the government by international aid agencies and NGOs (mostly Western) based in the country. However, a chronic problem in this regard is the insufficient number and often complete lack of long-term researchers in government institutions engaged in policy monitoring and evaluation. These tasks are often conducted incompletely by other staff members or outsourced to external experts, often foreign ones. This limitation constrains the room for consistent policy learning.

A recent example of external experts being included in policymaking is the Strategic Council for Foreign Policy, initiated in 2021 by Minister of Foreign Affairs Bujar Osmani. This council includes academics, researchers, former ministers, parliamentarians and ambassadors with expertise in foreign policy. While a number of Strategic Council meetings have taken place since its introduction, its impact on policy remains unclear. The country's decision to join the Global Forum on Cyber Expertise as its 103rd member state in November 2022 represents another example of ensuring access to external expertise.

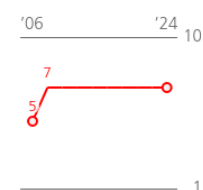
Implementation

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Policy learning

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15 | Resource Efficiency

The government efficiently utilizes only a portion of the available resources. There is not a merit-based hiring system in place, as patronage practices remain widespread under the guise of competitive recruitment. Additionally, the period under review saw a continuation of politically motivated dismissals and appointments, albeit at a reduced rate compared to previous governments led by VMRO-DPMNE.

The government has also failed to attract highly educated and skilled employees to government institutions. A particularly striking example is the ongoing government-provided scholarship for Macedonian students at leading world universities. These students are then mandated to return to the country and work for a government institution for a number of years. However, the government rarely contacts them upon graduation, often due to a preference for hiring card-carrying party members.

The government has been inefficient in using the funds allocated for capital investment, which are often redirected to covering the costs of transfers and social care. The state auditor lacks sufficient funding and capacity to fully exercise its competencies. Although there is rhetorical support provided for further fiscal decentralization, administrative obstacles continue to hold back this process.

Public finances still lack transparency. Although there has been an increase in transparency in planning and implementation, contradictions persist between planned and actual expenditures. All expenditures by ministers and other state officials, including travel costs and expenses for meals, are disclosed to the public. Media scandals often arise from reports of government officials spending excessive amounts at restaurants or requesting complimentary tickets for national sports matches. Indications of significant travel expenses by nonresident parliamentarians who also have the privilege of an apartment in the capital also provoke similar levels of outrage.

There is a functional level of policy coordination, but this remains heavily dependent on the party membership of the stakeholders involved. Coordination between the prime minister and his cabinet on the one hand, and the president on the other, has largely been smooth, as both are from SDSM. However, the president holds limited powers, such as appointing ambassadors and acting as commander in chief. Occasionally, ambassadorial appointments are delayed due to obstruction by the relevant parliamentary commission, which is run by VMRO-DPMNE. For instance, the post of ambassador to the U.N. remained unfilled for years until March 2022 due to such a deadlock.

Policy coordination is severely threatened when it comes to the relationship between the central government and local municipalities, most of which went to VMRO-DPMNE in the most recent 2021 election. Responsibility for policy failures is often shifted to the other party, and the public discourse is dominated by the exchange of

Efficient use of assets

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Policy coordination

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accusations between the two main parties. A particularly bleak example is the capital city of Skopje, which has been governed by the VMRO-DPMNE-nominated mayor Danela Arsovska since the autumn of 2021. In addition to suboptimal coordination with the SDSM-led central government, Arsovska has also fallen out with VMRO-DPMNE, which holds a majority on the Skopje City Council. This has led to severe delays on crucial governance decisions, most notably resulting in severe disruptions in public transportation services during the winter of 2022/23 due to disagreements between Arsovska and the director of the national public transportation agency, who was appointed by VMRO-DPMNE.

Party cooperation within the central government itself has been more functional, albeit not without difficulties. The addition of the ethnic Albanian party Alternativa to the governing coalition in autumn 2021 (with the concomitant perks awarded to the party) prompted dissatisfaction among the existing ethnic Albanian party in the coalition, BDI. The Alliance for Albanians replaced Alternativa in the ruling coalition in February 2023. The appointment of high-level government officials is widely considered to be the product of political horse-trading between the coalition partners rather than a merit-based process.

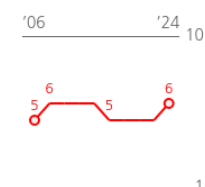
The fight against corruption remains one of the most urgent issues in North Macedonia. Regulations and institutions to contain corruption, such as the State Commission for the Prevention of Corruption (SCPC) and the State Audit Office, are in place. Both of these entities enjoy considerable independence and significantly less government control and pressure than was the case under the VMRO-led government. The SCPC has a more independent role and has been proactive in identifying cases of corruption, conflicts of interest and insufficient transparency in public procurement, including among the highest government echelons. However, only a limited number of cases raised by the SCPC are picked up by the public prosecutor and result in legal verdicts, although this ratio has been improving recently.

Moreover, the SCPC lacks sufficient human resources and logistical support, as well as competent personnel. Several past recruits, based on provisions in the Ohrid Framework Agreement mandating a just representation of ethnic groups, failed to adequately meet the SCPC's needs. These public servants, mainly employed through BDI's clientelistic schemes, received government salaries for years despite never starting work.

Transparency of public procurement can be considered to have improved after two major government scandals. In 2020 and 2021, two out of the last three general secretaries of the government resigned amid charges of improper procurement practices. However, concerns persist regarding asset declaration, as officeholders are not required to disclose the full origin of their acquired assets. This issue has become a key rallying cry for the populist opposition party, Levica. Access to public information has seen recent improvements, and party financing has generally remained uncontroversial. In accordance with the law, the country's (parliamentary) parties receive a significant portion of their resources from the national budget, based on the number of serving members of parliament.

Anti-corruption
policy

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16 | Consensus-Building

The main political actors agree on establishing a stable democracy as a strategic long-term aim. All major parties, at least rhetorically, agree with the aim of membership in the European Union and NATO (achieved in 2020), although ideas over how to reach this goal vary considerably. The only exception is the political party Levica, which opposes NATO membership and is ambivalent toward the EU. Democratic consensus remains hard to achieve. Political debate and the introduction of new legislative agendas are highly polarized, and the opposition commonly uses filibusters to block or postpone government proposals. Business elites are considered to wield important influence over key political decisions, despite holding no elected office.

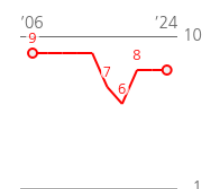
All the main political actors support the market economy. Past VMRO-DPMNE-led governments tried to diversify the country's international ties by reaching out to Russia, China and India. Their efforts were driven by the aim of diversifying and increasing foreign direct investment (FDI) but were met with only partial success. The SDSM-led government has continued with policies that advance the market economy but it has also attempted to improve the social safety net – again, with mixed success.

The military and police are mostly under civilian control, and the new government has aimed to enhance the accountability of civilian intelligence services. The National Liberation Army, an ethnic Albanian guerrilla group that challenged the state in 2001, was demobilized after the conflict. The political party Levica, represented by two legislators in a 120-strong parliament, has seen its popularity grow. However, the party has shown anti-democratic inclinations, particularly in the rhetoric of party leader and member of parliament Dimitar Apasiev. He has repeatedly pledged to lynch government officials if his party were to come into power.

North Macedonia is a society that is divided along ethnic lines. The power-sharing nature of the system has led to the mobilization of different ethnic groups in the political arena. With the exception of SDSM in 2016 (and to a lesser extent in 2020), political parties primarily cater to their own ethnic constituencies. While this brings a certain level of stability to the party system, it also makes ethnic relations fragile. There are institutional mechanisms in place to defuse tensions – for instance, all coalition governments since 1992 have included members from multiple ethnic groups. These mechanisms have been further expanded and fortified by the official power-sharing arrangement outlined in the Ohrid Framework Agreement (OFA). The implementation of the OFA has introduced additional significant institutional measures, such as ensuring fair representation, granting minority veto power in certain policy areas, guaranteeing language rights and promoting decentralization to enhance the status of minority communities. The religious divide, which often aligns

Consensus on goals

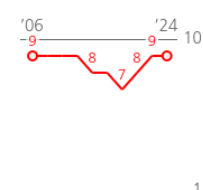
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Anti-democratic actors

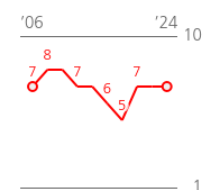
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Cleavage / conflict management

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with the ethnic divide, only becomes prominent in relation to certain issues, such as abortion and LGBTQ+ rights. However, for the majority of the population, these issues are not sources of contention, with most citizens supporting the former and opposing the latter.

A short-term yet particularly significant division is the dispute with Bulgaria over shared historical and linguistic legacies. The government has shown some willingness to compromise, but none of the (ethnic Macedonian) opposition parties have demonstrated any flexibility on the issue. Based on the relatively non-violent protests on this topic in the summer of 2022, it appears that this division might extend to these parties' broader support bases and could potentially intensify in the future. This too may fall along ethnic lines, with ethnic Albanians generally adopting a more accommodative stance than ethnic Macedonians.

Civil society organizations participate in public discussions at the national and local levels, but this practice is relatively limited. This convention has been established and predominantly followed by the SDSM-led governments. Official government bodies hold public discussions infrequently. The legal requirements for public discussions have been subject to diverse interpretations.

A limited (but increasing) number of laws have been fast-tracked under the concept of “laws with a European flag” due to their allegedly essential importance for the country's EU integration, thus limiting public debate. Between 2020 and 2022, 13 to 18 laws per year were proposed in the parliament – and adopted – through a fast-tracked procedure in the name of synchronization with EU laws. This overuse of the procedure has led both the opposition and the European Union itself (in successive progress reports) to criticize it. For instance, the “European flag” has been attached to controversial counterintelligence and cannabis manufacturing laws, which are far from synchronized with EU norms.

Moreover, some significant political decisions in the past have been made behind closed doors by the leaders of the main political parties rather than through a transparent and institutional process.

North Macedonia experienced a brief interethnic armed conflict in 2001. The inclusion of ethnic minorities in the institutions of government and in the decision-making process has improved, but interethnic tension continues to be a source of political mobilization. No major effort has been made for the country to address its past. Two members of the country's security forces were put on trial by The Hague tribunal; one was convicted and the other acquitted. In 2011, the parliament issued an amnesty for any war crimes that might have been committed by the members of the National Liberation Army (NLA), an Albanian guerrilla group, which were not addressed by the International Criminal Tribunal for the former Yugoslavia. This amnesty effectively prevented the victims of the armed conflict and their families from seeking justice. BDI, currently the largest ethnic Albanian party, is a successor

Public consultation

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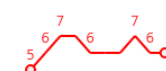


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Reconciliation

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to the NLA. No leading party members have expressed regret for any violence committed during the conflict. Similarly, the senior coalition partner, SDSM, has not recognized the need to address historical acts of injustice in relation to the 2001 armed conflict or the events that led up to it, despite promoting the concept of “One Society for All” since the 2016 elections.

In April 2017, VMRO-DPMNE supporters stormed the parliament to prevent it from voting in an SDSM-led government. In late 2018 and early 2019, former Prime Minister Zoran Zaev from SDSM called for national reconciliation, primarily because his government required support from several opposition legislators to pass the constitutional changes needed to implement the Prespa Agreement, which resolved the name dispute with Greece. Since then, several parliamentarians and prominent conservative activists linked to the 2017 incident have been pardoned in an apparent effort at reconciliation, though this move has not gained much popularity among the public.

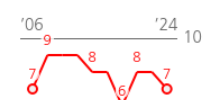
17 | International Cooperation

The government relies extensively on the political and economic support of international actors. There has been a significant increase in the use of EU funds for structural reforms, along with efforts to seek assistance in implementing these reforms. The country is adopting a more proactive approach to promoting opportunities for citizens to utilize available foreign funds. However, the implementation of the long-term strategy still falls short, primarily due to party interests, political corruption and insufficient institutional capacities to operationalize this support. As part of the EU’s Instrument for Pre-Accession Assistance (IPA), the country was eligible for support totaling €360 million, but only about a third of this funding was successfully claimed. This indicates that the government lacks adequate strategic mechanisms and political road maps to benefit from international support, even in cases where funds have already been designated for its benefit.

The United States and the European Union play a significant role in North Macedonia’s political and social landscape. They contribute to the country’s socioeconomic development through national and international aid agencies, particularly in times of crises. The Macedonian government, on the other hand, tends to prioritize addressing widespread challenges like corruption and poor living standards rather than delivering targeted support to smaller towns and rural areas in the eastern part of the country, which are currently experiencing significant rates of poverty and depopulation.

Effective use of support

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The government's credibility as a partner in international cooperation has been strong under the SDSM-led governments since 2017. North Macedonia has joined all diplomatic denouncements of – and sanctions against – Russia in response to the war in Ukraine since the earliest stages of the invasion. The government did well in handling a scandal involving the controversially obtained Macedonian citizenship of a pro-Putin Russo-Ukrainian former parliamentarian and oligarch. This citizenship was revoked in December 2022. Additionally, as of January 2023, the country is serving as OSCE chair, through which it has also advanced further support for Ukraine.

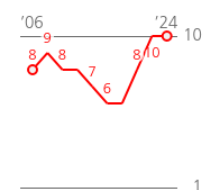
European Union progress reports remain positive despite the delay in the integration process due to the dispute with Bulgaria. In its latest progress report in 2022, the European Union praised the country's alignment with the EU's common foreign and security policy. Moreover, in August 2022, the European Commission negotiated a status agreement with North Macedonia that would allow the European Border and Coast Guard Agency (Frontex) to deploy the European Border and Coast Guard standing corps to the country. The government respects international rulings and generally abides by the international treaties and conventions signed by the country.

North Macedonia continues to play a proactive role in regional cooperation. It participates in the Open Balkan initiative, which is a free economic zone with Serbia and Albania. Open Balkan aims to provide greater opportunities for trade and student exchanges and to encourage EU integration. Citizens of the three countries only need an ID card to visit other member states, saving time at border crossings. The World Bank expects the project to save \$3.2 billion. The plans for the area were announced in October 2019 and expanded during periodic meetings at the highest levels of government in 2021 and 2022. While Kosovo is not part of the Open Balkan initiative due to its contested international status and is generally not one of North Macedonia's biggest trading partners, economic relations between the two countries remain significant and stable.

Economic and political cooperation with Greece expanded following the Prespa Agreement in 2018 and the subsequent commitment to good neighborly relations. Greece has supported North Macedonia's EU accession, even after the center-right New Democracy, which was previously opposed to the Prespa Agreement, came to power. Most countries in the region, especially Serbia, are among the country's closest trading partners. However, the relationship with Bulgaria remains highly fraught in light of the country's obstruction of North Macedonia's EU integration due to unresolved differences over common historical and linguistic legacies, although economic relations remain largely stable.

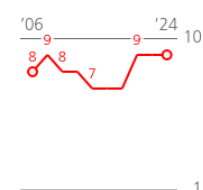
Credibility

10



Regional cooperation

9



Strategic Outlook

The establishment of the rule of law and the fight against corruption remain the primary challenges for North Macedonia. Very decisive and tangible steps are needed to achieve significant results in these areas, particularly to implement the strategic plans that have been adopted, including the allocation of additional human and financial resources to these tasks. Furthermore, governing parties, notably BDI, must demonstrate a clear determination to tackle corruption within their own ranks.

Bulgaria's obstruction of the country's EU accession talks may lead to a reversal in democratic processes and result in more polarization and a rise in political extremism. While the government has adopted a constructive approach and has shown willingness to find a solution, the active role of the European Union in managing this crisis is very important. The ratification of the French proposal by the parliament paved the way for the opening of accession talks, but the threat of future obstruction remains serious. Relations between the two governments are still fraught, and the French proposal reaffirms Bulgaria's right to block the country's EU accession at any stage of the process if it is unhappy with the resolution of bilateral disagreements over history and language. At this stage, the issue is also partly outside of North Macedonia's hands. Bulgaria has seen several consecutive and inconclusive parliamentary elections over the past few years in which the Macedonian issue has featured as an important, although not central, policy issue. The new reformist party The Change Continues has generally proven more open to compromise than the establishment Citizens for European Development of Bulgaria (GERB).

In the meantime, North Macedonia will have to continue to deal with a high inflation rate, possibly in parallel with a severe economic slowdown – and potential recession – in 2023. While the country is not a major trading partner of either Russia or Ukraine, it continues to be severely affected by the war, mainly due to its lack of energy self-sufficiency. Policy planning should hopefully be facilitated by the completion of a nationwide population census in late 2021. The results of the census were announced in the spring of 2022.

Looking ahead, the country's biggest challenge may be the continued adoption and implementation of EU legislation, especially considering the slim parliamentary majority (64 members of parliament out of 120). Any potential parliamentary deadlock, including disagreements over the highly anticipated constitutional changes that confirm the presence of a Bulgarian community in the country (which will require a two-thirds majority in parliament), could prompt a parliamentary election earlier than 2024. Another potential area of significant political and policy discord is the tension at the local level in Skopje, which remains ungovernable in many ways due to ongoing disagreements between the mayor and the two main parties in the country.