



Republic of North Macedonia Country Strategy

2025-2030

Approved by the Board of Directors on 30 April 2025

European Bank
for Reconstruction and Development

Table of Contents and Glossary

European Bank
for Reconstruction and Development

Table of contents

Glossary of key terms

ABI	Annual Business Investment
AIP	Access to Information Policy
ASB	Advice for Small Businesses
BEEPS	Business Environment and Enterprise Performance Survey
CAD	Current Account Deficit
CBAM	Carbon Border Adjustment Mechanism
CPI	Consumer Price Index
CSO	Civil Society Organisation
DAI	Directive on Access to Information
E&S	Environmental & Social
ESG	Environmental, Social and Governance
ESM	Elektrani na Severna Makedonija
ESP	Environmental and Social Policy
EU	European Union
EV	Electric Vehicle
FDI	Foreign Direct Investment
FI	Financial Institution
GCAP	Green City Action Plan
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GVC	Global Value Chain
HIPCA	High Impact Partnership on Climate Action
HPP	Hydropower plant
ICA	Industry, Commerce & Agribusiness
ICT	Information and communications Technology
IEA	International Energy Agency
IFC	International Finance Corporation
IFI	International Financial Institution
ILO	International Labour Organisation
IMF	International Monetary Fund
IT	Information Technology
JETIP	Just Energy Transition Investment Platform
LHS	Left-hand side
LPI	Logistic Performance Index
M&S	Manufacturing & Services
NCV	Natural Capital Valuation
NDCs	Nationally Determined Contributions
NECP	National Energy and Climate Plan
NPL	Non-Performing Loans
PFIs	Partner Financial Institutions
PPPs	Public-Private Partnerships
RES	Renewable Energy Sources
RHS	Right-hand side
RSF	Risk Sharing Facility
SBIF	Small Business Impact Fund
SECO	Swiss Economic Cooperation Organization
SESA	Strategic Environmental and Social Assessment
SME	Small and Medium sized Enterprise
TC	Technical Cooperation
TEN-T	Trans-European Transport Network
TES	Total energy supply
TVET	Technical and Vocational Education and Training
TFP	Trade Finance Programme
WB	World Bank
WB5	Western Balkans (excl. North Macedonia)
WEO	World Economic Outlook
WiB	Women in Business Programme
YiB	Youth in Business Programme

Executive Summary

The commitment of North Macedonia to, and its application of, the political principles stated in Article 1 of the Agreement Establishing the Bank has continued since the adoption of the previous Country Strategy, in line with its efforts towards implementation of the comprehensive EU reform agenda. North Macedonia was the first Western Balkans country granted the formal status of EU candidate country in 2005. In 2009, the European Commission recommended to open the EU accession negotiations with North Macedonia. The reform and growth facility under the new EU Growth Plan for the Western Balkans represents an important mechanism for steering and supporting comprehensive reforms.

The growth performance of North Macedonia has been the weakest in the Western Balkans since the Global Financial Crisis and it was slower to recover from Covid-19, only returning to 2019 GDP levels in 2022. The country is the most open to trade in the region, with goods exports tripling over the past decade to over 50% of GDP. However, until 2023, due to high import content of production and low export complexity, net exports had a negative value-added contribution. Since then, imports slowed down due to weaker domestic demand while services exports rose. Unemployment has fallen from 28.6% to below 13% over the last decade but remains among the highest in the region. Employment is below 50% from the active population and has stagnated since the pandemic, with labour force participation declining, which is in part driven by large-scale emigration of the working-age population.

The business environment has been attractive for FDI but less so for domestic companies, especially SMEs that struggle with the consequences of political instability, skills mismatches and access to finance. The business environment still needs improvement as it continues to be hampered by long-standing structural challenges such as the sizeable informal sector and unpredictability of parafiscal charges. Carbon intensity of the economy is high and a transition away from coal will affect a large number of workers and communities. The coal sector has traditionally been an important employer in the Western Balkans, both directly and indirectly. North Macedonia has made important commitments in its green transition, including the complete phase-out of coal-fired power generation and the deployment of 1.7 gigawatts of renewable energy by 2030, grid and storage investments for energy security and measures to support communities affected by coal transition. Further development of transport infrastructure and key European road and rail corridors is required for improved regional integration and connectivity. North Macedonia has advanced its digital connectivity infrastructure, with nearly 100% coverage by 5G, 4G and 3G networks and achieving competitive global rankings in mobile and fixed-line broadband speeds. However, there is currently limited capacity in the country to adopt new technologies.

In view of these challenges, the EBRD will continue to focus over the next strategy period on creating a competitive and attractive economy that tackles demographic issues, supporting the development of sustainable infrastructure, greening the economy, and strengthening integration with the region and into global value chains. Continued strategic partnership with other IFIs and donor support, in the form of technical assistance and investment grants, will be key for the Bank to deliver on the following strategic priorities in North Macedonia between 2025 and 2030:

1. *Strengthen Regional Integration through Connectivity and Enhanced Value Chain Linkages*
2. *Accelerate the Transition to a Green and Sustainable Future*
3. *Support a more Competitive, Inclusive, and Well-Governed Economy*

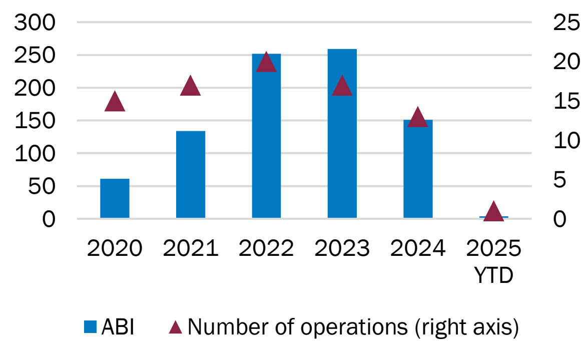
North Macedonia – EBRD Snapshot

European Bank for Reconstruction and Development

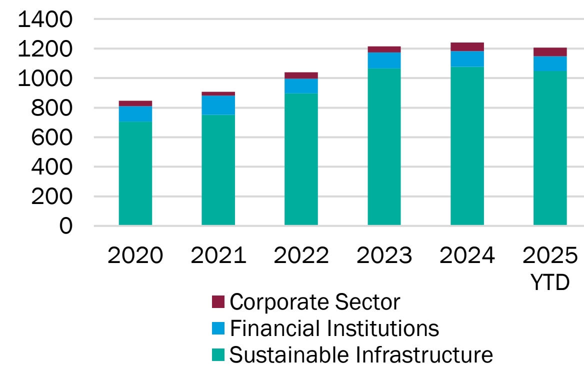
EBRD investment activities in North Macedonia *(as of March 2025)*

Portfolio	€1,205m	Active projects	99
Equity share	1%	Operating assets	€526m
Private Sector Share[1]	44%	Net cum. investment	€2,925m

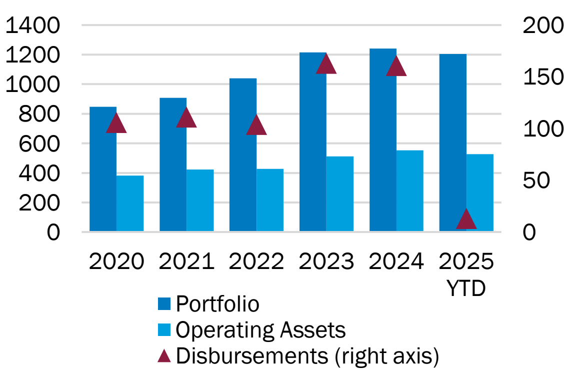
ABI and operations



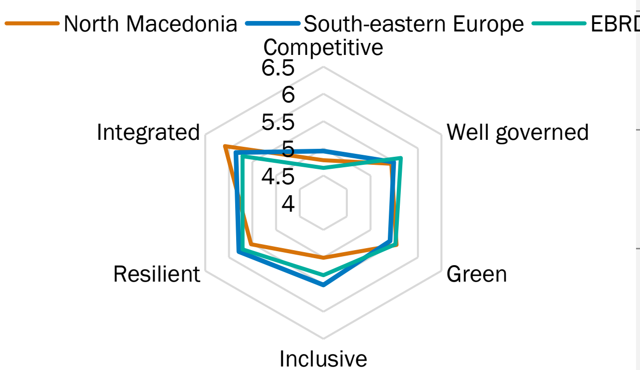
Portfolio composition



Portfolio dynamics



Transition Gaps[2]



North Macedonia context figures

	North Macedonia	Comparators
Population (million)[3] (2023)	1.8	BIH 3.5 Serbia 6.6 WB5 3.1
GDP per capita (PPP, Int $)[3] (2024, estimate)	26,912	BIH 21,498 Serbia 29,039 WB5 24,125
New Business Density[4] (New registrations per 1,000 population, 2022)	4.6	BIH 1.5 Serbia 2.5 WB5 4.0
Unemployment (%)[5] (2023)	13.1	BiH 10.7 Serbia 8.3 WB5 11.1
Youth unemployment (%)[5] (2023)	29.7	BiH 27.3 Serbia 24.1 WB5 26.6
Female labour force participation (%)[5] (2023)	42.2	BIH 42.2 Serbia 51.5 WB5 48.6
Energy intensity TES/GDP (MJ/2015 $)[6] (2022)	3.5	BIH 5.9 Serbia 5.1 WB5 4.4
Emission intensity/GDP (kgCO2/2015 $) (2023)[6]	0.7	BIH 1.0 Serbia 0.9 WB5 0.7

1 Cumulative Bank Investment: 5 year rolling basis on portfolio; 2 Cf. EBRD Transition Report 2023-2024; 3 IMF WEO; 4 WB Entrepreneurship Survey and database; 5 ILO; 6 IEA; 7. Data for BIH from 2022

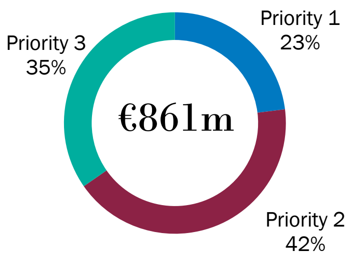
1. Implementation of Previous Strategy (2019-2024)

1.1. Key Transition Results Achieved during Previous Strategy (1/2)

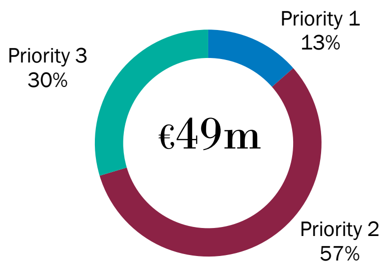
European Bank
for Reconstruction and Development

Strategic alignment 2020-2025

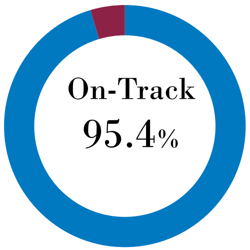
Cumulative Annual Business Investment (ABI)



Technical assistance and investment grants

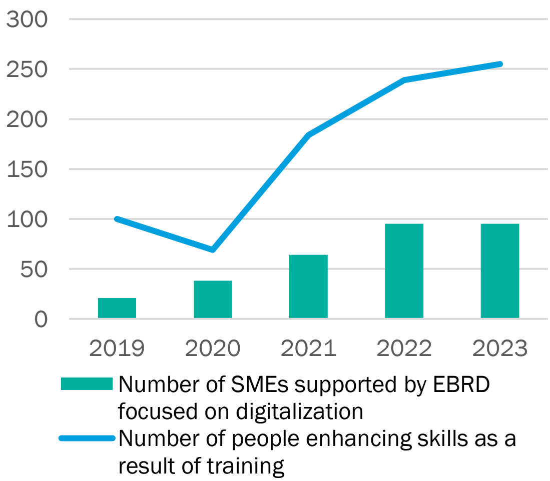


Transition impact performance[1]



Priority 1 | Support competitiveness and inclusion by enhancing value chains, upskilling the workforce and strengthening governance

Key quantitative results



Key transition results

- Extended €92m to corporates and SMEs through 37 transactions with PFIs under the Competitiveness Support Programme, Green Economy Financing Facility, and SME Reboot programmes.
- Launched the Green Financing Facility with UNDP and signed GFF lines with Sparkasse Bank and Procredit (€7m each) and Sparkasse Leasing (€3m).
- Introduced new mechanisms of digital outreach, reaching more than 500 entrepreneurs. Provided training to 60 SMEs in the areas of energy efficiency, early-stage investment, data analysis and ICT solutions.
- Successfully launched the Youth in Business programme in November 2023, with the first agreement signed with Procredit Bank.
- Supported the Macedonian Stock Exchange to enhance corporate governance of listed companies and in preparation of ESG guidelines for listed companies.
- Supported inspections reform by launching the implementation of the e-inspector system in 13 State Inspectorates under the Inspection Council. The online system for digitalised inspection procedures will provide an effective mechanism to reduce subjective behaviour of inspectors, ensure transparency for businesses, and serve as a tool in the fight against corruption.

1. Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio

1. Implementation of Previous Strategy (2019-2024)

1.1. Key Transition Results Achieved during Previous Strategy (2/2)

European Bank
for Reconstruction and Development

Priority 2 | **Strengthen regional integration, soft connectivity and support EU approximation**

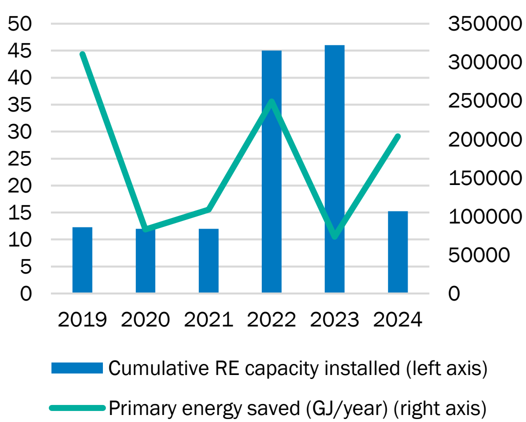
Pan-European Corridor VIII

Key transition results

- Financing a €5m sovereign loan with the Ministry of Finance to support the construction of a Rail Joint Border Crossing station on the border between North Macedonia and Serbia.
- Supported the Western Balkans Regional Business Registries Portal (BIFIDEX) as it integrates 5 registries from the region, with data for more than 1.5m companies and 2.2m natural persons.
- Financing a €167.6m loan for the TEN-T Skopje-Kosovo Border Motorway project, which will complete the motorway connection between the capital cities of both countries.
- Signed a €110m loan for Road Corridor VIII – Phase I (Kicevo-Bukojcani motorway segment) on the Western Section of Corridor VIII towards Albania.
- Financing a sovereign-guaranteed loan of up to €98.6m in favour of NOMAGAS for the construction of 100% hydrogen ready (i) natural gas interconnection pipeline with Greece (66km; interconnection) and (ii) two natural gas transmission pipelines, Gostivar to Kicevo (34km; Section 1) and Sveti Nikole to Veles (28km; Section 2), which are part of the national gas transmission network.

Priority 3 | **Support green economy transition through a more sustainable energy mix and greater resource efficiency**

Key quantitative results



Key transition results

- Sovereign loan of €55m supporting pioneering project in solid waste sector introducing EU-compliant solid waste service enabling development of sanitary landfills, construction of new transfer stations, recycling centre as well as procurement of new equipment for collection and transport of waste.
- Mobilised $85m concessional funding and grants from the CIF to accelerate just transition from coal-fired power plants.
- Signed financing with ESM for additional 40MW PV plants at the exhausted coal mines of Bitola and Oslomej, for a total of €31m. Total of renewable energy capacity installed with the support of EBRD: 46MW since 2019.
- Signed €100m liquidity with ESM, which includes a comprehensive action plan for restructuring and decarbonising the energy sector, with targets for 82% net GHG reduction by 2030 and delivering 1.7 GW of new RES plants by 2030.
- First Green City Action Plan, which identifies priority policy actions and investments to support green development, was approved by the city of Skopje in October 2020. €10m sovereign guaranteed loan was extended to purchase 33 CNG buses to ensure adequate public transport services. Sovereign loan of €68m to co-finance, with EIB and WBIF, the introduction of first-time wastewater treatment in Skopje.

1. Implementation of Previous Strategy (2019-2024)

European Bank
for Reconstruction and Development

1.2. Challenges to Implementation and Key Lessons

Context for implementation

The impact of Covid-19 followed by the energy crisis and high inflation exacerbated a range of pre-existing challenges for North Macedonia, as the country was already grappling with endemic challenges such as high levels of emigration, low productivity, and outdated infrastructure. Improving the competitiveness of the economy requires more domestic companies to be included in global value chains and raise productivity. The 2022 energy crisis exposed and intensified the vulnerabilities in the energy sector of North Macedonia, revealing the risks of an insufficiently diversified power generation mix and weak regional market integration. The crisis underscored the failures of aging coal-fired power plants and the challenges posed by water shortages affecting hydropower generation. Years of declining domestic energy production, driven by underinvestment in both new infrastructure and the maintenance of existing assets, left North Macedonia especially susceptible to energy price volatility. The concept of a “just transition” is important for North Macedonia, especially in regions that are heavily dependent on coal. These areas face significant socio-economic challenges, and the move away from coal as part of a broader shift toward greener energy sources risks exacerbating these difficulties. The signing of the Joint Declaration for Just Energy Transition Investment Platform (JETIP) in December 2023 marked a step forward in addressing these issues. However, the success of this initiative depends on how effectively it is implemented. The EU Growth Plan presents a significant opportunity to advance key reforms in the country. By aligning with EU standards and leveraging the support offered through this plan, the country could address many of its structural issues, from governance reforms to infrastructure development.

Implementation challenges	Key lessons & way forward
• Persistent emigration, a weak macroeconomic outlook, and the relatively small size of the private sector constrain investment opportunities.	• Continued close cooperation with donors and IFIs to ensure sufficient grant and project financing. Importance of leveraging co-investment grants and TCs to improve affordability. Switch to fixed margins instead of floating or blend EBRD Funds with concessional finance.
• Limited skills and capacity of the public administration hamper public sector project implementation pace.	• Close and regular engagement with the authorities on public sector portfolio and pipeline to speed up implementation. Increase advisory support to public entities to improve project preparation and implementation. Look for opportunities to leverage conditionalities in the EU Growth Plan to advance reforms.
• High inflation and the drastic increase in energy prices revealed structural deficiencies in the energy sector and ultimately the economy’s vulnerability to external shocks.	• Importance of providing continuous support to the private sector, both financing (direct and via PFIs) and advisory, to help cope with the impact of crises. Continued development of new products (e.g. RSF with other PBs) and further improvements of operational processes.
• Volatility of electricity market prices reduced the attractiveness of long-term power purchase agreements, limiting the delivery of large-scale renewable energy projects.	• Continue offering policy support to remove obstacles for commercially viable projects in the renewables sector.

2. Economic Context

2.1. Macroeconomic Context and Outlook for Strategy Period

North Macedonia – Main Macroeconomic Indicators

	2021	2022	2023	2024
GDP growth (% y-o-y)	4.5	2.8	2.1	2.8
CPI inflation (% avg.)	3.2	14.2	9.4	3.5
Government balance (% of GDP)	-5.3	-4.4	-4.6	-4.4
Current account balance (% of GDP)	-2.8	-6.1	0.4	-2.3
Net FDI (% of GDP) ***[minus indicates inflow]***	-3.3	-4.9	-3.3	-7.1
External debt (% of GDP)	80.9	81.5	77.9	79.9
Gross reserves (% of GDP)	30.8	29.2	31.1	32.6
General government gross debt (% of GDP)	51.4	49.7	49.8	53.8
Unemployment rate (%)	15.4	14.4	13.1	12.4
Nominal GDP ($bn)	13,998	13,926	15,773	16,694

Source: National authorities, IMF

Economic growth has been weak since the financial crisis, in recent years due to the weak growth in the Eurozone and geopolitical tensions. Growth accelerated to 2.8 per cent in 2024, driven by government consumption and investment as well as construction and services.

Inflation reached the highest level (at 19.8 per cent in October 2022) in the Western Balkans. It declined until August 2024, reaching 2.2 per cent, but has increased from that level on fast growing real wages and expansionary fiscal policies.

North Macedonia is the most open economy in the Western Balkans with trade to GDP exceeding 140 per cent, but low complexity of economy and low integration of domestic companies into global value chains contribute to high trade deficits in goods, declining only temporarily in 2023 due to high inflation and weak domestic demand.

Fiscal deficits declined somewhat from 2020 but are still high above 4 per cent of GDP (twice the level of peer countries). Public debt is relatively high at above 50 per cent of GDP and increasing, limiting the fiscal space for much needed public investments.

The unemployment rate dropped from 30 per cent to below 13 per cent in the past decade, but it is still among the highest in the region. The employment rate is below 50 per cent of the active population and has been declining since the pandemic, while participation rate is on a downward path due to large-scale emigration of the working age population.

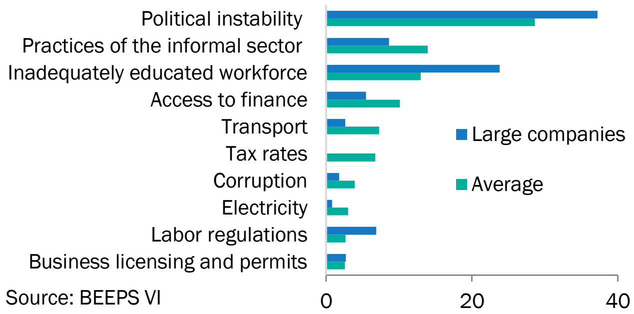
2. Economic Context

2.2 Key Transition Challenges (I/II)

Competitive

- Weak labour productivity growth hinders income and wage convergence: at this pace, average EU per capita income level will not be reached in three generations.
- Complexity of economy is improving, but is still low, and concentrated on a few narrow segments (automotive industry). Low integration of domestic companies into GVCs.
- The business environment is hampered by the sizeable informal sector and numerous parafiscal charges.
- CBAM could negatively affect competitiveness.

Key obstacles to doing business *(% of firms)*

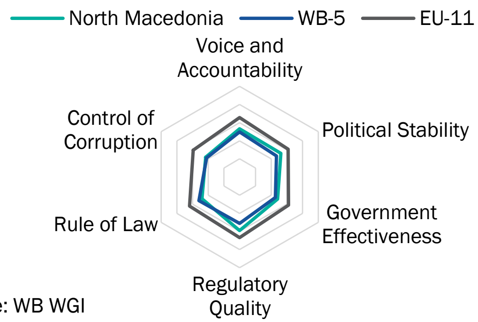


Source: BEEPS VI

Well-governed

- Governance standards have improved over time and are around the regional average but continue to lag EU levels.
- Corruption perception is high, and political connectedness viewed as the most important factor for success.
- Justice system is seen as inefficient, and government officials are deemed weakly accountable.
- High administrative and regulatory burden for companies, pushes them into informality. Despite some progress on the digitalisation of public administration still a lot remains to be done.

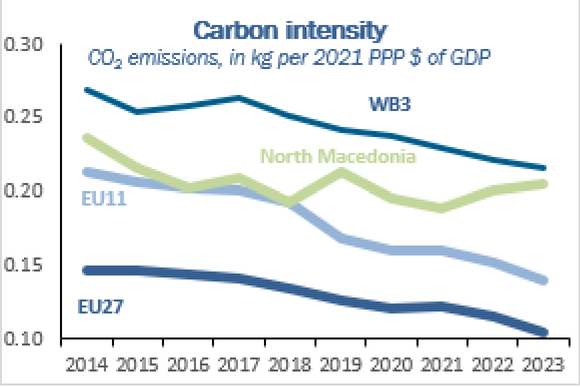
Governance indicators



Source: WB WGI

Green

- Carbon intensity is high, almost double that of the EU27. Electricity and heat producers make up close to 60 per cent of CO2 emissions, followed by the transport sector.
- Energy sector, at present, is highly dependent on fossil fuels, but the country is committed to decarbonisation.
- Share of renewables (wind, solar and biogas) more than doubled in electricity production between 2021 and 2024 but their share remains the smallest at 9 per cent.
- Importance of private sector participation in renewables is recognised, but a more strategic approach is needed to achieve the ambitious green transition targets.



2. Economic Context

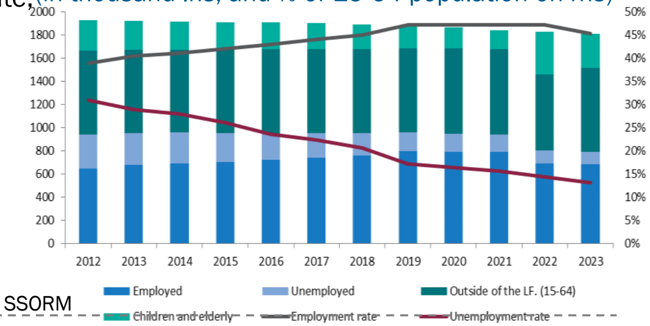
2.2 Key Transition Challenges (II/II)

European Bank for Reconstruction and Development

Inclusive

- Some improvement in the labour market with permanent decline in the unemployment rate, but declining population negatively affects labour supply and long-term prospects.
- Emigration is a major challenge with a third of the population born in North Macedonia living abroad. A Human Capital Strategy has been in the making for a long time.
- Entrenched skills mismatches and poor educational outcomes are reflected in high long-term unemployment and labour shortages.
- Increasing participation of women and youth in labour force, but gaps remain.

Labour market indicators
(in thousand lhs, and % of 15-64 population on rhs)

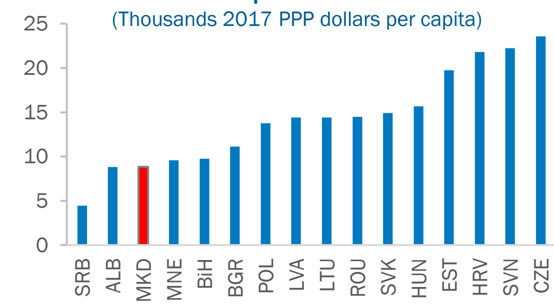


Source: SSORM

Integrated

- Significant infrastructural gaps are gradually being addressed but better planning is key given the limited fiscal space and large public investment needs.
- Roads are the most prevalent mode of transport, but high fatality rate calls for improvement in road safety.
- The first joint rail border crossing between North Macedonia and Serbia is being developed on Corridor X.
- Modernisation of the railway network is in progress, however large parts of rail corridors remain closed, railway use low and other sector reforms are lagging.
- FDI inflow in the past decade has been increasing, but per capita stock remains low.

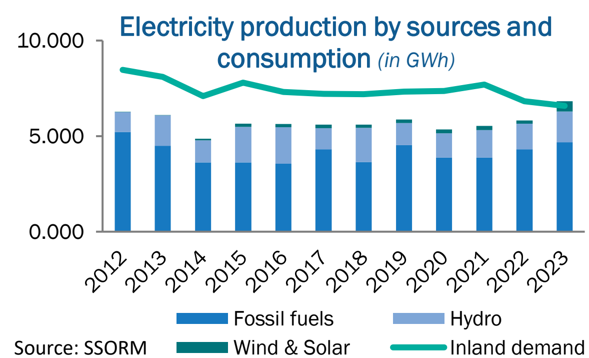
Capital stock



Source: IMF 2021

Resilient

- Banking sector is well capitalised and dominated by foreign banks. Key vulnerabilities are high euroisation and maturity mismatches.
- Capital markets are at an early stage of development, with adequate macroeconomic and infrastructure conditions, but constrained by low liquidity, depth and diversification of instruments. However, with the adoption of new legislation in this area, which will enter into force in September 2025, significant benefits are expected.
- Energy sector is dependent on fossil fuels, heavily reliant on imports and susceptible to externals shocks.
- Replacement of outdated power generation facilities and subsidised prices for households puts pressure on energy prices.



Source: SSORM

3. Government Priorities and Stakeholder Engagement

European Bank
for Reconstruction and Development

3.1 Government Reform Priorities

In its enhanced **Nationally Determined Contributions (NDC)**, North Macedonia has set a target to decrease GHG emission by 52% or achieve a net reduction of 82% GHG emissions by 2030 compared to 1990 levels. North Macedonia has committed to phase out coal and aims to achieve 38% renewable energy consumption by 2030 as part of its **National Energy and Climate Plan (NECP)**.

The **Just Energy Transition Investment Platform (JETIP)** launched at COP28 with the European Commission, EIB, Climate Investment Funds, World Bank, IFC, KfW, CEB and Cassa Depositi e Prestiti aims to help mobilise up to €3 billion in investments and policy and technical assistance to accelerate the country's energy transition and the deployment of 1.7 GW in new renewable energy capacity until 2030, along with grid and storage infrastructure. The support package is designed to ensure the positive outcomes of the green transition, while protecting the jobs and livelihoods of affected communities.

The **National Development Strategy 2024-2044** defines the main national development goals, strategic areas and priorities for accelerated, inclusive, balanced, gender-responsive and sustainable development of North Macedonia, considering the country's aspiration to join the EU by 2030 and the commitment for sustainable development within Agenda 2030. The Strategy focuses on six strategic priorities: (1) Economy based on knowledge, innovations and digitisation, a highly integrated economy in international trade and international finance, and a skilled workforce that meets the current and future labour market needs; (2) Sustainable local and regional development that ensures cohesion; (3) Demographic revitalisation, and social and cultural development; (4) Rule of law and good governance; (5) Secure, safe and resilient society; and (6) Green transformation.

The **National ICT Strategy 2023-2027** sets out a vision for an agile digital future for North Macedonia that focuses on priority areas in the ICT sector to meet the society's growing connectivity needs, boost competitiveness, improve citizens' daily lives, and make businesses smarter. The **Smart Specialisation Strategy 2023-2027** focuses on supporting the digitalisation of key economic sectors, including AgriTech, Industry 4.0 (electro-mechanical industry) and Smart Buildings.

3.2 EBRD Reform Areas Broadly Agreed with Authorities

- Development of the private sector through improving access to finance, skills development, and corporate governance enhancements.
- Regional integration through the completion/upgrade of key European corridors and roads and energy interconnections.
- Green economy, with the development of sustainable infrastructure, decarbonisation of the economy.
- Scale up renewable energy through further development of the auctions framework and energy storage solutions.
- Improving the capacity of local counterparties is essential for project implementation.

3.3 Key Messages from Civil Society to EBRD

- Civil society in North Macedonia underlined the need for enhancing good governance through improving (i) civic participation, (ii) effectiveness of judiciary system, and (iii) political and judiciary reforms related to EU accession process.
- CSOs addressed the challenges related to the access to finance of women entrepreneurs, economic participation of women and gender-disaggregated data and information, which present opportunities for the EBRD to scale-up its support to build capacity of women entrepreneurs.
- CSOs highlighted that the country should accelerate the decarbonisation through (i) investing in energy transition, (ii) enhancing collaboration between the government and local authorities, (iii) mainstreaming green policies, and (iv) providing vocational trainings.

4. Defining North Macedonia Country Strategy Priorities

European Bank for Reconstruction and Development

What needs to change? (Country Diagnostic)	Can it be changed? (Political Economy)	What can the Bank do? (Institutional Capabilities)	Strategic Priorities (2025-2030)	What We Want to see in 2030
• Despite being the region's most open economy, the high import dependence of North Macedonia and its low export complexity led to negative net export contributions until 2023. • Improving electricity and gas interconnections would balance the grid with more renewables and diversify gas supply, enhancing energy security. • The country also faces significant public investment gaps in economic, social, and environmental infrastructure.	• The export complexity of North Macedonia is rising, fuelled by strong FDI inflows, especially in manufacturing. • The new government is committed to promoting the modernisation of road and railway infrastructure, renewal of the rolling stock, and safety. • A comprehensive transport reform agenda is outlined in the Transport Community Treaty.	• Support innovation, technology adoption, and regional expansion of local companies through finance and advisory services. • Build capacity for independent regulatory authorities to enable market coupling and regional integration. • Continue financing transport infrastructure to enhance regional connectivity for goods and people. • Promote infrastructure efficiency, security, and sustainability through digitalisation and technological advancements.	Strengthen Regional Integration through Connectivity and Enhanced Value Chain Linkages	• Improved Resilience, Connectivity and Integration of Critical Infrastructure • Strengthened value chains integration
• Public infrastructure requires improvements to enhance resilience to climate events. • Carbon intensity of the economy is high. • Highly polluting coal still dominates a largely undiversified power generation mix. • Electricity and heat generation is overwhelmingly based on outdated, inefficient, and poorly maintained production capacities. • Below-cost tariffs hinder necessary investments for a greener energy transition and limit competition in the retail market.	• North Macedonia committed early to decarbonisation, aiming to reduce net greenhouse gas emissions by 82% by 2030 (compared to 1990 levels). • It was the first Western Balkans country to adopt the National Energy and Climate Plan (NECP) and launched a Just Energy Transition Investment Platform (JETIP) to guide its low-carbon transition in the electricity sector.	• EBRD can facilitate green investments in sustainable infrastructure. • Support the transition from coal to clean energy through investments. • Promote renewable energy diversification and decarbonisation via wind, solar, hydro, low-carbon solutions, energy storage, and grid upgrades, while fostering public-private dialogue. • Facilitate renewable energy markets through policy support, including RES auctions and integrating battery storage with the grid.	Accelerate the Transition to a Green and Sustainable Future	• Accelerate the Green Transition and Decarbonisation of the Economy • Promote Sustainable and Inclusive Public Utilities and Entities and Municipal Services
• Competitiveness is hindered by an unattractive business environment, skills mismatches, and limited access to finance. • Slow labour productivity growth delays income and wage convergence. • The population is shrinking, with aging demographics and ongoing emigration. • Youth unemployment is more than double the EU-27 average due to poor education, skills mismatches, and difficult school-to-work transitions. • Gender gaps in labour participation and business leadership remain significant. • Anti-corruption and informality measures are still needed.	• Privatisation has progressed further than in many regional peers, and the country has developed best practices in attracting FDI, including establishing Free Economic Zones, reforming the tax system, implementing a “regulatory guillotine,” and diversifying exports, along with other key economic reforms. • Participation of women and youth in labour force has been increasing in recent years, but gaps remain. • The EU Growth Plan for the Western Balkans represents potentially important mechanism for steering and supporting growth-enhancing reforms.	• Strengthen direct and indirect financing for the private sector. • Support innovation, digitalisation, automation and cybersecurity through dedicated programmes. • Support women and youth inclusion via Youth in Business and Women in Business programmes, intermediated financing, advisory services, and policy reforms. • Promote human capital by addressing skills gaps through vocational training (TVET) and other initiatives. • Provide advisory services to SMEs, corporates, and SOEs on corporate governance, HR practices, and succession planning.	Support a more Competitive, Inclusive, and Well-Governed Economy	• Promote a more Competitive and Well-Governed Economy • Help Address Demographic Challenges by Improving Economic Inclusion and Skills Development

5. Activities and Results Framework (1/3)

European Bank
for Reconstruction and Development

Priority 1: Strengthen Regional Integration through Connectivity and Enhanced Value Chain Linkages

Key Objectives	Activities	Tracking Indicators (Outcomes)
Improved Resilience, Connectivity and Integration of Critical Infrastructure	• Continue to provide financing for transport infrastructure and key European road and rail corridors/routes to facilitate movement of goods and people, contributing to improved regional connectivity and integration. • Enhance resilience in transport infrastructure to address climate challenges and promote decarbonisation through technological enhancements to reduce emissions, including by promoting EV use and charging infrastructure through the creation of supportive regulatory frameworks and financing projects. • Promote rail transport by enhancing the competitiveness of the rail sector through support of rail sector liberalisation, strengthening operational capacity of the rail transport service provider and railway infrastructure manager and ensuring inclusive design of services as well as multimodality. • Continue to support energy infrastructure projects that enhance regional integration. • Support capacity building for independent regulatory authorities for market coupling and regional integration. • Support projects aimed at expanding, improving, and greening telecommunication infrastructure, including data centres, fixed broadband infrastructure, satellites. • Support the efficiency, security, and sustainability of infrastructure through digitalisation, technological improvements, and the use of trusted equipment suppliers.	• Improved quality of infrastructure, including digital infrastructure provided by trusted equipment suppliers • Improved/increased transport infrastructure capacity • Expanded access of infrastructure within/across urban and rural areas
Strengthened Value Chains Integration	• Support innovation, uptake of technology, and regional expansion of local companies through finance and advisory services, including through the ASB and Blue Ribbon programmes, to help increase productivity, competitiveness and EU Single market readiness. • Support export-oriented companies and further integration into global value chains. • Continue to provide trade finance through the TFP programme. • Attract FDI across the economy, including in advanced/higher value-added manufacturing plants and private properties, facilitating family succession, and supporting technology transfer and skills development.	• Successful introduction of new and/or improved banking products • Volume/number of TFP transactions supported by the Bank

5. Activities and Results Framework (2/3)

European Bank
for Reconstruction and Development

Priority 2: Accelerate the Transition to a Green and Sustainable Future

Key Objectives	Activities	Tracking Indicators (Outcomes)
Accelerate the Green Transition and Decarbonisation of the Economy	• Support implementation of the NDC and NECP targets, and the adoption of just transition measures under JETIP. • Promote the diversification of renewable energy sources and decarbonisation of the energy sector by supporting the development of renewable energy sources (wind, solar, hydro), introducing of low-carbon solutions, energy storage, grid strengthening, and by facilitating public-private/policy dialogue. • Support renewable energy market creation through policy support, including auctions for RES and policy engagement on the integration of battery storage and renewables to the grid. • Support demand side measures, including through energy efficiency policy support under REEP, expanding green finance offering and financing of green transition in corporate segment via advisory and financing, including through GEFF. • Support the decarbonisation of commercial and private sector properties, including through green certification and better performance than the national level.	• CO2 emissions reduced (Ktonnes/y) • Renewable energy capacity installed (MW) • Vol. of GEFF/SEFF loans extended by partner financial institutions supported by EBRD finance. • Number of Just Transition measures adopted.
Promote Sustainable and Inclusive Public Utilities and Municipal Services	• Expand access to inclusive public and municipal services, including water supply, wastewater treatment, district heating, and public building facilities. Improve utilities' sustainability and energy efficiency focusing on the specific priorities outlined in the EU New Growth Plan. • Step up energy efficiency investments in buildings across the country. • Support improvements in the solid waste services via the establishment of new regional entities and strengthening commercialisation of the sector through the introduction and implementation of new tariff methodology. • Support the development of more sustainable, accessible, and gender-responsive modes of transportation, with a focus on rail and urban transport. • Follow on implementation of existing projects under GCAP in Skopje.	• Primary energy saved (GJ/year) • Electricity saved (kWh/y) • Water saved (m3/y)

5. Activities and Results Framework (3/3)

European Bank
for Reconstruction and Development

Priority 3: Support a more Competitive, Inclusive, and Well-Governed Economy

Key Objectives	Activities	Tracking Indicators (Outcomes)
Promote a more Competitive and Well-Governed Economy	• Strengthen direct and indirect financing to the private sector, including through portfolio guarantees and risk sharing, coupled with business advice to support greater competitiveness and create a more level playing field between domestic and foreign companies. In addition, explore opportunities to mobilise and facilitate diaspora investment in the country where appropriate. • Broaden sources of finance for SMEs and corporates. Explore direct/quasi equity financing. • Support money and capital markets development via policy advice and technical assistance to expand securities markets and MREL financing for banks, while also aligning regulations with EU acquis • Promote the formalisation of the economy and enhance the competitiveness of the private sector by strengthening economic governance through advisory and policy engagements. • Promote SOE reforms, such as corporate governance improvements, commercialisation and strategic workforce management, including through actions that facilitate the objectives under the EU Growth Plan for the Western Balkans. • Collaborate with other IFIs to support capacity building for project preparation and implementation in the public sector. • Accelerate digitalisation of the economy, with a focus on promoting digital skills, automation, and cybersecurity of SOEs and SMEs through the SME Go Digital initiative and advisory for SMEs. • Support innovation and the start-ups ecosystem through Star Venture.	• Number of clients improving corporate governance and/or standards (incl. SOEs) • Number of clients introducing new or improved technology • Number of SMEs and corporates supported by EBRD focused on digitalisation
Help Address Demographic Challenges by Improving Economic Inclusion and Skills Development	• Strengthen the implementation of/support economic inclusion of women and youth through the Youth in Business and Women in Business programmes through intermediated financing and advisory services, and through policy reforms. • Contribute to the development of skills relevant to the labour market through enhanced technical and vocational education and training (TVET) and its alignment with entrepreneurship programmes and other skills initiatives to help address gaps in the labour force and skills mismatches. • Provide advisory to SMEs, corporates and SOEs on raising skills, HR practices, and succession planning. • Promote regional economic diversification and human capital development, especially through Inclusive Regions and Just Transition initiatives.	• Volume / number of Women in Business / Youth in Business sub-loans disbursed and business advice provided • Number of people enhancing skills as a result of training.

Inclusive Competitive Well-Governed

6. Mapping of International Partners' Complementarity in EBRD Business Areas

European Bank
for Reconstruction and Development

EBRD Business Areas

		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		FI		Strategic Initiatives			
Indicative annual average annual investments/ grants (€m, 2019-2023)		Agribusiness	Manufacturing & Services	Property & Tourism	TMT	Natural resources	Energy	Infrastructure	Banking	Non-Bank FIs	Green Economy	Inclusion & Gender	Local Currency & Capital Markets	Small Business
EIB	126						€	€	€	€				€
WB/IFC	116	€P					€P	€P				€P		
EU	83	€P	€P				€P	€			€P	€P		€
KFW	27	€					€							
EBRD	193	€	€				€P	€P	€		€P	€		€

€ Area of significant investments

P Area of significant policy engagement

Focus mostly on private sector

Focus mostly on public sector

Potential Areas of Cooperation

Green

- Continue working on just transition/green economy transition investments with the EU, EIB, KfW, World Bank and IFC.

Resilient

- Strengthen climate resilience with the World Bank

Inclusive

- Inclusive procurement in the solid waste sector supported by WBIF

Integrated

- Work with EIB and World Bank on regional integration projects

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of annual investment and signed between 2019 and 2023

7. Implementation Risks and Environmental and Social Implications

Risks to the strategy implementation	Probability	Effect
Political volatility and current relations with neighbouring countries could hamper the path of European integration, reducing the momentum for governance reforms.	🟡	🔴
Lack of administrative capacity, weak governance, inefficient judiciary, the prevalence of informality and corruption continue to have a negative impact on the business environment and investor confidence.	🔴	🔴
Weak macroeconomic outlook, significant demographic challenges, including high emigration, rapid depopulation, and aging population, and the small size of the private sector **limit investment opportunities.**	🔴	🔴
The introduction of CBAM would severely affect the competitiveness of exports and would impose a high cost on the economy given the carbon intensity and trade-oriented nature of the economy.	🔴	🟡
Climate vulnerability poses substantial risks to public infrastructure and infrastructure project implementation.	🔴	🔴
A significant fiscal shortfall, partly due to external debt repayments, heightens vulnerability to tighter global financial conditions. However, the newly established fiscal council and organic budget law will support progress toward fiscal and debt anchor compliance.	🟡	🔴

Environmental and social implications

- **Assessment and Management of E&S Impacts, Stakeholder Engagement:** Ensure that direct, indirect, cumulative and transboundary E&S impacts of projects are appropriately assessed and mitigated in line with applicable EU EIA Directive, EBRD ESP and associated PRs, considering stakeholder consultation and feedback. Public sector clients may require targeted environmental and social capacity building to ensure E&S compliance, adoption of GIP and disclosure of E&S documents as required by ESP and AIP/DAI.
- **Labour and Working Conditions:** Ensure that clients' HR policies and labour practices comply with EBRD requirements, particularly in respect of addressing labour terms and conditions; contractor management, migrant and seasonal workers, potential discrimination in the workplace and promotion of equal opportunities. Assessment of E&S risks in renewable sector, and retrenchment impacts from transitioning to clean energy sources.
- **Resource Efficiency and Pollution Prevention and Control:** Identify investments that support circular economy and resource efficiency, and introduce knowledge of Best Available Techniques for industrial pollution prevention and abatement in line with EU Industrial Emissions Directive. Support transition to a diversified low-carbon and resource-efficient economy (focus on investments such as wind/solar energy, water and energy efficiency) and strengthen resilience to climate change. The Bank's investment priorities will help reduce GHG emissions, although total emissions will remain high due to carbon-intensive electricity generation. Support the government in advancing the circular economy, in line with the relevant EU directives.
- **Health, Safety and Security:** Improve occupational and community health and safety with specific focus on activities which are considered common accidents reported on the Bank's projects. Additional emphasis will be placed on gender impacts, road safety by requiring road safety audits, capacity building and raising awareness within communities at risk.
- **Land Acquisition, Restrictions on Land Use and Involuntary Resettlement :** Ensure that any projects requiring acquisition of land comply with compensation and livelihood restoration requirements of the Bank, with special attention given to gaps between PR5 and national requirements, including entitlements for informal land users and assistance to vulnerable groups.
- **Biodiversity Conservation and Sustainable Management of Living Natural Resources:** Support clients with assessments to ensure species and habitats of conservation importance are protected and ecosystem services and natural capital are sustainably managed and resilient, especially in sectors such as renewable energy, municipal services and infrastructure. Ensure that Good International Practice (GIP) is applied in the collection and disclosure of biodiversity data. TC funds may be needed to support these activities. Explore opportunities for biodiversity net gains and enhanced nature recovery.
- **Cultural Heritage:** Work with clients to identify and consult with key stakeholders relating to projects within areas recognised as culturally important and protect sensitive cultural heritage.
- **Financial Intermediaries:** Ensure FI partners have adequate E&S capacity and risk management procedures.
- **Information Disclosure and Stakeholder Engagement:** Support clients in proactive and early stakeholder engagement continued throughout the project lifecycle, with the focus on protection and non-discrimination of project affected people and vulnerable groups, effective grievance management, transparent, documented and participatory consultation and reporting, including those carried out as part of local permitting and ESIAs.

🔴 **High** 🟡 **Medium** 🟢 **Low**

8. Donor Partnerships Assessment

European Bank for Reconstruction and Development

Needs Assessment for the New Country Strategy Period

To achieve the goals of the new country strategy, donor funds may be required to support several key activities:

- To enhance the availability of finance for women and youth, risk-sharing instruments for PFIs might be needed.
- Strengthening the competitiveness of the private sector, developing skills, and supporting the digitalisation of the economy will require support in the form of TC grants, primarily to fund advisory services.
- Accelerating the transition to a green and sustainable economy will mostly require utilising incentive grants to stimulate increases in renewable energy generation capacity, transition from emission-heavy energy sources, and improve resource use efficiency. TC grants might also be needed to support policy formulation in this area and to address the consequences for the most vulnerable groups negatively affected by the transition, for example by reskilling workers.
- Additionally, TC grants may be necessary to improve governance practices and the quality of institutions.
- Some infrastructure projects facing binding affordability constraints might require co-investment in the form of capital expenditure (capex) grants.

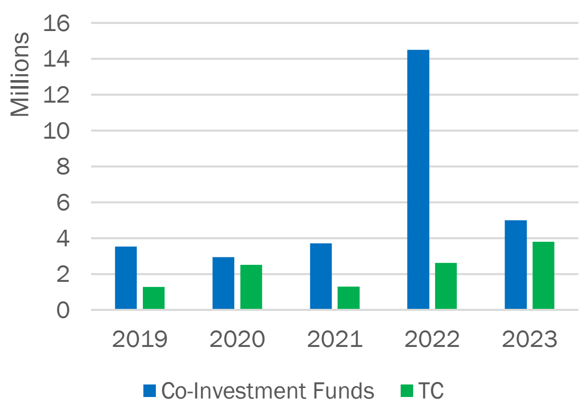
Potential Sources of Donor Funds

- Under the Western Balkans Investment Framework, the EU will continue to scale up its funding (grants and guarantees) for priority public and private sector projects in the areas of transport, energy, environment & climate, digital, human capital development and competitiveness of the private sector.
- Several bilateral donors are also active in the country. Sweden, for instance, can provide TC grants for municipal projects, where it has the greatest interest. Other donors, including Switzerland, Italy, Luxembourg, and Japan, can also finance TC projects in the country. Climate-related projects can receive support from donors through the High-Impact Partnership on Climate Action, a multi-donor partnership.
- Multilateral Climate Funds, such as the Green Climate Fund (GCF), the Global Environment Facility (GEF), and the Climate Investment Funds (CIF), can finance project preparation and implementation as well as TC for policy advice.
- Finally, concessional resources may also be available under the regional allocation of the Shareholder Special Fund.

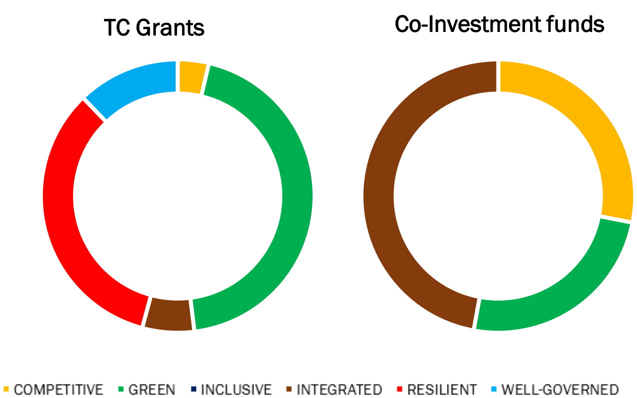
Selected Affordability Indicators

		EBRD regional percentile rank[1]
GDP per capita (PPP, current. $)[2]	19,692	50%
ODA Country	Yes	N/A
ODA as share of Gross National Income (%)[3]	2.56	61%
ODA per capita ($ - current prices)[3]	160.82	63%

Donor finance during last strategy (€m)[4]



Use of funds in 2019-2023[5]



1. Simple percentile rank reported as the share of EBRD economies represented below North Macedonia. 2. WEO (2023) 3. OECD (2021) 4. Methodology for reporting co-investment amounts has changed from being based on client signings to being based on earmarks at commitment level in 2022. 2019-2023 TC data and 2022-2023 Co-investment funds amounts are based on earmarks at commitment level, and co-investment funds amounts 2019-2021 are based on client signings. 5. Based on the primary Transition Quality of concessional resources.

Annex

European Bank
for Reconstruction and Development

Annex 1 – Political Assessment in the Context of Article 1 (1/7)

The commitment of North Macedonia to, and application of, the political principles stated in Article 1 of the Agreement Establishing the Bank continued since the adoption of the previous Country Strategy, in line with its efforts towards implementation of the comprehensive EU reform agenda.

The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities and for a meaningful role of the civil society are largely in line with international and European standards, as assessed by the Council of Europe.

Despite the progress in democratic reforms over the years, including several waves of judicial reforms, significant challenges remain in the area of the rule of law, including the need to strengthen the independence and efficiency of the judiciary (and public trust in the latter) and to establish a solid track record in the fight against corruption, including investigations, prosecutions and final convictions of high-level cases.

The combined presidential and parliamentary elections, which took place in May 2024, brought to power, after seven years in opposition, conservative VMRO-DPMNE. The new coalition government with VMRO-DPMNE at the helm took office on 23 June 2024.

North Macedonia was the first Western Balkans country granted the formal status of EU candidate country in 2005. In 2009, the European Commission recommended to open accession negotiations with North Macedonia. However, due to the name-related dispute with Greece and consequent lack of consensus in the European Council it was not until 2020 that the latter was able to endorse the decision to open the EU accession negotiations. Although the Intergovernmental Conference (IGC, symbolic start of the negotiations) took place in 2022 followed by subsequent successful “screening” of the acquis in the course of 2022-2023, the negotiations have never been launched in earnest. EU’s current condition, based on the demand by neighbouring Bulgaria, is for the parliament of North Macedonia to adopt the constitutional amendments related to the status of Bulgarians in North Macedonia.

The reform and growth facility under the new EU Growth Plan for the Western Balkans represents important mechanism for steering and supporting comprehensive reforms. The new government of North Macedonia, established in June 2024, submitted its Reform Agenda under the above-mentioned facility in July 2024. It was adopted by the EU on 23 October 2024.

FREE ELECTIONS AND REPRESENTATIVE GOVERNMENT
Free, fair and competitive elections

Between 120 and 123 members of the unicameral parliament (MPs) are elected for a four-year term through a proportional representation system. Of these, 20 MPs are elected from each of the six in-country electoral districts. Up to three additional MPs can be elected in a single out-of-country district. The Central Election Commission is an independent permanent body, appointed by the parliament for a four-year mandate. The Electoral Code provides for domestic and international election observation at all levels of election administration.

The existing legal framework provides a sound basis for democratic elections, provided the authorities and political parties exercise sufficient will to implement it. The legal framework has benefited from a series of reforms over the years, which addressed some of the recommendations by the OSCE Office for Democratic Institutions and Human Rights (ODIHR) and by the Venice Commission of the Council of Europe (Venice Commission).

The elections are generally competitive, and the fundamental freedoms are respected. At the same time, some rules on the parliamentary elections fall short of international good practice, including the voting rights of persons with disabilities, the disproportionate restrictions on candidacy rights based on criminal charges, and the requirements to disclose ethnic affiliation to register as a candidate. There are some persistent inconsistencies, gaps, and ambiguities compromising legal certainty. A number of concrete recommendations by ODIHR and the Venice Commission are still outstanding.

Annex 1 – Political Assessment in the Context of Article 1 (2/7)

European Bank
for Reconstruction and Development

There is also a disturbing practice of amending the legal framework immediately ahead of elections. In the case of the most recent general elections, which took place in May 2024, the Electoral Code was last amended on 1 April 2024, already after the elections had been announced, which undermined legal certainty. Contrary to OSCE commitments and international standards, the changes, which resulted from negotiations between the governing parties and the opposition, were adopted through an expedited process, without public debate.[1]

The last parliamentary elections, which took place on 8 May 2024, simultaneously with the second round of the presidential election (its first round took place on 24 April 2024), were assessed by OSCE/ODIHR as well organised and competitive, with the election day being calm and peaceful. However, besides the above-mentioned shortcomings of the regulations and the process, the old problem of group and family voting occurred again in some instances.

Separation of powers and effective checks and balance

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, independent legislature and procedures of legislative oversight in prescribed domains of decision-making – is enshrined in the Constitution and laws in North Macedonia largely in line with international and European standards, as assessed by the Council of Europe and EU. The scope of powers of the legislature to hold the government to account and to exercise parliamentary oversight is largely in line with international standards. North Macedonia is a parliamentary democracy where the parliament holds the legislative power and elects the government. The executive power is headed by the Prime Minister, who is usually the leader of the largest parliamentary party. The President is elected directly but is largely a ceremonial figure. The Ombudsperson, who is elected by parliament, is tasked with the promotion and protection of human rights and fundamental freedoms and assumes the function of the National Human Rights Institution.

Effective power to govern of elected officials

North Macedonia has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern that are not constrained by non-democratic veto powers or other undue influences. As in many other transition countries, there has long been a close relationship between business and political elites.

CIVIL SOCIETY, MEDIA AND PARTICIPATION

Scale and independence of civil society

There is a satisfactory legal framework for civil society organisations (CSOs). More than 15,500 associations and foundations are currently registered in the Central Registry, based on a simple and transparent procedure for registration pursuant to the law of associations and foundations. The Council for Cooperation between the Government and Civil Society is the main structural channel for consulting and involving civil society in policy dialogue and decision-making.

Existing legal and financial frameworks still need to be improved, notably to provide consistent mechanisms for awarding public funding to CSOs. As elsewhere in the Western Balkans, CSOs remain heavily dependent on foreign funding.

Some CSOs are highly professional in their respective areas of expertise, particularly those specialised in EU integration related issues, environment, media, and gender. CSOs are active in the social field, including protection of vulnerable and marginalised groups, and in election observation. Among the weaknesses is the development of civil society at the local level, especially in rural areas. Overall, civil society organisations in North Macedonia continue to operate in a satisfactory enabling environment and play a key role in supporting democratic processes.

The right to form trade unions is enshrined in law and respected in practice. The Economic and Social Council plays an increasingly active role in the social dialogue. There is also a need for the Council for Cooperation between the Government and Civil Society to resume its activities.

[1] OSCE/ODIHR, North Macedonia, Parliamentary Elections and Presidential Election Second Round, 8 May 2024, Statement of Preliminary Findings and Conclusions. .

Annex 1 – Political Assessment in the Context of Article 1 (3/7)

Independence and pluralism of media operating without censorship

The media landscape is diverse, with 40 television and 58 radio stations as well as 22 print media outlets operating in a relatively small market. The main media outlet is the public broadcaster, Macedonian Radio-Television (MRT), which has five different channels. Although television is the main source of information, online portals have had an increasingly significant influence on the media environment. Media outlets, including print media, whose circulation is relatively low, are divided along both political and ethnic lines reflecting the overall polarisation in society. This political fragmentation and ethnic divisions, intense competition among numerous media outlets in a constrained market, and unfavourable working conditions of journalists all negatively affect the quality of journalism. The close ties between certain media owners and political actors in North Macedonia often leads to self-censorship.

Although the 2022 amendments to the Law on Civil Liability for Insult and Defamation and the 2023 amendments to the Criminal Code introduced additional safeguards for journalists, online attacks and isolated incidents of physical assault against journalists remain a concern.[2]

The internet penetration rate has been growing steadily. Social media is playing an increasingly important role. Although the legal framework is largely in place and in line with international standards, the concerns in the past traditionally were with regard to self-censorship and lack of editorial independence due to political and business interests.

The latest EU Rule of Law report positively assessed the ability of the Agency for Audio and Audiovisual Media Services to fulfil its regulatory tasks[3]. The Media Pluralism Monitor (MPM) 2024 considers the independence and effectiveness of the media authority to be an area of low risk[4]. Challenges remain concerning transparency of media ownership.

[2] EU Rule of Law Report 2024, Country Chapter North Macedonia, 24.07.2024

[3] *ibid.*

[4] 2024 Media Pluralism Monitor, country report for North Macedonia

[5] EU Rule of Law Report 2024, Country Chapter North Macedonia, 24.07.2024.

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. There are certain rules and procedures regarding public consultations, but they are not always enforced. For example, a national electronic consultation system allowing stakeholders to participate in public consultations exists and is rather advanced, but only a limited number of draft laws are published on the respective platform (less than 50% of draft laws recently) [5].

Participation of CSOs in the policy-making process is provided for in the Rules of Procedure of the government, in the Code of good practices for participation of CSOs in policy development process, in the Methodology for regulatory impact assessment and in Guidelines for ministries implementing the regulatory impact assessment. However, since 2022 CSOs have been boycotting the Council for Cooperation between the Government and Civil Society, which is the primary structural channel for consulting and involving civil society in policy dialogue and decision-making.

Freedom to form political parties and existence of organised opposition.

The freedom to form political parties is both guaranteed by the Constitution and implemented in practical terms, highlighted by the existence of a significant opposition able to campaign freely and oppose government initiatives. Twelve political parties and five coalitions participated in the last general elections in North Macedonia. The main opposition political party currently holds about 15 per cent of seats in the national parliament, its representatives chair several committees, and they hold the majority in a few municipalities.

Annex 1 – Political Assessment in the Context of Article 1 (4/7)

European Bank
for Reconstruction and Development

RULE OF LAW AND ACCESS TO JUSTICE

Supremacy of the law

The Constitution of North Macedonia enshrines the independence of courts and the autonomy of the prosecution service. Although the legal provisions are in place there is a gap between the legal framework and the practice. North Macedonia has as a three-tiered court system, comprising 27 first-Instance Courts, four Appeal Courts and the Supreme Court. The latter is the highest instance in the judicial system with competences to ensure the uniform application of laws by all courts. The Constitutional Court is not part of the judiciary and, among others, reviews the constitutionality of laws.

Independence of judiciary

The independence of judiciary is guaranteed by the Constitution and the country has a comprehensive set of rules which, if observed, should ensure a high standard of the judiciary and its full independence. However, despite several waves of judicial reforms designed to improve the independence, efficiency, and professionalism of the judiciary, the independence of the judiciary and the institutional capacity to protect it against undue influence remain a serious concern[6]. The level of perceived judicial independence in North Macedonia is very low among both the general public and companies. Overall, 25% of the general population and 20% of companies perceive the level of independence of courts and judges to be "fairly or very good" . The main reason cited by both the general public and companies for the lack of independence of courts and judges is the perception of interference or pressure from the Government and politicians[7]. North Macedonia has undertaken a series of judicial reforms, notably addressing the "Urgent Reform Priorities" of 2015, the recommendations of the Venice Commission, and those of the Senior Expert Group on Systemic Rule of Law Issues[8]. In December 2023, the government adopted a new justice sector strategy 2024-2028 for improving the independence and efficiency of the judiciary. It included a number of measures additional to those envisaged by the previous strategy. The announcement by the new government, in 2024, of the plans to "dissolve" the Judicial and Prosecution Councils was qualified by the EU as "a matter of serious concern, as such actions would undermine the independence of the judiciary".[9]

Government and citizens equally subject to the law

The Constitution guarantees the equality of all citizens before the law. In 2022, the Council for Open Judiciary was established, which adopted in February 2024 an Action Plan for Open Judiciary (2024-2026). The Action Plan is designed to improve public relations between courts and the public, increase the quality and availability of data and information, and to strengthen the supervisory function of the Judicial Council on the transparency of courts.

Effective policies and institutions to prevent corruption

Based on the Transparency International's Corruption Perception Index (CPI), the perceptions of the situation in this area have slightly improved since the adoption of the previous Country Strategy as demonstrated by the country's higher score (from 35 in 2020 to 40 in 2024). North Macedonia has improved its position in CPI and is now ranked as 88th among 180 countries (was 111th in 2020).[10]

[6] Ibid

[7] Eurobarometer survey FL540, conducted among the general public between 14-27 February 2024, and Eurobarometer survey FL541, conducted among companies between 14 February and 5 March 2024

[8] The group of independent senior rule of law experts was asked by the European Commission in 2015 to assess systemic rule of law issues, which provided the basis for the Urgent Reform Priorities. In 2017 the same group assessed the progress in addressing their previous findings and provided new recommendations. 15 Concerns have been raised about the legitimacy of some of the decisions that parliament took during that period which affected the country's long-term development.

[9] North Macedonia 2024 Report, accompanying 2024 EU Enlargement Policy. European Commission, 30.10.2024.

[10] Corruption Perception Index 2024, Transparency International, January 2025

Annex 1 – Political Assessment in the Context of Article 1 (5/7)

However, in reality, corruption remains prevalent in many areas and the progress in recent years has been insufficient. Although the legal framework is in place, anti-corruption measures seem to continue to have limited impact in the vulnerable sectors, not least because of the lack of a systemic approach[11]. The dedicated institutions lack financial resources and expertise particularly in the field of financial investigation. The implementation of the comprehensive National Strategy for Prevention of Corruption for 2021-2025 has been only partial: out of 166 activities planned for 2023 for example, only 22 (13%) were implemented[12]. Frequent changes in the legal framework undermine legal certainty. The Criminal Code, for example, has been amended over 30 times since its adoption in 1996. The latest amendments, adopted by the parliament in 2023, were passed through an expedited procedure and without prior consultations with relevant stakeholders. The European Commission has expressed "serious concern" regarding the amendments on corruption-related criminal offences reducing the maximum penalties for some specific offences, including abuse of office, halting, or even terminating a large number of high-level corruption cases[13]. The abuse of office in public procurement has been removed from the Criminal Code altogether. According to the EC, the country has to adopt a new Criminal Code in line with the EU acquis and international standards (financial investigation, confiscation of assets, supervision of election financing, etc).[14]

The new composition of the State Commission for Prevention of Corruption (SCPC), which was appointed by the parliament, held its first constitutive session in February 2024. SCPC is the coordinating body for monitoring the implementation of the measures of the National Strategy for Prevention of Corruption, the verification of assets, conflicts of interest and incompatibilities. The key institutions involved in the repression of corruption are the Specialised Unit for Organised Crime and Corruption in the Criminal Court Skopje, the Public Prosecutor's Office for Prosecuting Organised Crime and Corruption, the Specialised Police Unit under the Ministry of Interior, the Financial Police Office, the Customs Administration, and the Financial Intelligence Office.

The SCPC has, according to the EC's assessment, been proactive in providing public institutions with policy guidance on preventing corruption, but there has been relative lack of the follow up on its recommendations.

CIVIL AND POLITICAL RIGHTS

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

North Macedonia is a signatory to all major international human rights instruments. The high level of ratifications of the conventions of the United Nations, Council of Europe, and regional human rights instruments represents a significant achievement. North Macedonia has also put in place the institutional framework for the protection of human rights, which includes the Ombudsman.

The latest assessment of track record of North Macedonia in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was adopted in 2019. The top three recommendations related to women's rights (22 per cent of recommendations), rights of the child (19 per cent), and minority rights (15 per cent). North Macedonia supported 99 per cent of a total of 171 recommendations made through the review process.[15]

The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. The Constitution guarantees the basic freedoms and rights of citizens recognised in international law, while international treaties are directly enforceable by domestic courts and their status is superior to the domestic law. Freedom of speech, information, religion and conscience, movement, association and assembly, and private property are therefore fully guaranteed. The Constitution also requires the state to supplement private initiative and responsibility in relation to certain "social objectives", such as the provision of care to persons with disabilities, the aged and orphaned.

[11] EU Screening Report North Macedonia, Cluster 1 (fundamentals), 2023.
[12] SCPC, Annual Report on the Implementation of the National Strategy for the Prevention of Corruption and Conflict of Interests, 2024
[13] North Macedonia 2023 Report, accompanying 2023 EU Enlargement Policy. European Commission, 08.11.2023
[14] North Macedonia 2024 Report, accompanying 2024 EU Enlargement Policy. European Commission, 30.10.2024
[15] UPR Statistics, available at https://upr-info-database.uwazi.io/en/

Annex 1 – Political Assessment in the Context of Article 1 (6/7)

European Bank
for Reconstruction and Development

As regards property rights, some progress has been made in returning property confiscated under the communist regime. However, according to the EC, the national strategy on property rights has not advanced. Over 6,000 denationalisation cases remain open, despite the process being officially closed a decade ago.[16]

Political inclusiveness for women, ethnic and other minorities

The legislative framework for the protection of ethnic minorities is broadly in place. The country has a complex ethnic composition. According to the 2021 census, ethnic Macedonians are 58.44% of the resident population, ethnic Albanians 24.3%, ethnic Turks 3.86%, Roma 2.53%, ethnic Serbs 1.3%, Bosnians 0.87%, and Vlachs 0.47%.

North Macedonia has a history of ethnic tensions. However, it has made progress since the 2001 armed inter-ethnic conflict in addressing both the roots and the effects of this conflict. These efforts included legislative reform and practical measures designed to ensure equitable representation of minority communities in public administration and their integration into society and promotion of inter-ethnic reconciliation. The interests of minority communities are protected at different levels, starting with basic constitutional guarantees (ethnic communities are explicitly mentioned in the Constitution) to the special mechanism ensuring protection of their interests in the parliament and measures to protect their cultural, linguistic and religious identities. There is a specific national strategy in place to promote a multi-ethnic society: 'One Society for All and Interculturalism'. The most tangible results in this respect have been achieved in protecting the interests and ensuring equitable representation of the largest ethnic minority, Albanians. More remains to be done to protect smaller ethnic minorities, such as the vulnerable Roma community.

Despite the progress achieved, inter-ethnic tensions persist, especially at the local level. Political parties are largely divided along ethnic lines. The implementation of the Ohrid Framework Agreement (OFA), which prominently includes inter-ethnic reconciliation, remains indispensable. It continues to support political stability, which is highlighted by the successive multi-ethnic governing coalitions.

Regarding Roma, several measures have been taken. The 2022-2030 Roma Inclusion Strategy is in place. Education projects continued to be implemented leading to a slight increase in the enrolment rates of Roma children in education. However, the annual dropout rate for Roma children in schools is still relatively high. Lack of digital skills and access to technology continue to prevent Roma people from fully enjoying their rights and accessing most services, most of which are digital (healthcare, education, employment, social protection etc.). Access to preventive and curative health services, reducing mortality, addressing discrimination and unequal treatment by health professionals and women's health remain key challenges in the field of Roma healthcare. The amendments to the Law on civil registry, the Law on Registering the Place of Residence and the Law on ID pave the way to resolving the cases of statelessness and fulfil the country's international obligations in this respect.

The key legislative elements for gender equality are in place in North Macedonia. The country has ratified the Council of Europe Convention on preventing and combatting violence against women (Istanbul Convention), and the national Law on the prevention of and protection from violence against women and domestic violence was adopted in 2021. In 2023, amendments were made to the Criminal Code, regulating criminal acts of gender-based violence, including stalking and hate crimes based on gender identity and gender differences. However, the Law on Gender Equality has not been adopted yet.

By regional (and wider international) standards women have over the past decade had an impressive representation in the national parliament. It peaked at 42.5 per cent in the previous parliament, and is 36 per cent in the current parliament. In line with enhanced quota for women's participation enforced by the Electoral Code (increase from 30 to 40 per cent), 43 per cent of candidates in the last general elections were women. In May 2024, for the first time in the country's history a female was elected at the President of North Macedonia.

[16] North Macedonia 2024 Report, accompanying 2024 EU Enlargement Policy. European Commission, 30.10.2024

Annex 1 – Political Assessment in the Context of Article 1 (7/7)

At the same time, persistent gender gaps exist in employment and in labour force participation.

Societal prejudice and negative stereotypes prevail in the society and hate speech is present against LGBTIQ in the media and social networks, as well as in school textbooks. There has been no progress in implementing the ECtHR's 2019 judgment concerning legal gender recognition by amending the Law on the civil registry. The legal framework does not allow for the official recognition of same-sex couples. According to the EC's latest progress report, overall no progress has been made on improving the legal or policy framework protecting the rights LGBTIQ persons.[17]

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last carried out a periodic visit to North Macedonia in 2023. The report noted the constructive consultations and good cooperation with the country authorities. However, it concluded that there was no improvement in the treatment of persons deprived of their liberty by the police since its 2019 visit. The report noted that many persons made allegations of ill-treatment by the police. The CPT has reiterated the view that the strategic reform of the prison system should focus on eradicating corruption among staff and professionalising the prison management through transparent, merit-based and depoliticised appointments as well as ensuring their hierarchical subordination to the prison administration[18]. The external oversight mechanism for the police, including the prison police, is still not fully functional. North Macedonia should tackle the persistent issue of inadequate detention conditions in prisons, police stations, social care and psychiatric facilities, in line with the recommendations in the CPT reports. ECtHR case law shows that poor detention conditions can be considered grounds for a violation of Article 3 on prohibition of torture[19].

[17] North Macedonia 2024 Report, accompanying 2024 EU Enlargement Policy. European Commission, 30.10.2024.
[18] Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Report on the on the periodic visit to North Macedonia from 2 to 12 October 2023, published on 15 May 2024.
[19] North Macedonia 2023 Report, accompanying 2023 EU Enlargement Policy. European Commission, 08.11.2023