

North Macedonia
Common Country Analysis
2022 update

October 2021 – October 2022

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About the document

In 2019, the UN Country Team (UNCT) embarked on the contextual analysis to set the basis for the formulation of the new North Macedonia and [UN Sustainable Development Cooperation Framework 2021-2025 \(SDCF\)](#). The [Common Country Analysis \(CCA\)](#) was finalized in early 2020, with most of the analysis conducted prior to the COVID-19 pandemic. To account for the contextual changes that may impact the SDCF implementation, the CCA is [updated](#) every year.

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EXECUTIVE SUMMARY

The 2022 update covers the period between October 2021 and October 2022, capturing the key contextual changes and regulatory developments, with focus on aspects of energy, food and finance security crisis that intensified as result of the war in Ukraine. This year's exercise is light, pending more substantial analyses of the Census data.

Section one summarizes key findings of the baseline CCA and the 2021 update, with a view on the progress against the Sustainable Development Goals (SDG). The overarching conclusion in 2021 was that COVID-19 has not imposed new, but rather exacerbated existing development problems and vulnerabilities.

Section two identifies the key developments since the last update – in the political and governance context, the socio-economic impact of the current crisis and the developments in the area of climate change, environment and natural resources. This section also identifies the relevant legal and regulative changes.

In the area of **governance**, the update captures key regulatory developments advancing equal rights for all, nondiscrimination, gender equality focusing on those left behind, migration management, as well as public administration and judicial reforms critical for meeting EU accession priorities and sustainable development. While inclusion and participation of stakeholders concerned and the society at large in crafting policies has improved, the implementation capacity, equity, and public trust in institutions continue to shrink. Corruption and lack of accountability remains the key societal problem. There is room for digital development, as the country scores below the European average on a wider regulatory framework. The start of the EU accession negotiations comes with opportunities and risks.

On the **socio-economic aspects**, the update concludes that the global energy crisis and rising food prices undermined the economic revival by the end of 2021 which intensified with the developments in Ukraine. The impact is predominantly indirect, arising from strong reliance on energy and food imports and strong trade exposure to EU markets. The people, but also businesses and especially SMEs have been strongly hit by the inflation and energy crisis that undermined already low competitiveness of the economy. Labour market picked up in 2021, however youth unemployment remains a problem. Financing of the budget deficit and the social spending is increasingly difficult, given the depleted financial buffers and the worsening capital markets. **Human capital remains among the key challenges** in the economy, with steady population decline confirmed by the Census 2021 due to decreased fertility and strong outmigration. Despite ongoing education reforms, the learning outcomes remain at low level and insufficiently aligned with the (future) market skills. While the number of Covid-19 cases declined, the health system continues to struggle due the lack of resources and medical staff. The social reform and fight against informalities is yet to produce results, while children rights and especially those with disabilities have improved.

In the area of **climate change, environment and natural resources**, deterioration is expected in 2022 due to the energy crisis, affecting climate change and air pollution outcomes. The predominant focus on the crisis and failed public procurement on large environment investments results in less progress on environment issues. On the positive side, the increased energy prices are boosting incentives for green transition. Concerning the state of the three major lakes, challenges persist, with the situation in Prespa and Dojran Lake especially concerning and deteriorating. Significant investments in wastewater and solid waste management, natural resources management, as well as greater focus on recycling is needed.

The section also provides information about the **regional cooperation and impact of the ongoing energy, food and finance crisis on vulnerable groups**.

Section three provides a short review of the UN established 12-factor multidimensional risk analysis of 2020 and concludes that the same risks remain in place, while adding few specifics related to the recent developments.

Finally, *section four summarizes the key lessons and recommendations* among the need to strengthen data management and implementation capacities, step up effective fight against corruption and informalities, design anti-crisis measures that are strongly targeted at the needs of the most vulnerable in the context of scarce financing and, despite the current challenges, maintain commitment for strategic investments in human capital, food security, climate change, environment and disaster resilience.

1. INTRODUCTION: BASELINE 2019/2020 CCA AND 2021 UPDATE

North Macedonia is an upper-middle income and a high human development index (HDI) country, with population of 1.8 million (2021), down from 2.02 million in 2002. The long-delayed 2021 census confirmed the outmigration and ageing trends.

Since the start of the EU accession process in 2001, North Macedonia has demonstrated different levels of success in implementing reforms, but its commitment to the **Euro-Atlantic integration** remained uncompromised. While the Prespa agreement and subsequent change of its constitutional name unlocked NATO membership, EU accession was effectively blocked by Bulgaria due to disagreement between the two countries about the implementation of the 2017 Friendship Agreement.

The baseline [Common Country Analysis \(CCA\)](#), with most of the analysis concluded prior to the COVID19 pandemic, captured the significant transformation of the country since the adoption of the 2030 Agenda. This includes **substantial progress under the People and Prosperity categories**, but also a **need to invest further efforts to ensure accelerated and sustainable growth, as well as inclusive and just society (Peace)**. **A number of environmental challenges require enhanced ambition in Planet category. Seven out of nine key international human rights treaties were ratified** with good track record in reporting, though integration and follow up on recommendations remain challenging. The baseline CCA also included leave no one behind (LNOB) analysis, identifying **nine distinctive vulnerable groups, six factors of discrimination and four drivers of inequality** (pg.58-74), as well as nine development priorities (pg.103).

The [2021 CCA update](#) mainly assessed and integrated the impact of COVID-19 pandemic on the development of the country, focusing on specific sectors and population groups. Key findings captured:

Progress in the area of **governance**, specifically on institutional reforms, fundamental rights and freedoms and a positive role in regional initiatives, but also persistent corruption that accelerates citizens' distrust in the institutions and low scores in key governance indicators in terms of political stability, rule of law and accountability.

Strong **socio-economic impact of COVID-19**, with recession from the second quarter 2020 until the second quarter 2021. Government's response measures and safety nets helped in alleviating impact on most vulnerable groups and businesses, but impact on women and children was unproportionally higher. After resolving initial problems with the trade in agricultural products, the IT, finance and agriculture sectors remained stable. Throughout the year, the health system continued to struggle with waves of infections and high death toll, due to scarce human resources and modest digital capacities, while the education system switched swiftly to online classes and then re-established physical presence by the end of 2021. Some important reforms were rolled out in these two sectors, including progress with vaccination process, despite initial delays and resistance among some groups of the citizens. However, the impact on learning outcomes and mental health is yet to be measured and addressed and the public debt increased substantially.

Efforts to address the **climate change, environment and natural resources** stepped up with ambitious Enhanced Nationally Determined Contribution (NDC); increased investment in renewables and waste water treatment, including addressing hazardous waste. Overall area under protection was increased with a new National Park Shar Mountains proclaimed; however anticipating and addressing the global challenges, and systemic approach in managing disaster risk in the country remained challenging.

An **updated 2021 financing landscape analysis** estimated overall financing flows at € 5.3 billion (76.7 %, from domestic public sources), lowest in Western Balkans. The **review of the UN established 12-factor multidimensional risk analysis** concluded that the same risks remain in place with few contextual specifics (pg.14). The **key conclusion** is that the COVID-19 pandemic has not imposed any new development issues but rather exposed already known vulnerabilities and problems which require a well-designed and coordinated policy approach and joint efforts of all stakeholders to recover and build back better.

2. 2022 UPDATE

2.1 POLITICAL AND GOVERNANCE CONTEXT

The country continued progress in nearly all key areas relevant for the **EU integration** and the **achievement of Sustainable Development Goals (SDGs)**, aligning its legal, policy and institutional frameworks with the international standards and the EU acquis. But corruption persisted,¹ with administrative corruption increasing,² which added to the public's distrust in governance institutions.

The challenges and delays with the start of the EU accession negotiations have decreased the popular support for the EU integration and deepened political polarization of the society. The so called “French” proposal, which presented an opportunity to overcome the Bulgarian veto and start negotiations with EU, was accepted by the Government and the Parliament in July 2022, albeit with strong opposition and protests, as many perceive it as threat to national identity and history. The opposition's petitions for referendum to anul the 2017 Friendship Agreement with Bulgaria have so far been unsuccessful.

On 18 July 2022, the European Council approved the Negotiating Framework with North Macedonia in line with the revised enlargement methodology and called the European Commission to carry out the analytical examination of the level of transposition of EU acquis, assess the state of preparation for opening negotiations in specific areas and identify the issues that will most likely remain to be addressed, starting with the Fundamentals' cluster. The Political Intergovernmental Conference was held on 19 July 2022, launching the start of the negotiations, however they would officially open only after the country includes Bulgarian minority in the Constitution's Preamble. This may prove challenging as it requires two-third majority vote. The screening process consists of explanatory and bilateral meetings taking place between September and November 2022. During the explanatory meetings, the Commission is to provide an update of the latest EU *acquis*, while at the bilateral screenings North Macedonia is expected to present the level of alignment of national legislation with the presented *acquis*, the capacities for implementation and enforcement track record, along with plans for further alignment. The Government aims to finalize the accession negotiations by 2030.

North Macedonia has continued to play a **positive role in the region**, including through the high-level Prespa Forum Dialogue and the “Open Balkan” initiative aimed at creating single market for Albania, North Macedonia and Serbia. This cooperation proved especially useful in the context of the food and energy security during the current crisis. The Open Balkan high-level meetings have become regular and operational, with number of cooperation agreements signed and some of them already ratified in the respective countries. Other Western Balkans countries are invited to join, but despite increased interest, no country has yet engaged in the process.

Central and local Government, the justice sector and the independent human rights institutions have insufficient capacities and coordination. Overall, the administrative capacity continues to decline and despite significant numbers, certain important departments and agencies remain understaffed while quality of administrative service is undermined. The trend is long-term and aligned with the overall erosion of human capital (section 2.2.2), while the administration does not traditionally attract the best quality. The challenging political context stretched further the institutional capacities and disrupted checks and balances, undermining the rule of law and cohesiveness of the society.

A new Public Administration Reform Strategy 2023-2030, under development, aims at improving transparency, accountability and merit-based system, as well as policy development and coordination, and ICT support. Main novelties relate to inclusion of local government, reduction of state administrative bodies, and establishment of Training Academy for all civil servants to overcome fragmented capacity building efforts.

The multidimensional crisis, which is a combination of impact of COVID-19, energy crisis, higher inflation, and security concerns in Europe, **worsened the already difficult operating environment for local governments.** In addition to pressure on revenue, expenditure, and financing side of local budgets, the

¹ The score and ranking of Corruption Perception Index improved in 2022. In early 2022, Transparency International Index showed improved ranking of North Macedonia up for 24 levels (87/180)

² 2021 Report on assessing the level of corruption, Macedonian Centre for International Cooperation/SELDI, <https://mcms.mk/images/docs/2021/izveshtaj-za-procenka-na-korupcijata-nivo-na-korupcija-2021.pdf>

long-term systemic weaknesses in the design of intergovernmental fiscal relations, as well as PFM weaknesses (including lack of transparency and fiscal discipline) at the subnational level were revealed. The quality of local public services suffers the most, and the local governance system is weakened as a whole.

The Government submitted reports and engaged in a dialogue with to the UN and European human rights mechanisms, including the Committee on the Rights of the Child (CRC) and the Council of Europe's monitoring body – GREVIO.³ The integration and follow up on their recommendations are challenging, despite efforts to consolidate national coordination mechanisms. Civil society maintained its critical role in advocacy, policy making, raising awareness, defending fundamental rights and providing support to the most vulnerable and excluded groups, despite challenging developments on state funding due to repurposing of some funds to pressing priorities of the new refugees and migrant's arrivals. As a result, the CSOs were left mainly reliant on funds of the line ministries, predominantly the Ministry of Political System and Inter-Communities Relations and donors. Right holders, especially vulnerable and marginalized people, continue to have limited knowledge and opportunities to claim their rights, seek justice and actively participate in the decision making at all levels.

National laws and policies related to **human rights, gender equality, and rule of law continued to be aligned with the EU law and international standards, but their enforcement remained weak**. The adoption of the Equality and Non-discrimination Strategy 2022-2026 was an important milestone: the strategy underpins intersectionality principle in all actions to be taken by the society at large in promoting respect for diversity and equal rights and opportunities for all. The new **Gender Equality Strategy 2022-2027** paved the way for strategic and long-term interventions and a robust gender machinery. Gender responsive policy development and budgeting reached 14 line ministries and 30 municipalities, to be further enhanced with the adopted **Organic Budget Law**. The process of transposition of the EU gender *acquis* is underway, while the **Gender Equality Law** is in the final stage of consultations. The first **Resource Centre on Gender Responsive Policy Making and Budgeting**, established in 2021, has continued to serve as a knowledge hub and facilitate systematic capacity development of public administration.

Relevant institutions led by the Ministry of Labour and Social Policy, including the Ministry of Health, Ministry of Interior Affairs, Ministry of Justice and the CSOs are in the final stages of fully operationalizing the **Law on Prevention and Protection of Violence against Women (VAW) and Domestic Violence (DV)**, by the end of 2022. Relevant bylaws, the Protocol for multisectoral responses and the Programme for reintegration of victims still need to be completed and approved, and subsequent institution capacity building would directly contribute to the advancement of the girl's and women's rights in the country in line with Istanbul Convention, CEDEW and European standards. In September 2022, the Government supported the [Dublin Declaration on the prevention of Domestic, Sexual and Gender-Based Violence](#) as part of the Council of Europe Ministerial Conference.

A stronger political will is needed to complete the normative framework for the rights of LGBTIQ+ people,⁴ by adoption of the National Action Plan on the Rights of LGBTIQ+ People, as well as changes to allow for legal recognition of gender transformation in line with international standards and following the state's obligation stemming from the European Court of Human Rights judgement.⁵

Efforts to address growing inequalities, exclusion and social divides are underway, prioritizing the needs of the most vulnerable and marginalized groups. The development of the new **Strategy on Rights of Persons with Disabilities 2023-2030** is an important step in furtherance of their rights, inclusion and meaningful participation in all spheres of life. Similarly, the development of a **new Strategy on Youth** was initiated in the last quarter of 2022, in partnership with the OSCE Mission to Skopje. The newly-adopted **Roma Strategy 2022-2030 and Action Plan for Roma Women 2022-2025** focused on improved access to and quality of education, health, housing, social protection and tackling widespread discrimination of Roma. Roma constitute the majority of persons at risk of statelessness in the country.

A strong political will and sustainable state efforts, including legislative, are needed to end statelessness in the country by 2024 and ensure that no new cases occur. As of October 2022, 506

³ <https://www.coe.int/en/web/istanbul-convention/grevio>

⁴ The country is on the very low 31st place at the annual [ILGA-Europe Rainbow Map and Index](#) which ranks the legal and political situation of LGBTI people in 49 European countries

⁵ Case X vs North Macedonia (Application no. 29683/16, 17.01.2019).

people were registered as stateless, of which 274 have unregistered births and personal names, and 232 with unresolved citizenship upon their return to the country after the dissolution of Yugoslavia. The recent initiative to amend the Civil Registration Law, which aims at providing a simplified procedure for late birth registration, is a promising step towards eradicating statelessness and enabling these most excluded and marginalised people to enjoy a legal identity and the full range of rights. The Law on Citizenship's amendments, which have enabled granting citizenship to the latter category, are to expire in 2024, which poses a risk for these people to remain stateless.

The **justice sector reform** will be guided by a new strategic document that seeks to strengthen the independence and efficiency of the judiciary, improve access to and quality of justice, and increase professionalism and accountability of all actors in the sector. The Criminal Code is under revision to provide stronger protection of women and children from online and offline abuse and violence. The Judicial Council adopted a special Programme and Action Plan on Countering Corruption in the Judiciary 2022-2025, which should address the growing distrust in this societal segment. A new Strategy on Justice for Children is in the process of development. The changes to the justice for children law, and the novel law on state-compensation for victims of violent crimes, both aligned with the EU Victims' Rights Directive and international standards, are pending before the Parliament for a year. In June 2021, North Macedonia endorsed the Regional Anti-Corruption and Illicit Finance Roadmap. Legal and institutional framework and capacities were strengthened for enhanced implementation of the UN Convention against Corruption and assets recovery, including also the Council of Europe and EU directives and instruments to efficiently fight multiple forms of organized and transnational crime.

In 2022, the intensive and broad consultations continued to formulate a twenty-year National Development Strategy (NDS), leveraging on baseline studies on 20 development areas and 6 cross cutting issues, such as human rights, gender, good governance, etc. The NDS will integrate the development framework MKD 2030 sponsored by the President of the country and will capitalize on the EU accession priorities and the SDGs achievement. The NDS governance structure is also to be established and capacitated by the time the document is prepared, to ensure effective monitoring and implementation.

The mixed migratory movements continue over the North Macedonia's borders due to the geostrategic position of the country on the Western Balkan sub-route. More than 20,000 irregular arrivals were recorded by end-September 2022, mainly from Syria, Pakistan, India and Afghanistan. In addition, more than 22,000 refugees entered from Ukraine, of which about 5,900 remained in North Macedonia, and 360 benefited from the one-year temporary residence permit on humanitarian grounds. This legal status does not provide effective access to fundamental rights, especially access to education, work and income to sustain their basic needs, with the government not activating the temporary protection for these individuals, that remain in a vulnerable situation. The country still hosts some 250 refugees from Kosovo who have been in the country for more than 20 years without solution.

Digital development: According to the 2020 ICT Regulatory Tracker, North Macedonia has an integrated regulatory framework (G4) that is driven by economic and social policy objectives. The total score (88.0) is below the European average (94.1), but higher than the global (73.7). This indicates that the country still has room for development, especially in the areas covered by the Digital Development Toolbox and the Digital Economy Policy Agenda.

The country employs a strategic approach on connectivity policy and regulation. A key step forward was the adoption of the National Operational Broadband Plan (NOBP) 2019–2029 in 2019. This strategic plan brings the country in line with the EU policies, goals, and standards. In addition, significant steps are being made to become a regional leader in 5G implementation. Particularly, the NOBP has lofty goals in this area. More details at [ITU Digital Development Country Profile](#).

A new Cyber Security strategy and Digitalization (ICT) strategies are under development. The latter addresses issues such as connectivity and government infrastructure, e-services, digital skills, data protection, and research and innovations, critical for accelerated digital transformation. It aims to establish a vision for an agile digital future in ICT priority areas to fulfill the society's expanding connectivity demands, promote competitiveness, improve the life of citizens and make businesses smarter. The Government also made a strategic decision to establish the National ICT and Cybersecurity Council, as well as the National Centre for Computer Incidents Response (MKD-CIRT).

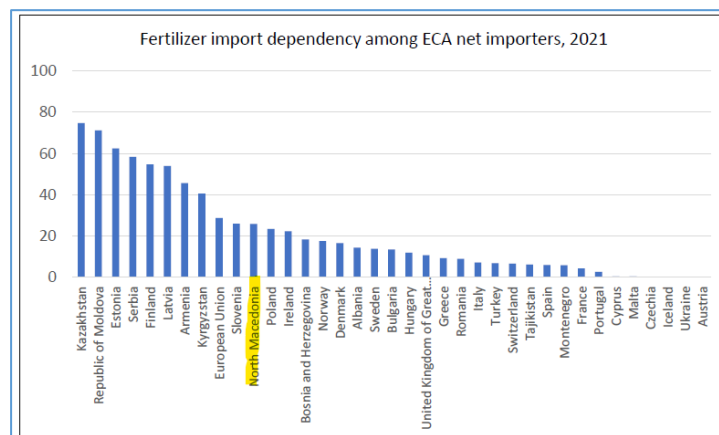
2.2 SOCIO-ECONOMIC DEVELOPMENTS

2.2.1 Economic growth and restructuring

North Macedonia has been **seriously affected by the COVID-19 pandemic, but the economy and the labour market picked up in 2021 with GDP growth around 4% according to preliminary data.**

The revival was undermined by the end of 2021 due to the global energy crunch and rising food prices. To address the emerging issues, the **Government declared and later extended a “state of energy crisis” in November 2021**, which among other things also allowed for allocation of additional funds from the state Budget available to energy/electricity suppliers. In Skopje, the energy crisis also developed into a heating crisis, when the heating company BEG declared inability to ensure gas supply to deliver the agreed amounts of heating energy. While the gas supply and prices have important, though limited consequences on the economy, due to the low level of gasification in the country (up to 10% of energy mix), the gas is mainly geared towards FDIs in the free economic zones and metal industry which are among the key contributors to export and growth. Overall, the gas is predominantly used for the combined heating-electricity plant TETO that provides central heating for Skopje.

Although the GDP continued to grow, with 2.4% in the first quarter 2022 and 2.8% in the second, the problems intensified with the Ukraine crisis. The Macedonian economy is directly **not** highly exposed to Russia or Ukraine, with imports from both countries accounting to around 1.5% each, compared to over 11% only with Germany (2019); while the exports is less than 1% (0.72% and 0.17% respectively) as compared to over 48% with Germany. The imports from Russia are mostly focused on energy, fertilizers (20% of 2021 import) and metals, while the exports are predominantly agricultural. Russian FDI's are even less significant averaging around 0.25% between 1997-2018, mostly in mining and petrol retail (Lukoil) and 0.5% of total FDIs in 2020.



Source: FAO

However, **the indirect consequences are substantial arising from strong reliance of the economy on energy and food imports.** North Macedonia imports 1/3 of wheat and 90% of sunflower oil it consumes, exposing it to the world food commodity markets volatility. Almost half of wheat imports are from Serbia, which makes the country also exposed to increased competition for Serbian wheat from countries that traditionally import from Ukraine. Fortunately, after initial export bans, the uncertainties in the agricultural trade were mitigated through regional cooperation (including the Open Balkan Initiative). Food insecurity challenges are predominantly linked to accessibility and affordability, but extreme weather conditions combined with lack of fertilizer supplies (from Russia) and persistent logistical constraints could easily turn it into a crisis in availability, making the outlook for the most vulnerable even bleaker. In addition to energy and fertilizers, prices significantly increased for seeds, feeds and pesticides which could lead to lower input use and hence lower yields potentially compromised quality in the next cropping seasons, as well as squeezed the margins of crop and livestock producers, preventing full post-Covid-19 recovery and productivity-enhancing initiatives.

Furthermore, the disruption of supply chains, animal health surveillance and control have impacted early detection, prevention, and control of high-impact animal diseases which may lead to spillover of transboundary animal diseases. Such has been the case with the spread of the deadly African swine fever

(ASF) virus in pigs on the Macedonian territory in August 2022, which has affected the production and export outlook of Macedonian pig meat production. According to [FAO](#), the unprecedented scale of destruction, movement of troops and other war-associated disasters are likely to create animal and human health threats, in a medium to long-term perspective, that are currently hard to predict. Furthermore, given high electricity prices, concerns have been raised by consumers that the food in retail stores might not be kept at the proper temperatures, which should be a matter of intensified inspections by the National Food and Veterinary Agency to ensure food safety in retail chains during the energy crisis.

To ensure security of electricity supply in 2022, the Government opted for increased domestic production, declared and extended another energy crisis and introduced saving measures that should ensure 15% cuts in public sector electricity consumption as of September 2022. The domestic production of electricity between January-July increased for 15% compared to the same period last year, however relying on increased import of coal and crude oil after restarting the dormant crude oil operating power plant. The energy crisis status allows infusion of additional funding to ensure all generating capacities are deployed and to cover the losses of the subsidized price. At the same time the relaxed criteria for investments in photovoltaics have not yet created the desired effect among the wider population, likely due to remaining administrative barriers. The revision is underway, with related laws still stuck in the Parliament. The Government has also started to address the substantial losses of electricity that result from illegal plugging into the system. So far, electricity cuts have been avoided, but the winter will be challenging. In the heating sector in Skopje the problem remains the supply of gas, with only one existing interconnector from Bulgaria which is part of the Gazprom-owned pipeline.

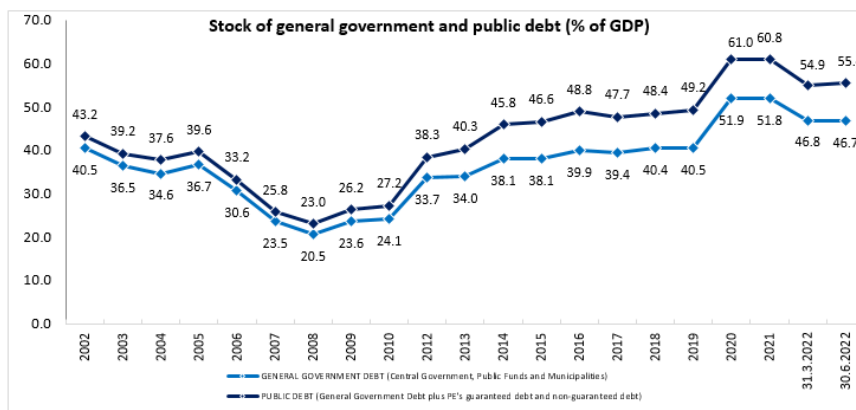
The energy market uncertainties, particularly the rising oil, gas and electricity prices, have led to price increases across all sectors. This happened along with prices freeze of basic foodstuffs which transferred the burden to the business sector and hence replaced at a later stage with margins freeze to prevent cases of “profiteering”. At the same time the growing energy and transport costs are strongly affecting already low competitiveness of the Macedonian economy, making serious problems for exporters and importers. This is by far a more relative burden for SMEs, who are less integrated into global value chains, but much more fragile under soaring input costs. There are ongoing efforts to secure cheaper electricity price for the companies, with few of them already closing operations. In addition, the spike of metal prices affects the construction sector, which was to support the post-COVID-19 recovery with intensified public investment in infrastructure. Despite sizable subsidies, the productivity in the agriculture sector remains at low level, which is a lingering problem lacking more effective and comprehensive solution. Land fragmentation, small farm sizes and insufficient agricultural infrastructure are among the major structural impediments to the sector development. Efforts for land consolidation have advanced with support from EU and FAO, expecting around 3 000 hectares of agricultural land to be consolidated in 2022, benefitting approximately 2 500 small farmers/landowners in nine rural areas.

The increased energy and food prices further increase the inflationary pressures and built a case for the Unions to demand minimum wage increase (elaborated more in 2.2.3). Unfortunately, previous measures have already created serious mismatch between the wage and productivity levels which, despite Government expressed intention, have not been conducive for an increased productivity, that is one of the lowest in the Western Balkan region.

North Macedonia will also likely suffer from **spill-over effects from the potential economic slowdown in the EU due to the strong trade and financial integration**. This was one of the predominant channels of transmission during the most recent previous crises, i.e. the 2008 financial crisis, European debt crisis and COVID-19 crisis. In addition, investors’ confidence and consequently FDIs will likely reduce globally, though despite the immediate risk, global reallocations e.g. in automotive industry may create some nearshoring opportunities for North Macedonia. FDIs in the first half 2022 reached around €246 Million with overall positive impact to export diversification, employment and tax base, however limited spill over effect to the overall economy with only few types of service companies being able to extend cooperation with them on contract basis.

The impact of the Ukraine crisis has already **corrected the early GDP growth projections downwards for at least 1 percentage point**, or around 3%, as per Spring projections. (One possible explanation for a continued growth in the second quarter is overall reserves piling, but possibly diesel and/or crude oil the most.)

The budget deficit is increasingly difficult to finance, given the tightening international capital markets and the global rise of debt following the COVID-19 crisis. The budget deficit is projected at 5.3% in the Supplement Budget 2022, increased from 4.3% in the initial Budget. The planned fiscal consolidation is postponed for 2023 while revenues largely rely on indirect taxes and there is significant tax evasion. Nevertheless, the country managed to affirm the credit rating at 'BB-/B'; Outlook Stable of S&P in August (and BB+ at Fitch in May), though S&P expects that the GDP will grow with modest 1.5% in 2022 as result of the Russia-Ukraine conflict. The 2022 financing needs are around €900 million and potentially rising, especially after the announced closure of some big employer companies. After borrowing €50 million from a commercial bank to cover the pressing needs of the state electricity producer ESM, the Government secured additional €250 million from the relatively more favorable NSV instrument, a local bond issued in the German market. The investor is Deutsche Bank with interest of around 5-6%, with 3 years repayment deadline and 18 months grace period. The discussions with IMF that started during the Spring 2022 meetings, finally resulted with a staff-level agreement on policies under a 24-month Precautionary and Liquidity Line (PLL) arrangement in the amount of SDR 406.87 million (about €530 million). Upon final approval by the IMF's Management and Executive Board, North Macedonia secured immediate access to about €110 million in 2022. While this should cover for the needs in 2022, IMF funding in 2023 aims to leverage further financing – potentially from EU, other IFIs, and from the international capital market by issuing planned Eurobond.



Source: Ministry of Finance

Since 2021, the Government, with an annual budget of around €4.5 billion, has invested around €615 million in supporting households and the economy, mainly with reduction of taxes e.g. VAT on basic foodstuff and energy, limits on the wholesale and retail margins (5 to 10 %), reduction of excise and custom fees, while boosting subsidies for energy poverty and favourable loans for companies, including for energy efficiency and green transition. Additional €76 million have been allocated for these purposes in the budget 2022 supplement. Unfortunately, the fiscal space for this came from reduction in capital expenditures that are essential for economic recovery, while the anti-crisis measures are yet not fully targeted.

A further set of anti-crisis measures worth €350 million was approved by the Government in October 2022, with somewhat improved targeting. This includes about €8 million for 42.000 people from vulnerable categories (e.g. social security beneficiaries, PwD and PwD parents, single parents, unemployed) and €12.2 Million for 153 thousand pensioners (45% of retired). Further set of measures is aimed for companies with consultant support and favourable loans including for energy efficiency projects. The electricity price will continue to be subsidized (80%) for 650 thousand households and (around 67%) for 70 thousand companies which are small consumers. The Government also decided to include the schools in the regulated (subsidized) market and facilitate cheaper price from EVN for hospitals and food production companies to ensure functioning of basic services for citizens. While this will be facilitated with a €100 million loan from EBRD aimed to support ESM liquidity, direct budget transfer will likely be necessary to cover further losses. Meanwhile, ESM also received a licence for heating distribution in Skopje, resolving the dispute with the private owner of the equipment. Additional €17.9 million are allocated for ESM to facilitate heating production, however the natural gas which is necessary for production is secured only for the first two weeks of October. Negotiations are still ongoing, as the alternative (diesel or crude-oil) is very harmful for air quality.

The Government also took market interventions, policy decisions and introduced a package of support measures against the impact of the war in Ukraine on food security. In addition to the regular support programmes, an Intervention Fund of €14.6 million was made available to farmers, to support strategic crop and animal production, including subsidies for purchase of fertilizers for wheat, barley, corn, sunflower, rice and animal feed. Financial support was also provided to milk and sheep producers, while the Government assisted the most export-oriented agrobusinesses in finding alternative markets to Russia and Ukraine. To further increase the effect of the Intervention Fund Programme, the Government stepped-up the pace of leasing state-owned land to farmers to increase domestic production of strategic crops (wheat, barley) – 13,000 hectares of land have been leased as of October 2022.

In the middle of these developments the Ministry of Finance initiated a **public debate for tax reform** that would include introduction of green taxation and amendments to profit tax, personal income tax and VAT (from 2023 onwards) and excises (from 2024 onwards). Government goals are to increase the neutrality, fairness and equality of the tax system, while extending the tax basis and revenues, including by revising the preferential tax treatments that favor certain categories of taxpayers or activities. The reform aims to bring additional €54 million to the budget and address the recommendations of the IFIs to broaden the tax base by reducing exemptions and thus increase progressivity. However, it comes in unfortunate times, against very low confidence in the institutions, with limited progress in fighting informalities and after few very difficult years for the business, just when audit reports showed that (Covid19) anti-crisis measures were largely ineffective (e.g. underutilized).

In the other **public finance management (PFM)** areas, the biggest news is the adoption of the **Organic Budget Law (OBL)** that was stuck for a longer period in the Parliament. The OBL should introduce programme-based budgeting, assisted with a new IFMIS, as well as introduce fiscal rules and set up a fiscal council, among other important features. However, implementation is still far-off, as number of essential bylaws and the IFMIS are yet to be developed. As per the latest [PFM report](#), the least progress has been noted in the area of parliamentary follow-up of the state audit reports, regulatory work on PPP, as well as in the measures to implement the Growth Acceleration Plan, specifically setting the innovative financial instruments (e.g. local and regional development fund, green and digital fund for SMEs etc).

The financial system remains robust, with basic interest rate increased five times since May totalling to 3.5% from 1.75%, though with marginal response on banks interest rates. The banking sector shows signs of reducing liquidity (Q2 2022 rate dropped to 19.4% from 23% at end-2021 - NBRNM Financial Stability Indicators), but it remains well capitalized and stable. The Central Bank also increased the interest rates of overnight and 7-day deposits to stimulate savings in domestic currency and announced a countercyclical buffer of 0.5 % to be applied from August 2023 to strengthen the resilience of the banking system. The current account deficit 2022 is expected to reach 8% of GDP, up for 4.5, mainly due to increased food and energy price pressures. The foreign reserves have decreased, compared to previous years, but kept in the safe zone, reverting to growth as of July due to Central Bank's interventions and the increased supply on the forex market mainly stemming from remittances and Diaspora returnees over the summer. The peg to EUR remains safe, with the ongoing EUR depreciation (compared to USD) being of limited concern given that dominant part of trade and financial flows are in EUR. The Central Bank has also made policy changes to promote bank loans in renewables.

2.2.2 Demographic trends and human capital

Demographic trends in North Macedonia have been characterized by decreasing fertility, continuous outward migration and, until COVID-19 pandemic, a sustained increase in the life expectancy of the population. This has resulted in a steady population decline. According to the latest Census from 2021, the total number of the population in North Macedonia is 1,836,713 compared to 2,022,547 enumerated in 2002, and down for 10.8 %⁶. The trend of population aging has not bypassed North Macedonia either. The share of elderly group (65+) in the total population has increased from 11.8% in 2011 to 17.2% in 2021.

Vital statistics trends are negative. The birth rate decreased from 11.2 ‰ to 10.2 ‰ (live births per 1000 population), mortality rate in 2021 is 15.5 ‰, which is significant increase compared to 2011 when it was

⁶ State statistical office, www.stat.gov.mk, accessed on 20 September 2022, 13:00hrs

9.5 % and similar numbers in 2019, an increase added at COVID-19 casualties' account (40% increase in the number of deaths between 2019 and 2021, from 20,446 in 2019 to 28,516 in 2021). Similar negative trend is noted on the other indicators, each progressively regressing year over year. The total natural increase of the population is negative and for 2021 is (-)6,731 in urban areas, and (-)3,137 persons in rural areas; the total natural negative increase is (-)9,868. On the other hand, life expectancy for men and women has been steadily on the rise representing another factor for population ageing (alongside migration and low fertility). The average age of the population has been steadily on the rise, from 34.3 to 40.1 in a period of two decades.



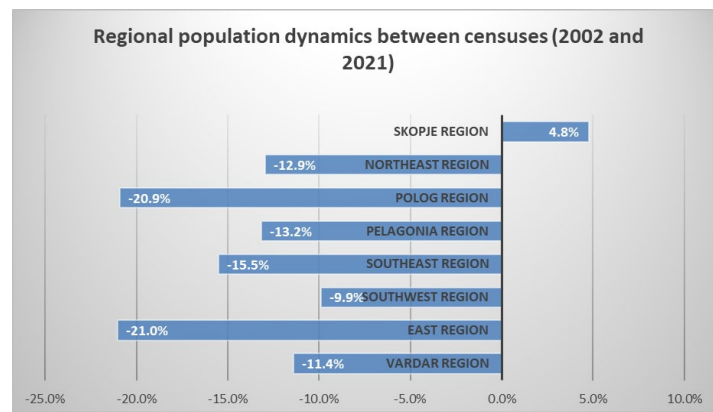
Source: SSO, Census data, UNRCO visualization

Outmigration remains significant challenge, along with the internal rural/urban migration. A recent OECD research, citing data from UN DESA, indicated the migrant stock of the country to be 690,000 citizens living abroad, mostly in the countries in Western Europe⁷. Furthermore, lack of reliable data on internal migration has an impact on development planning and adequate and equitable provision of services, both in the capital, as well as in rural areas. The Government has taken steps to systematically address these population trends. A revision of the Strategy for Demographic Policies 2015-2024 has been underway, however yet not open to alternative pathways (refugees, asylum seekers) for labor purposes in line with the New York Declaration, endorsed by the country.

The trend of increasing average age of first marriage continues, compounded by the increase in average age of mothers at first birth. While early marriages and adolescent pregnancies have been decreasing, girls belonging to certain ethnic communities, such as the Roma, have been disproportionately affected. Changes in the number of population, as well as predominance of nuclear families and the rise of single-person households, have had direct effects on the size of households, with the average size of households decreasing from 3.6 in 2002 to 3.1 in 2021.

Achieving North Macedonia's aspirations to improve economic competitiveness and accelerate EU integration greatly depends on building a healthy, highly skilled workforce and developing **human capital**. However, the latest Programme for International Student Assessment (PISA) showed once again that the country is performing below the Western Balkan, EU and OECD averages, while the new PISA testing in 2022 is expected to identify the likely negative impact of COVID-19 to the learning outcomes, following the fifty-four weeks of school closures for in-person learning and other disruptions to education during the pandemic.

⁷ OECD. 2022. *Labor Migration in the Western Balkans: Mapping Patterns, Addressing Challenges and Reaping Benefits*.



Source: SSO, Census data, analysis and visualisation, UNFPA

The pandemic only stressed the importance of the education reform, and the need to review some of the underlying causes of the challenge, including insufficient infrastructure, increasing non-teaching staff to students ratio and decreasing public expenditures on education, already lowest in the Western Balkans, OECD and EU ([OECD](#), [UNICEF](#), [EU Commission](#)). In general, the country has initiated reforms in education, such that put children's learning outcomes at its centre and focuses on improving student assessment; supporting teacher capacity development and career development; establishing national standards; improving access to quality learning materials and aids; digitalisation; and investment in school infrastructure including equipment to support practical skills development and vocational training. The [ITU](#) and UNICEF analysis estimates that North Macedonia would require 108,157 PCs to meet OECD average of 0.83 PCs per student, given that the current number for the country is of 0.43 PC per student. To meet the OECD average of 0.83 PCs per student, North Macedonia would need 108,157 computers. A budget in the range of \$7.96 million (using a low-priced computer estimate) to \$91.9 million (using a high-priced computer estimate) is needed to close this gap⁸.

In particular, in the past three years, the primary education sector went through an accelerated reform process, with a number of laws and policies adopted. The legislative framework provides a solid basis to improve the overall quality and equity of education, raise learning outcomes and ensure all children attend mainstream schools. However, it is imperative that in the upcoming period, the implementation of the laws and policies is prioritized and followed-up. The ongoing reform processes in preschool and secondary education, and the drafting of the new Law on Secondary Education, need to be aligned with and build on the progress made in primary education, to ensure continuity throughout the different education cycles. The most significant progress with inclusive education was made in the primary education where activities are under way to ensure full inclusion of children with disabilities in mainstream education by 2023. It should be used as a good inclusive model and replicated in secondary education, ensuring continuity and effective access to education to all children, irrespective of their proof of prior education and legal status, including asylum-seekers, refugees and Macedonian returnees.

The Government is aware of these challenges and has committed to improving the primary education spending effectiveness and efficiency by exploring options for optimising the primary school network and revising the funding formula, however results are yet to be achieved. One of the pressing challenges in the context of the current crisis is to avoid school closure and/or switch to online learning due to inability of the local government to cover the increased electricity costs. Also, adaptability of the school curricula, catch-up classes and specialized training of teachers is needed in order to ensure that the education system is ready to answer to diversity.

The last two waves of Covid19 in 2021 further stretched the capacity of the health system with up to 90% of hospital beds occupied. North Macedonia is currently seeing overall declining of COVID-19 cases, but mortality rates remain 519.2/100,000 citizens. As of 02 October 2022, 471 new positive cases from 2 towns across the country have been registered in one week. The reproduction number (R0) in North Macedonia is 1.1 (for comparison purposes, it was 0.82 on 25 September 2022). The Omicron variant of concern is the dominant variant in North Macedonia (99% of samples).

⁸ Connectivity in Education: Status and Recent Development in 9 non-EU countries of the Europe Region, ITU-UNICEF (2021)

The COVID19 vaccination started in February 2021 and by October 2022 just under 47% were vaccinated with two doses and less than 9% with three shots. Among older than 18, the vaccination rate is somewhat higher (58% and 11%, respectively). North Macedonia fulfilled the 40% coverage goal by end December 2021 set by the WHO Global Strategy for Achieving Global Covid-19 Vaccination but did not achieve 70% coverage goal by end of June 2022 (only 47% of total population is vaccinated with primary series. The most vulnerable groups in the country (migrants, asylum-seekers, stateless persons) continued facing difficulties with accessing vaccination and health services, more broadly.

COVID-19 vaccination rates (as of 1 October 2022)

	Population	Two doses	Three doses	Four doses
Total Population	1,836,713	46.6%	8.9%	0.453%
12 and older	1,587,250	54.0%	10.2%	0.525%
18 and older	1,464,155	58.2%	11.1%	0.568%

Health information system MojTermin (My Time) has boosted healthcare patient management with innovative health dashboards, better patient experience and follow-up with a booking system, and provided valuable e-services. Preparations for the new National Health Strategy 2030 are underway, with plans to modernize the Health Care System, including by implementing e-health best practices.

Furthermore, the process for the Cervical Cancer screening (covered by the national programme on malignant diseases), has been upgraded, to allow for web-based self-registration of women for Cervical Cancer screening, and integration of the findings and follow-up actions in the e-health system, MojTermin. However, the access to primary gynecological services (including the gynecological examination of patients, PAP and HPV test, family planning and contraception, education about sexual and reproductive health and help and support for gender-based violence) is continuing to be challenge for many girls and women across the country, due to the limited number and uneven distribution of service providers, low awareness among the end beneficiaries, out-of-pocket payments and other factors. This risk is partly mitigated through the functioning of the mobile gynecological clinics, offering services in underserved areas, free of charge. The costs for operation of the clinics is partially incorporated in the National Programme for Early Detection of Malignant Diseases - Screening for prevention and early detection of cervical cancer.

The **comprehensive social reform** implemented by the Ministry of Labor and Social Policy rests on four axis for development of human capital and poverty reduction: pluralization in the provision of services (extending beyond Government providers); inclusion i.e. transferring the approach from passive to active; deinstitutionalization (60% already achieved) and decentralisation, including municipalities in social services provision. The focus is put on creating new social services aligned with the needs of the citizens and enhancing outreach, including through taking over the financing of the new social services implemented at the local level in the system of central funding following the same procedure.

In addition, more than 200 caregivers and professionals have been hired and trained so far, favouring socially vulnerable categories, who provided social services to 700 persons. Projects were supported in 27 municipalities to provide services predominantly elderly care, day centers for the elderly and day care for children with disabilities, rehabilitation and reintegration. Pre-school education has also been supported with construction of 11 kindergartens underway. Children rights' are also extended in particular, the children with disabilities, also by establishing two foster care support centres and capacity development for the social service workforce to support foster families in providing a good quality of care to children.

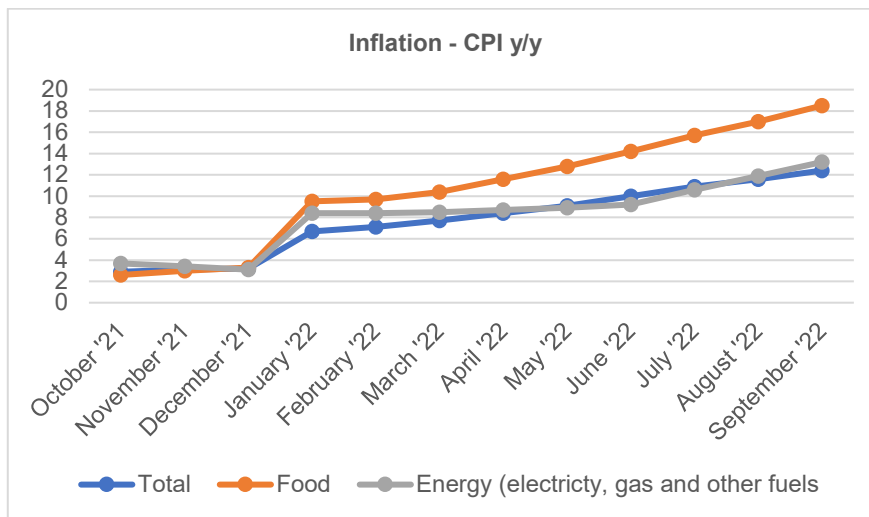
The Government took concrete steps towards Child Online Protection. The ITU provided support on the development of a National Assessment on Child Online Safety providing a set of recommendations forming the basis of a dedicated national strategy. Less than half of the children surveyed (43 out of 103) for the assessment reported to have received a school lecture on internet security. Some initiatives are being rolled out to improve awareness and expanding the level of knowledge, however, this may be enhanced by introducing new themes and increasing the quantity of such activities. Additionally, while the Faculty of Computer Science and Engineering organizes the Safer Internet Day, a National Safer Internet Centre does not exist in the country. There is also an absence of a central coordinating organization with a plan and the obligation to identify and coordinate national initiatives. ⁹.

⁹ ITU National Child Online Safety Assessment for North Macedonia

2.2.3 Poverty and inequality

The latest statistical data showed slightly increased poverty in 2020 at 21.8% (from 21.6% in 2019), but more increased inequality from 30.7 to 31.4% (GINI), mainly as result of the Covid-19 crisis. This is likely to intensify, with the **increasing inflation and energy crisis since 2021 posing significant challenges to the living standard in the country**. The food and energy market uncertainties pushed the annual inflation (measured at cost of living) in 2021 to 3.2%, more than double compared to the previous year and the 1-2% average since 2017.

In 2022, the cost of living (Consumer Price Index - CPI) averaged at 12.4% y/y in the period January – September with inflation reaching 18.7% in September, including 23.8 % increase in (mixed) energy and 29.8 % increase in food. This follows electricity prices increase of 9.5% at the start of 2022 and additional 7.4% on average for all the groups¹⁰ in July. The price of central heating also increased for 14% at the start of the year and additionally in August between 14.18-16.31% depending on the provider. Further increase of electricity price is expected in early 2023. The manipulative behaviour of some traders has also somewhat contributed to the inflation. At the end of 2021 and early 2022 the Government largely absorbed increased costs in the national budget, but the challenges reappeared in autumn 2022. The significant electricity price increase has already substantially burdened not only companies and households, but also national and municipal budgets. If these trends continue as expected, the country will face serious problems to sustain central and local level expenditures.



Source: State Statistical Office

High prices of staples and energy are feeding local inflation and putting **more people at risk of poverty - both monetary and multidimensional poverty**. The rise in prices impacts particularly women, many of whom are engaged in unpaid care work. Relative child poverty has increased to 30.2% in 2020, and UNICEF estimated in 2021 that the figure has reached 32.4%. This could eradicate the gradual progress in fighting child poverty made in the country over the last decade. Households with two parents and three or more children have been most exposed to risk of poverty (45.6%). With the Government and municipal budgets coming under stress due to rising costs and expected drop in public revenues, the authorities may have difficulties in meeting all the needs for added social protection measures. Funding of other basic social services, including education and health, may also be at risk, due to the rising costs of electricity and heating for the facilities. The COVID-19 response measure of relaxed access to the key poverty fighting cash benefit – the Guaranteed Minimum Assistance – and the extended access to the energy subsidy for these most vulnerable households have expired at the end of June 2022 and have not been extended.

From a food security perspective, according to [FAO 2022 Food Outlook](#), the widespread inflation will also significantly impact the dietary diversity and quality, especially of poorer and vulnerable populations, due

¹⁰ In 2022, the Energy Regulator changed the prices methodology, introducing progressive pricing for four groups of consumers depending on the quantity used

to the sharp decline in the affordability of high-value nutritious food and products such as meat, beverages and oilseeds. In this context, in September 2022, the Government introduced additional financial support for apple producers to make fresh apples available in around 350 primary schools in the country, ensuring free access to nutritious fresh food for around 186 000 students during the crisis period, especially important for the most vulnerable groups.

The labour market picked up in 2021, resuming the declining unemployment trend, but the youth unemployment (2020-2021)¹¹ and long-term unemployment, remained an issue of concern. Overall, the unemployment continued to decrease in the second quarter of 2022, dropping to 14.5% (from 15.7% in 2021), with situation slightly more positive for women where employment has increased, and inactivity dropped. However, despite recent improvements, the activity rate for women remains more than 20 p.p. below the activity rate of men in 2021). Furthermore, the labour market has yet not reverted to pre-pandemic levels of activity, following the stark drop of active population in 2020. Most of the workers remained employed in the public sector, followed by the manufacturing and trade. The situation is set to aggravate if the Government fails to secure cheaper electricity for companies with couple of them already closed and few more announcing closure soon.

The **latest labour market reform** set Sunday as a non-working day and increased the minimum wage to 18,000 MKD (from 15,194 MKD) covering around 94,000 or 17% of the workers in the country and around 80,000 of so-called bound workers who previously earned less than a newly increased minimum wage. Until the end of the year, the impact of the increased wage supplements to employers will be offset with subsidies. Expected “spill-over” effects further up the wage distribution, to maintain differences (in job status due to higher seniority or skill, did not occur. However, a ripple effect was created in the public sector, intensifying social tensions with protests among the teachers and other public servants. So far, increased salaries for 12% were only secured for the teachers in the 2022 supplement budget. The pensions are also due to increase for 6.8% as of September, reverting to the previous methodology that tie the pension level with the CPI and the average salary. This may create further inflationary pressures despite the reconciliatory nature of the methodology.

2.3 CLIMATE CHANGE, ENVIRONMENTAL PROTECTION AND NATURAL RESOURCES

2.3.1 Climate change, waste and pollution (Wastewater, Solid and Hazardous Waste, Air Pollution)

While still not accurately assessed, negative impact is expected on the ambitious NDC and air quality (SDGs 7 and 13) over the winter 2022/2023 due to reverting to less clean energy sources for electricity generation and heating (coal and crude oil), resulting in increased air pollution and greenhouse gas emissions, especially in big cities (Bitola, Skopje). These negative trends may be reversible in the short-term through identifying new sources of cleaner energy to import, however structural issues for true green transition and lesser energy production dependence, may remain a challenge over the mid- to long-term, if significant efforts are not invested in long standing issues, such as enhancing management and merit-based employments in energy sector and stepped-up strategic energy investments. Since 2021, to increase electricity generation, the Government imported additional coal, restarted the dormant TPP Negotino (operating on crude oil) and ensured extended electricity generation of the (electricity-heating) co-generating plant TE-TO to 24/7 which was expected to sell the surplus heat energy to the Skopje heating distribution system company. To address the heating crisis in Skopje, the Government, through state owned ESM, took over the management of the heating distributors (in Skopje area) BEG and “Skopje North” to ensure the heating for the consumers. While (some of) Skopje residents pay increased prices for the heating, the rest of the households in the country reverted to cheaper and more polluting sources or use electricity for heating which now also become expensive and scarce (e.g. wood). For 2022 heating season, in case the Government fails to secure gas, Skopje heating may need to be fuelled by diesel or crude oil, reintroducing significant air pollution in Skopje air in the winter months.

¹¹ Youth unemployment dropped to 30.9 % in Q2022 but likely due to Census adjustments, hence incomparable with 2021.

The energy crisis has increased interest in renewables, but the level of introduction of renewable energy solutions (RE) among households is still quite low, in part due to prohibitive costs of the new technology and complex administrative procedures for installation. Some larger companies have introduced RE; however, a large part of the private sector has still not transitioned to cleaner energy. While the government introduced legal changes to ease procedures for installation of RE energy solutions, most notably increasing the allowed installed capacity from 4 to 6 KW; these changes have very limited effect and do not significantly reduce the still sizable administrative procedures for installation of renewables. In terms of access to finance, additional affordable financing for investing in renewables and energy efficiency has become available through banks thanks to new EIB and EBRD credit lines/loan financing. New green financing is expected to become available at the beginning of 2023 through a new dedicated EIB SME credit line of \$100 million on green transition and the \$46 million UN–EBRD implemented Green Financing Facility targeting investments in renewables and energy efficiency for SMEs and underserved households. Regarding energy efficiency, the government introduced (behavioural) energy saving measures in September 2022 to reduce use of electricity among public administration. Some smaller municipal projects on energy efficiency are started this year with the support of World Bank; however, a larger systematic intervention on energy efficiency is still pending, including the pending establishment of the Energy Efficiency Fund.

Hydropower remains one potential source of renewable energy; Two large hydropower investments have been targeted to be constructed for– Chebren and Galishte – however, several public calls/ public-private partnerships calls for the same have been unsuccessful. A new call for Chebren is currently underway, the outcome of which is expected in November 2022. The Government, at the proposal of the Ministry of Environment and Physical Planning, adopted the information regarding the status of the Concession Agreements for the small hydroelectric power plants located in the zones of strict protection and active management of the Shar Mountain National Park for which a procedure was conducted for the amicable termination of concession agreements for the use of water for generation of electricity. The proposal for amicable termination of the Agreements was prepared. With this, the agreements for the concession of seven small hydroelectric power plants in the Shar Mountain National Park, located in the zones of strict protection and active management in the Shar Mountain National Park, will not be implemented.

In September 2021, on the proposal of the Ministry of Environment and Physical Planning, the first Long-term Strategy for Climate Action of the Republic of North Macedonia was adopted, which defines the state's contribution to global efforts, through the path to a green, low-carbon and climate-resistant development, based on the best available information and in the context of EU accession. Also, the Fourth National Plan for Climate Change is currently in process of review and adoption and will address topics such as net zero potential, infrastructure resilience, food-water-energy nexus, and livelihood vulnerability index. The climate change information portal "www.klimatskipromeni.mk" is now accessible for persons with disability.

Progress on wastewater and solid waste is slow-paced, with large projects of significant importance in pipeline. Although the financing for the largest wastewater plant (WWTP) was secured through EIB, EBRD and EU funding, the construction of the WWTP for Skopje is currently blocked due to politically charged discussions and allegations for potential mismanagement of the procurement procedure. Financing for the construction of two (North-East and East Region) of the seven regional solid waste management centers has also been secured through EU funding (IPA 2). New loan financing is sought for the regional solid waste management centers in the South-West, Pelagonia, Vardar and Polog region. The Ministry for Environment and Physical Planning has adopted six legal acts in the area of waste management, which allow for introduction of new process for circular economy. Recycling is still a problem, and a new waste management policy is urgently required. The Law on Waste Management predates both, the 2008 and 2018 updates to the EU Waste Framework Directive, and therefore it lacks the waste hierarchy and recycling objectives for municipal waste. The revised plan is expected to go into effect in 2022 and will stretch across the twelve years from 2021 to 2033.

Hazardous waste continues to be an important challenge, especially in and around large abandoned industrial sites such as OHIS and Jegunovce. It requires specialised expertise and significant financial resources. Some progress is made in cleanup of the lindane in the OHIS industrial complex, with work on this continuing into 2023.

2.3.2 Natural resources management

Environmental issues are falling out of focus given the immediate crises priorities. The shrinking fiscal space may negatively affect the pace of much needed large environment-related investments and further reduce scarce resources devoted to natural resources management over the next 12 months. After the significant progress in 2020 and 2021 in terms of increasing area under protection (currently 13.9% of total country area is protected), the focus in 2022 is on implementation of protection measures. This included setup activities for operationalisation of the new National Park Shar Mountains i.e. establishment of the managing authority (Public Entity NP Shar Mountains), development of the NP management plan and conducting a strategic environmental assessment procedure for the draft management plan.

Ohrid's status as a natural and cultural world heritage site is at risk of being inscribed as 'in danger', with the next decision moment scheduled for summer 2023 at the World Heritage Committee global meeting. Some activities in the direction of addressing the UNESCO Recommendations have been carried out in 2022. The Law on re-proclamation of Ohrid Lake as a Monument of nature is being drafted, whereas the legal documentation for proclamation of Studencisko Marsh as a nature park is submitted to the Parliament for adoption.

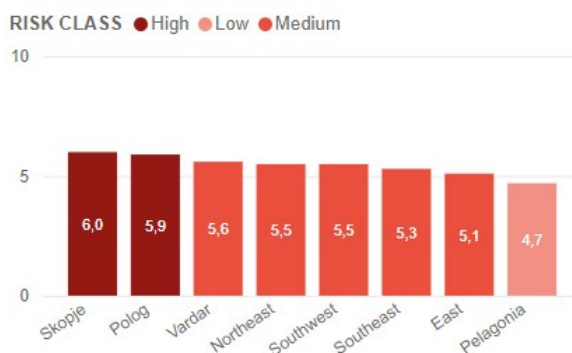
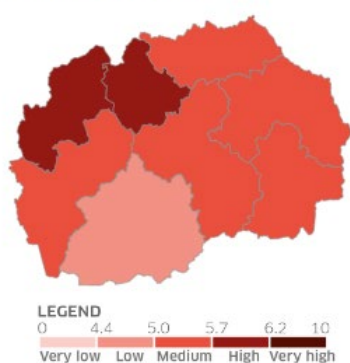
All three natural lakes continue to suffer from lack of transboundary water management and varying water levels with Lake Prespa and recently Lake Dojran facing most severe issues. Newly in 2022, Lake Dojran started facing more severe loss of water level, as the pumps that were artificially redirecting water into the lake from a river nearby, have been shut down as part of energy saving measures. In terms of transboundary water management, Lakes Prespa and Dojran face issues with their water levels, due to uncoordinated use of their water for irrigations well as climate change impacts, while Lake Ohrid faces issues in terms of lack of common fishing rules, putting the endemic Ohrid trout at risk of extinction. Additionally, Lake Ohrid also faces water level issues, due to unlevelled use of water downstream for electricity generation. Additionally, agriculture continues to pose environmental threats for the Lake Prespa and Lake Ohrid watersheds, through diffuse use of fertilizers and pesticides and significant water abstraction of ground and underground waters. Nevertheless, it remains a significant source of income for the rural population in the lake surrounding regions.

2.3.3 Disaster risk

In 2022, **several municipalities introduced [DRR Strategic Plans](#)** under the Sendai Framework, including Kichevo, Mavrovo, Gostivar, Veles, Karbinici, Kavadarci and Konche. The Skopje DRR Strategic Plan has been drafted but is not adopted yet.

The country overall risk from disasters is assessed as medium (INFORM Risk Index¹²). The risk is not evenly distributed across regions and across various types of risk. Skopje and Polog regions are classified as high-risk, due to higher risk in the hazard & exposure and coping capacity dimension. Risks in the hazard & exposure are driven by the natural risks (mainly drought across all regions), which combined with earthquake (in Skopje and Polog regions) and landslides exposure nationwide result in high risk.

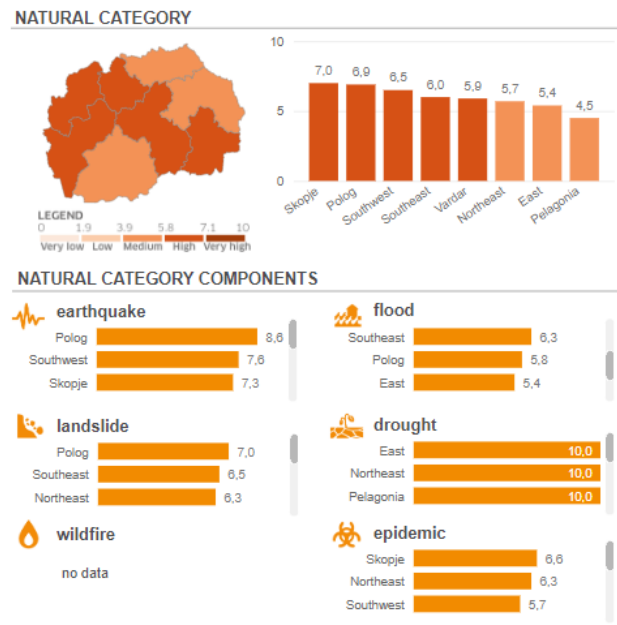
INFORM RISK INDEX



¹² The INFORM Subnational Risk Index for SEE 2021, <https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Subnational-Risk/South-East-Europe>; the interactive dashboard for North Macedonia <https://bit.ly/3huyqch>

Projected conflict risk has significantly reduced in the last two years, while the risk of technological hazard is present in Skopje region. Skopje faces very high vulnerability risk i.e. very high risk in the health conditions component as it hosts the main health facilities. In addition, whole country is at risk of food (in)stability and region-specific factors in the vulnerable groups category. Northeast and Southwest regions are at high risk of vulnerable groups, as the number of pensioners, social benefit users and unemployed persons is higher than in the rest of the country, which has already at high risk at national level based on economic and development indicators of the model. Lack of coping capacity is maybe the most important dimension, as it can be improved by government actions. Namely, Vardar, Northeast, Southeast and Polog are in the very high-risk class, as physical road connectivity (infrastructure) and institutional component of the dimension indicate high risk of coping capacity, even though the governance component at national level is satisfying.

North Macedonia faces very high natural hazard risk. In five of the regions (Skopje, Polog, Southwest, Southeast and Vardar) risk are more expressed based on very high exposure to earthquakes, landslides and drought. Health system is exposed to various risks, limiting its capacity to react on epidemics or disasters. The vulnerability of the health system is expressed though the epidemics component – more than 10% of Skopje region population is exposed to COVID-19, while influenza cases of 12 per 1,000 people is very high. Based on [FAO's Agricultural Stress Index](#) all of regions are in very high risk of drought up to 45% in the Northeast region. On the figure below the natural category of the risk index is presented for all regions along with the natural category components that highlight the top 3 regions with the highest risk values.



2.4 REGIONAL COOPERATION

Since 2021, the leaders of Albania, North Macedonia and Serbia substantially accelerated cooperation towards open market between the three countries, with regular meetings and joint regulations. Other countries are also invited to join.

The agreements signed so far should facilitate conditions for free access to labour market, enabling citizens to work and move within the countries without restrictions. The countries also signed agreements to facilitate access to services by interconnecting schemes for electronic identification of the citizens and establish cooperation in veterinary, phytosanitary and food safety policy including though mutual recognition of Economic Operators for Safety and Security which establish common standards for control and support to legal trade among the countries. Cooperation is also established in the area of cinematography and audio-visual services, but also goes beyond economic affairs and covers other important aspects, such as civil protection and EU accession.

While we are yet to see the impact of free movement of workers, cooperation with Open Balkan proved the most beneficial in the context of the current energy and food security crisis. This includes forming a working group on energy security, with plans to design a joint crisis plan, including possibilities for energy storage (primarily gas), electricity balancing and setting out a fund to finance priority regional energy projects. At the September meeting in Belgrade, the three countries signed an agreement to prioritize food trade between them. In addition, recognition of the autocephality of the Macedonian Orthodox Church by the Serbian Orthodox Church has lifted the relations with Serbia at even higher level.

Negotiations with Bulgaria to procure cheaper (compared to stock exchange) electricity for companies failed due to European energy market rules, while still ongoing with Turkey and few more countries. However, Bulgaria may spare some of the gas storing capacities for North Macedonia and potentially facilitate access to alternative gas sources. Agreement has been made with Greece to maintain undisturbed procurement

of coal from Greece mines and to extend investments in energy (LNG) infrastructure and Greek FDIs in important gas and hydro plants. Negotiations are ongoing with Serbia to obtain the gas in exchange for electricity produced in the combined heating and electricity producer TE-TO in Macedonia.

2.5 IMPACT OF CRISIS ON VULNERABLE GROUPS

In the context of the current crisis, the strongest impact is experienced by the people at risk of poverty (also GMA beneficiaries, informal workers) due to the high inflation and soaring prices. Women and girls are affected disproportionately, with increased risk of poverty, labor market exclusion and GBV. The increased prices also lead to decreased access to contraception and services for family planning / sexual and reproductive health. Furthermore, refugees and stateless persons are especially vulnerable being unable to enjoy the full range of rights and access to national protection networks.

Persons with disabilities are under increased risk of poverty and discrimination because of the lower education level and difficulties to find a proper or any job whatsoever. In addition, the crises led to job loss, labor abuse and reduced salaries, as well as to increased expenses for mobility (due to a non-accessible public transportation), higher extra costs in health care and many other economic hardships.

As previously the COVID-19 pandemic, the war in Ukraine exposed the fragility of the domestic food system, strengthening existing vulnerabilities of small-scale farmers and rural households. The soaring prices of fertilizers, energy and other inputs, and increased market uncertainties have discouraged stepped-up production and squeezed the margins of crop and livestock producers, preventing full post-Covid-19 recovery. This requires ensuring support to maintain minimum food production through provision of key agricultural inputs and, on longer run, strengthening capacities for resilient food production.

3. RISK ANALYSIS

UN established [12-factor multidimensional risk analysis of 2020](#) continues to bear relevance with few additional specifics that exposed since, under each of the dimensions:

Political Stability – identified risks remain significant, with the start of EU accession negotiations coming both with risks and opportunities. Corruption remains one of the key challenges in the country, despite some track record in investigating and prosecuting high rank officials. Potential inability to cover some of the basic services at central and local due to the crisis, may intensify the pressure for snap elections.

Democratic Space/ Civil Society Voice and Participation – public trust in institutions and the rule of law remains low, including in the dysfunctional Parliament that failed to adopt some important reforms. The debate on the electoral model and constitutional amendments necessary to complete the starting phase of the EU negotiations may further deepen political polarization and deteriorate the public discourse.

Social cohesion, gender equality and nondiscrimination – the crisis will have a stronger impact on the most vulnerable groups, resulting with widening gap between diverse social groups and communities. Effective track records on nondiscrimination remains to be built. The upcoming debate on Constitutional changes necessary for EU accession may also undermine inter-ethnic relations.

Regional and global influences – Open Balkan Initiative intensifies the cooperation between Albania, North Macedonia and Serbia, though yet not accepted by all Western Balkans countries. Relations with Bulgaria remain very sensitive and could aggravate during within the EU negotiations process. This may be slightly mitigated with ongoing attempts to increase economic cooperation in the context of the energy crisis.

Internal Security, Justice and Rule of Law – as identified, risks remain unchanged, with some ongoing efforts for further enhancement and track building. Developments in the prosecution of organized crime department, lengthy trials, and penalty executions further decrease citizen trust in judiciary.

Economic Stability – the country reached pre-crisis levels of GDP growth, but this is now under risk due to the energy/food/financial security crisis. Increased prices and the ripple effect of the minimum wage reform already caused social protests, which may intensify in the second half 2022 due to soaring prices. Economic stability strongly depends on Government ability to ensure finances for the deficit and debt.

Infrastructure and access to social services – identified risks remain the same, with the ambitious plans for enhanced infrastructure investments already reduced due to austerity measures.

Displacement and migration - Census numbers provided empirical proof of outmigration trends, which is continuing. The mixed migratory movements continue at North Macedonia's borders. Number of refugees from Ukraine is not significant, but protection of refugees, asylum seekers remain a challenge.

Public Health – there remains a need for North Macedonia to accelerate vaccination outreach immediately and maintain a very strong public health response to COVID-19. Routine vaccination also lags behind the recommended 95% uptake for all vaccines. Limited medical resources remain among the key risks.

Food security, food safety, agriculture and land – risks intensified due to the Ukraine crisis, though temporarily addressed through regional cooperation. National Food Security and Nutrition Strategy is still not in place, but its preparation is ongoing. In addition, the disruption of supply chains, animal health surveillance and control, has increased the likelihood of spillover of transboundary animal diseases.

Environment and climate change – measures to address energy crisis put implementation of NDC under risk, though likely at short term basis. Air quality is expected to deteriorate over the winter period due to the use of cheap means of heating and increased coal/crude oil generated electricity production.

4. CONCLUSIONS AND RECOMMENDATIONS

Based on the above information, few recommendations should be considered for national policy design and UN Country Team programme planning for 2023.

Good governance

- The EU accession process comes with opportunities, which includes EU political and financial leverage, but also with risks that may come up from potential further disagreement in the bilateral negotiations with Bulgaria and increasing nationalist sentiments. It will be essential to maintain positive narrative in the country, by continuously demonstrating to the people in North Macedonia how the process and reforms benefit them and the country.
- Despite progress in aligning national laws and policies with the EU *aquis* and international standards, the policy development is not fully evidence-driven and substantiated with reliable and disaggregated data and impact analysis, which could add to the integrity of policy-making. This requires strengthening wider statistical system and mainstreaming data management capacities across the administration. Anticipatory and forward-looking perspectives, key for sustained, inclusive and equitable development, must be consistently embedded.
- Along with overall human capital trend, the capacity of administration is deteriorating, which strongly affects the quality of administrative service for the citizens and businesses. While this has been a long-term trend, it has accumulated to the extent that requires urgent measures. The Government needs to invest substantially in capacity building, while undertaking rigorous performance-based management.
- Programme-based budgeting to be introduced with the Organic Budget Law (OBL) presents an opportunity to enhance sustainable development and SDG financing, by applying SDG tagging and streamlining Gender Based Budgeting. This requires sufficient capacities for strategic planning and programme-based budgeting, beyond MoF, along with a commitment to streamline development indicators beyond the input-output technical targets now introduced in the budget KPIs.
- The OBL is also an opportunity to enhance procurement and checks and balances practices, including by setting up a fiscal council through a transparent procedure that will support its credibility against a polarized political context.
- The Government needs to effectively engage to finalize formulation of the NDS, which is being designed through wide, whole-of-a-society, process and establish inclusive operational structure to follow and adjust the framework. NDS will support continuity and predictability of national policies, translated in operational implementation and financial action plans at shorter-term;
- Building strong, just and accountable institutions that have integrity and public trust, improving inter-sectoral collaboration and coherence, innovation and digitalization are essential to accelerate achievement of the EU accession priorities and the SDGs.
- Following the positive legislative and institutional trends on digital development, intergovernmental coordination and program financing need to be strengthened. Developing a digital innovation ecosystem map including all stakeholders, products and services, resources, opportunities, and activities, as well as a programme to promote the emergence of local digital players and “Made in North Macedonia” ICT products and services would be most useful.

Economic growth and restructuring

- To ensure wider buy-in, tax reform consultations should go in parallel with evident progress in fighting corruption and informal economy, while improving administrative capacity. The country needs to develop track records in fighting informalities in order to increase revenues and provide necessary evidence of non-selective enforcement of laws. Innovative approach should be applied to ensure progressivity and just taxes which does not contribute to tax evasion. Furthermore, to ensure predictability for the private sector, regulatory changes need to ensure sufficient time for adjustments, aligned with the timing for corporate financial planning.
- The cost-effectiveness of the state subsidies and state-aid needs to be reviewed. Publicly available cost-benefit analysis should serve as basis for investment decisions, prioritizing strategic investment decisions with strongest effect e.g. self-sufficient food production.

- A more coordinated economic policy and implementation, including application of innovative approaches and technologies is essential for fast-tracking public investments in strategic projects e.g. infrastructure.
- In the context of the crisis, the Government needs to find the right balance between supporting the businesses and the households. The anti-crisis measures should target both those who can either contribute the most (e.g. employers) or those who need it the most (e.g. vulnerable groups) based on in-depth understanding of the needs and accurate evidence.
- The country needs to revise strategies, policies, and regulations and align the education curriculum with (future) skills needs, in order to strengthen labour productivity as basis for wage increase.
- National Food Security and Nutrition Strategy should be developed as a matter of priority, to address the identified lack of food security strategic framework in North Macedonia.
- Besides the existing food systems' vulnerabilities, the Covid19 pandemic and the war in Ukraine have further exposed the vulnerability of small farmers, requiring innovative solutions and support to farmers to overcome shortages and increased prices of inputs, as well as to adopt new technologies for self-sufficient resilient food production.
- To increase the digital competitiveness, the Government needs to consider financial and tax incentives for digital enterprises (start-ups and SMEs) and create a platform to promote partnership and collaboration and transfer of technology between the public and private sector in the tertiary education sector.

Demographic trends and human capital

- The government needs to address the consequences of negative population dynamics and support measures for achieving demographic resilience, establishing systems that analyse, anticipate, and address population dynamics, as well as by investing in human capital in a manner that is comprehensive, grounded in evidence, and based on human rights and gender equality. The process needs to be driven by the awareness of the need to reduce inequality and poverty, improve human capital, ensure quality of services and infrastructure, and alleviate discriminatory gender norms and redistribute unpaid care work so that both men and women can realize their career aspirations and their fertility intentions.
- Along with ongoing health reforms, public health needs to be strengthened also through enhanced prevention, equity and awareness for healthy lifestyle. The Government needs to invest more and more efficiently in the health system to address significant out of pocket expenses, especially for pharmaceuticals.
- It is essential to focus on implementing education reforms and prioritize efficiency of spending in school management over increasing funding.
- Solutions to avoid closing schools due to energy crisis must be identified. Potential closures would transfer the problem to households and unproportionally hit the poorest households, decreasing already low level of learning outcomes.
- Institutional reform, adequate funding and a strong political leadership is needed to ensure that the mixed migration movements, as well as the internationally assumed responsibility sharing are transformed into opportunities for the country.
- There is a high market demand for digitally skilled workforce in North Macedonia. It is therefore of high importance to regularly assess the level of digital skills of citizens, ensuring that they possess the required skills to effectively utilize public services and to actively participate in the labor market and in community life.
- To enhance Child Online Protection, it would be necessary to establish a National Stakeholder Council that would be responsible for establishing and implementing a national strategy and an action plan. A National Safer Internet Centre should also be established to ensure implementation and coordination among existing organizations.

Poverty and inequality

- Linear response to crisis should be avoided, prioritizing smart and carefully designed measures that respond to the needs of the most vulnerable persons, but do not create ripple effects for budget financing. This requires clearly identified vulnerable groups, timely and accurate information and

evidence, inclusive dialogue about the associated benefits and costs, but also an adequate level of administrative capacity that is increasingly lacking in the country.

- The key is to perform specific and continuous analysis of how the crisis will impact women, children and vulnerable categories, including an estimate of the additional number of households and children that will be exposed to risk of falling into poverty.
- Addressing the skills-gap of vulnerable groups in alignment with the market needs and anticipated future skills requirements, would contribute to reducing inactivity and lack of skills.

Climate change, environment, and natural resources

- Advocate for maintaining focus on environment and climate change, to avoid that these two topics are neglected due to the current crises.
- Invest in management of natural resources, sustainable management of national parks and protected areas and address issues with deteriorating quality and water levels of natural lakes.
- Provide stronger focus on accelerated energy transition to renewables, including greater government investment in new large scale renewable investments, especially hydropower plants. For households and SMEs, support for fully streamlined and simplified procedures for renewable energy (RE) installation, further relaxation of prohibitive installed capacity limits, and possibility to sell the energy at prevailing market prices could be considered. Further reduce red-tape by streamlining administrative procedures for installing RE and further increasing the allowed installed capacity. Further financial incentives, including grant co-financing, may be needed to improve the cost-benefit of installing RE for households and smaller SMEs.
- Increase public awareness and access to financing for energy efficiency (EE), and encourage initiatives to promote energy efficiency and reduction of demand including working on behavioral change from household to business and public services levels.
- In the medium term, advocate for phasing out subsidies for coal and lignite producers, which heavily distort competition and prices. Maintain carbon taxes and minimize dependency on fossil fuels and create incentives for investments in renewable electricity and green energy.
- Enhance action on boosting the climate resilience of domestic agricultural production, through improved irrigation, land and water management, climate-risk transfer and sustainable agriculture production practices. Sustain and further enhance regional cooperation to increase energy and food security in the wider region e.g., Open Balkan initiative.
- Strengthen resilience mechanisms to reduce disaster risks.
- Finances to support these policy imperatives is a major issue, amidst a looming economic slowdown and worsening financial situation globally. In view of this, public, private and multilateral finance for the green energy transition must be scaled up.