



## **Executive Summary**

Macedonia's government welcomes and seeks out foreign investors. The Prime Minister regularly leads investment roadshows and has charged multiple Ministers and agencies with promoting Macedonia as an investment destination.

Macedonia's legal framework for foreign investors is generally in line with international standards and is often ranked favorably in global surveys. The World Bank ranks Macedonia as the 25<sup>th</sup> best country in the world in which to do business.

However, investors complain that many laws are enforced unevenly or not at all. Corruption, excessive bureaucracy, political interference in the judiciary, and a lack of government capacity also frustrate investors. The judicial system is slow and subject to political pressure and corruption. Foreign investors also complain that it can be challenging to secure visas for foreign managers and employees.

Macedonia generally has been free from political violence for the past decade. However, inter-ethnic and inter-religious tensions remain and often are aggravated by political rhetoric.

Despite existing challenges, two of Macedonia's largest foreign investors, including one American company, have increased significantly the size of their investments recently, signaling confidence in the country's investment climate, at least for high-profile, large foreign investors.

## **1. Openness To, and Restrictions Upon, Foreign Investment**

### ***Attitude Toward FDI***

Macedonia continues to take steps to attract foreign direct investment (FDI). However, investor concerns about rule of law issues remain. The country has enacted legislation that not only provides roughly equal footing for foreign investors as compared to their domestic counterparts, but also provides numerous incentives to attract such investors. Macedonia consistently provides national treatment to foreign investors. The country has concluded a number of bilateral investment protection treaties, but none with the United States. Macedonia has adopted other multilateral conventions that offer protection for foreign investors.

Macedonia does not have any regulatory or defensive measures directed against foreign investment. Similarly, there are no private or government efforts directed toward the restriction of foreign investment and participation in or control of domestic enterprises, consortia, or industrial organizations. On the contrary, since 2007 the GoM has run an expansive campaign to attract foreign investors. This campaign includes the promotion of Macedonia in many of the world's leading newspapers and magazines and frequent government-led roadshows. In addition to three Ministers for Foreign Investment who are responsible for attracting FDI, the government agency *Invest Macedonia* also markets the country to foreign investors. *Invest Macedonia* has

over 25 resident economic promoters in foreign countries. Macedonia is in the process of harmonizing its legal and regulatory systems with international (primarily EU) standards.

Macedonia's legal and regulatory framework is generally favorable, and Macedonia continues to implement market-based reforms, at least on paper. Challenges remain, however, for both foreign and national investors. These include corruption, lack of transparency, poor customer service from some government agencies and offices, poor communication within and among ministries, and shortcomings in rule of law and proper contract enforcement. Rule of law concerns include the judiciary's inconsistency in efficiently and uniformly applying the law, even in high-profile cases. Many law enforcement actions demonstrate the appearance of impropriety and selective prosecution. Although many laws have been passed that improve the legal and regulatory framework on paper, implementation is inconsistent. Macedonia's aspirations to join both NATO and the European Union remain stalled due to the protracted dispute with Greece over Macedonia's constitutional name. This has resulted in concerns about the country's future economic and political stability.

The Government of Macedonia is the largest employer in the country and constitutes one of the largest purchasers of goods and services. While efforts supported by the United States and other donors to safeguard transparency and fair dealing have met with some success, the public procurement and tendering processes remain prone to misuse. Many companies complain that tender procedures are frequently written to exclude some potential bidders or "fix" the competition. Often the conditions for bidding are changed during the tender process, leading some bidders to withdraw. The results of NGO studies on this topic are consistent with these anecdotal claims. For instance, nearly one in four public procurement tenders are cancelled, and cancelled tenders tended to be more heavily bid upon and thus more competitive than tenders in which a winning bidder was selected, suggesting that the administrators of these tenders are not always looking for a competitive process. E-Procurement procedures, which reduce the opportunity for corruption and the appearance of impropriety, have been effective when applied and have gained international recognition, but efforts to expand their use must continue in order for Macedonia to realize their full benefit.

### ***Laws/Regulations of FDI***

The Constitution of the Republic of Macedonia guarantees equal position for all entities in the market and provides for free transfer and repatriation of investment capital and profits for foreign investors. Under Macedonian law, foreign and domestic investors have equal opportunity to participate in the privatization of remaining state-owned assets. There is no single law regulating foreign investments. Rather, the legal framework is comprised of several laws including: the Trade Companies Law; the Securities Law; the Profit Tax Law; the Customs Law; the VAT Law; the Law on Trade; the Law on Acquiring Shareholding Companies; the Foreign Exchange Operations Law; the Payment Operations Law; the Law on Foreign Loan Relations; the Law on Privatization of State-owned Capital; the Law on Investment Funds; and the Banking Law.

#### **-The Trade Companies Law**

This is the primary law regulating business activity in Macedonia. It defines the types of companies allowed to operate in Macedonia, as well as procedures and regulations for their establishment and operation. All foreign investors are granted national treatment and are entitled

to establish and operate all types of private and joint-stock companies. Foreign investors are not required to obtain special permission from state-authorized institutions other than what is customarily required by law.

- Law on Privatization of State-owned Capital

Foreign investors are guaranteed equal rights with domestic investors when bidding on shares on companies owned by the government. There are no legal impediments to foreign investors participating in the privatization process of domestic companies.

- Foreign Loan Relations Law

This law regulates the credit relations of domestic entities with those abroad. Specifically, it regulates the terms by which foreign investors can convert their claims into deposits, shares, or equity investments with the debtor or bank. The Foreign Loan Relations Law also enables rescheduled debt to be converted into foreign investment in certain sectors or in secondary capital markets.

- Law on Investment Funds

A revised Law on Investment Funds was adopted in 2009. The new law governs the conditions for incorporation of investment funds and investment fund management companies, the manner and supervisory control of their operations, and the process of selecting a depository bank. The law does not discriminate against foreign investors in establishing open-ended or closed investment funds.

- Law on Takeover of Shareholding Companies

This law regulates the conditions and procedures for purchasing more than 25 percent of the voting shares of a company. The company must be listed on an official stock market, have at least 25 employees, and have initial capital of EUR 2 million. This law does not apply to shares in companies owned by the Republic of Macedonia.

- Law on Foreign Exchange Operations

This law establishes the terms for further liberalization of capital transactions. It regulates current and capital transactions between residents and non-residents, transfers of funds across borders, and all foreign exchange operations. All current transactions (e.g., all transactions that are eventually registered in the current account of the balance of payments, such as trade and private transfers) of foreign entities are allowed. There are no specific restrictions for non-residents wishing to invest in Macedonia. Foreign investors may repatriate both profits and funds acquired by selling shares after paying regular taxes and social contributions. In case of expropriation, foreign investors have the right to choose their preferred form of reimbursement. Since 2008, foreign nationals have been permitted to own land in Macedonia and may invest in or own fixed assets and real estate. Foreign investors also may establish companies of any kind.

### - Profit Tax Law

The corporate profit tax rate is 10 percent. At the beginning of 2006, the GOM amended the Profit Tax Law and introduced a withholding tax on income of foreign legal entities. The withholding tax is applied to income from: dividends, interest, management consulting, financial, technical, administrative, research, and development services, leasing of assets, awards, insurance premiums, telecommunication services, author fees, and sports and entertainment activities. Income from all of these activities is subject to a 15 percent withholding tax rate, except for income from interest and rent proceeds from the leasing of real estate, which are taxed at a 10 percent rate. This withholding tax does not apply to legal entities from countries which have signed an agreement to avoid double taxation with Macedonia. The United States does not have such an agreement with Macedonia.

### ***Privatization Program***

The privatization process is governed by the Law on Transformation of Enterprises with Social Capital (Official Gazette 38/93) and the Law on Privatization of State-owned Capital (Official Gazette 37/96). To finalize the privatization of remaining loss-making and bankrupted state companies, the government offered large discounts on the nominal value of the shares and did not impose employment and investment requirements. The telecom company Makedonski Telekom is the largest state-owned entity privatized to date.

Macedonia's privatization process is almost complete, and private capital is dominant in the market. The government is trying to sell four remaining loss-making companies through international tenders. There are about 15 state-owned companies, primarily public utilities. The government has not announced plans to sell shares in any of them.

### ***Limits on Foreign Control***

Foreign investors are allowed to invest directly in all industry and business sectors except those limited by law. Investment in the production of weaponry and narcotics is subject to government approval. Investors in some sectors such as banking, financial services, and insurance must meet certain licensing requirements that apply equally to both domestic and foreign investors.

Foreign investment may be in the form of money, equipment, or raw materials. According to the law, foreign investors have the right to receive the full value of their investment in the case of nationalization, a provision which does not apply to national investors.

### ***Investment Trends***

The global economic crisis and the euro zone debt crisis caused a significant slowdown in FDI. FDI slumped from USD 463 million in 2011 to only USD 132 million in 2012, mainly due to the outflow of profits of foreign-owned companies and intercompany loans. However, in 2013, as the global economy recovered, FDI increased to USD 334 million. The increase in FDI was primarily because of foreign companies expanding their operations in the free trade zones. Although the global economic crisis has undoubtedly played a role in limiting funds available for investment, corruption, rule of law concerns, and stalled Euro-Atlantic integration have limited Macedonia's attractiveness as an investment destination. FDI accounted for 3.1 percent of GDP in 2013, significantly improving from 1.4 percent of GDP in 2012.

Over the last year, Macedonia retained its high ranking in the World Bank’s Ease of Doing Business Report, dropping two places from 23<sup>rd</sup> to 25<sup>th</sup>. Fitch reaffirmed Macedonia’s BB+ credit rating. However, S&P downgraded Macedonia to BB-. Transparency International ranked Macedonia 67<sup>th</sup> out of 177 countries in perception of corruption.

**Table 1**

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(67 of 177)	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation’s Economic Freedom index	2013	(43 of 178)	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank’s Doing Business Report “Ease of Doing Business”	2013	(25 of 189)	<a href="http://doingbusiness.org/rankings">http://doingbusiness.org/rankings</a>
Global Innovation Index	2013	(51 of 142)	<a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a>
World Bank GNI per capita	2012	USD 4,620	<a href="http://data.worldbank.org/indicator/NY.GNP.CAP.CD">http://data.worldbank.org/indicator/NY.GNP.CAP.CD</a>

## 2. Conversion and Transfer Policies

### *Foreign Exchange*

Macedonia's national currency, the denar (MKD) is not fully convertible on foreign exchange markets. Conversion of most foreign currencies is possible on the official foreign exchange market. In addition to banks and savings houses, numerous authorized exchange offices also provide exchange services. The National Bank of the Republic of Macedonia operates the foreign exchange market, but participates on an equal basis with other entities. Required foreign currency reserves are spelled out in the banking law. There are no restrictions on the purchase of foreign currency by residents.

Parallel foreign exchange markets do not exist in Macedonia, largely due to the long-term stability of the denar. The National Bank of the Republic of Macedonia has successfully pegged the denar to the euro and has kept inflation low.

### *Remittance Policies*

The Constitution of Macedonia guarantees the free transfer and repatriation of investment capital and profits. By law, foreign investors are entitled to transfer profits and income without being subject to a transfer tax. Investment returns are generally remitted within three working days.

There are no legal limitations on private financial transfers from and to Macedonia. In fact, remittances are widely used by Macedonian diaspora, and they represent a significant source of income for households. In 2013 remittances amounted to \$2 billion, accounting for 19.2 percent of GDP.

### **3. Expropriation and Compensation**

The Republic of Macedonia has not taken expropriation measures, and there is no reason to believe that the government will take such action in the future. There has been no demonstrated tendency by the authorities to discriminate against U.S. investments. In fact, the government actively seeks out U.S. and other foreign investment. The government does not impose confiscatory taxes. According to the Constitution of Macedonia and the Law on Expropriation (Official Gazette 33/95, amended Official Gazette 20/98, 40/99, 31/03, and 46/05), foreign ownership is exempt from expropriation except during instances of war or natural disaster, or for reasons of public interest. Public interest, as defined by this Law, includes the following:

- Construction of infrastructure;
- Construction of power stations, waterworks, water supply systems, postal and communication systems, and all accompanying and supporting infrastructure;
- Construction of buildings for defense and civil protection, and the regulation of border crossings;
- Buildings and equipment for research of natural resources, education, science, health, culture, social security, athletics or activities; and
- Building settlements following extreme natural disasters and relocation settlements. The beneficiary of expropriation is the state, especially when it allocates finances for public service, public enterprise, public funding and local government units. Under the Law on Expropriation, the state is obliged to pay market value for any property expropriated. If the payment is not made within 15 days of the decision brought for expropriation, default interest will be calculated.

In 2002, under the Law on Denationalization, (<http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN015919.pdf>), the government pursued an ambitious plan to return or provide compensation for nationalized property. In 2007, the government revived the project by extending the deadline for receiving denationalization claims to the end of 2007. Claimants filed a total of 30,744 claims, of which about 1,000 remain unresolved. Most of the unresolved cases have been transferred to the courts for adjudication. Compensation has included the return of property, compensation with equivalent property, or compensation with government bonds.

### **4. Dispute Settlement**

The government, working to harmonize regulations with EU norms, has substantially reformed Macedonia's legal system. However, the administration of justice is not always uniform, and the

courts are often slow and inefficient and lack adequate resources. They also are subject to political pressure and corruption. In 2009, the international community spoke out against significant improprieties in the conduct of a case involving the country's largest single investor, Austrian power distributor EVN. The resulting basic court ruling was reversed on appeal and returned to the lower court. In 2011, both EVN and ELEM (the government-owned power generator) agreed to reach an out-of-court settlement, and judicial proceedings were terminated.

Investors regularly complain that they see indications of improper pressure on judges, especially in high profile cases. The system of appointments for the nation's Judicial Council appears based political decisions. This trend became increasingly visible over the course of 2010 – 2013 and continued in 2014.

Under the law, the arbitration of international disputes in Macedonia is distinct from that of domestic disputes. The parties involved in an international dispute may agree to settle through: domestic litigation (Official Gazette Number 79/05; September 21, 2005), mediation (Law on Mediation; Official Gazette 60/06; May 15, 2006), or foreign arbitration (Official Gazette Number 39/06; March 03, 2006). Ratified international agreements override domestic legislation.

International arbitration is recognized and accepted under the Law on Arbitration. The government accepts binding international arbitration on investment disputes and has registered over 40 internationally accredited arbiters. An arbitration court functions within the Economic Chamber, but this dispute resolution mechanism remains underutilized.

Macedonia has either signed on to or inherited from the former Yugoslavia a number of bilateral and multilateral conventions on arbitration including: the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA); the New York Convention of 1958 (governing the recognition and enforcement of foreign arbitral awards); and the Geneva Convention on the Execution of Foreign Arbitral Awards. Macedonia is also a party to the Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States, and the European Convention on International Commercial Arbitration.

The Law on Courts provides for a three-tiered court system: the Basic Court (or Court of the First Instance), the Appellate Court, and the Supreme Court. In 2007 an Administrative Court was established to try administrative law cases. A Constitutional Court adjudicates constitutional issues. In an effort to provide better resolution of business disputes and to improve the business environment, the Law on Mediation was adopted in 2006 and has been amended several times since in an effort to foster out-of-court case resolution. This legislation provides for the training, testing, and certification of experts in different fields to act as mediators administered by the Ministry of Justice. An attempt to introduce mediation in pilot courts through U.S.-funded technical assistance produced only modest results, largely due to the lack of public awareness and the reluctance of legal practitioners to utilize this option.

## **5. Performance Requirements and Investment Incentives**

In a bid to attract foreign investment, the government has enacted a number of incentives for foreign investors and continues to conduct road shows and advertising campaigns.

Both the Law on Customs and the Law on Profit Taxes offer incentives to foreign investors. Foreign investors are eligible for profit tax exemptions for: profits generated during the first three years of operation in proportion to the amount of foreign investment; all profits reinvested in the company; profits invested in environmental protection; and profits invested in "underdeveloped" regions of the country. Companies with at least 20 percent foreign capital are exempt from customs duties for the first three years after their registration. In public campaigns, the government highlights the following additional benefits: a 10 percent flat tax for corporate profits and personal income; guaranteed relief from local taxes and fees; a tax exemption for duties on imported goods, raw materials, and equipment/machines.

Foreign investors are not required to purchase from local sources or to export all of their production. There are also no requirements for the government to be a partner in an enterprise. Commercial agreements determine which entity retains control over investment revenue. There are no requirements for reducing foreign equity over time or for technology transfer.

The Law on Residency of Foreign Citizens sets requirements for both working and resident visas. There are some non-discriminatory limitations on obtaining a visa. A foreign citizen working in Macedonia can be issued a multiple entry visa. An employer should apply to the Employment Bureau to obtain a work permit for any foreign employees working in Macedonia on a temporary or permanent basis. Many international businesses report, however, that the process of obtaining visas and work permits can be frustratingly slow. In December 2012, Macedonia's government adopted a decision to offer citizenship to anyone who invests USD 500,000 or more and employs at least 10 people.

There is no discriminatory export or import policy affecting foreign investors. Almost 96 percent of total foreign trade (export/import) is unrestricted. Current tariffs and other customs-related information are published on the Customs website, <http://www.customs.gov.mk/en/DesktopDefault.aspx>.

## **6. Right to Private Ownership and Establishment**

Article 30 of the Constitution of the Republic of Macedonia guarantees the right of investors to own property. Foreign investors may acquire property rights for buildings and rights for other immovable assets to be used in their business activities. They may acquire residential property as well as directly owning construction land (Law on Construction Land; Official Gazette Number 82/08; July 08, 2008). Ownership of property requires preservation of specific rights that serve both the individual and the community. For example, no person may be deprived of his/her property or the rights deriving from it unless the use of that property disaffects the general welfare of the public. If the property is expropriated or restricted, rightful compensation based on its market value is guaranteed by the Constitution (<http://www.sobranie.mk/en/default.asp?ItemID=9F7452BF44EE814B8DB897C1858B71FF>).



Under the law, foreign and domestic private enterprises in Macedonia have the right to establish and own business enterprises, engage in all forms of business activity, and freely establish, acquire, and dispose of interests in business activities. The Law on Protection of Competition (<http://www.kzk.gov.mk/eng/law.asp>; Official Gazette Number 145/2010), is intended to guarantee fair business competition.

## **7. Protection of Property Rights**

### ***Real Property***

While the legal basis for the protection of ownership of both movable and real property exists, implementation remains incomplete. Highly centralized control of government owned "construction land," the lack of coordinated local and regional zoning plans, and the lack of an efficient construction permitting system continued to impede business and investments. Additionally, investors' potential utilization of land is inhibited by the large number of lingering property ownership disputes. Over the past few years, however, there have been significant improvements to the cadaster system, which has helped to increase the security and speed of real-estate transactions.

### ***Intellectual Property Rights***

The government continues to seize and destroy counterfeit items and has taken some legal action against those who produce and sell counterfeit goods through the Coordinative Body for Intellectual Property. Nevertheless, overall enforcement remains weak, and counterfeit goods remain common in shops and markets throughout Macedonia. As an EU candidate country, Macedonia is obliged to harmonize its IPR laws and regulations with EU standards and to demonstrate adequate enforcement of those laws. The Government's Secretariat for European Affairs is responsible for coordinating this effort.

Intellectual Property Rights are protected under: the Law on Industrial Property from 2009 (harmonized with the EU legislation); the Law for Authors and Common Rights (new law adopted in September 2010); and the Law on Customs Measures for Protection of IPR (enacted in 2006 and amended in 2011). The State Institute for Industrial Property governs patents, trademarks, service marks, designs, models, and samples. The protection of author's rights and other related rights (music, film and television, books, software, etc.) is administered by the Ministry of Culture. The State Market Inspectorate is responsible for monitoring markets and preventing the sale of counterfeited or pirated goods.

Under the Law on Customs Measures for Protection of IPR, the Customs Administration has enhanced authority to investigate cases of counterfeit goods. It has the right to seize suspect goods, thereby preventing their distribution pending confirmation from the rights holder on the authenticity of the goods.

The penalties for IPR infringement depend on the seriousness of the violation. In order of severity, the penalties can include: 30 – 60 days closure of businesses, monetary fines of up to 5,000 euro, or a prison sentence of up to five years. IPR cases are not handled by specialized courts.

Macedonia joined the World Intellectual Property Organization (WIPO) in 1993 and in 1994 became a member of the Permanent Committee of Industrial Property Protection Information of WIPO. As a successor to the former Socialist Federal Republic of Yugoslavia, Macedonia is a party to international conventions and agreements that the former Yugoslavia signed prior to Macedonia's independence.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Veronica Scarborough ScarboroughVJ@state.gov

Local attorneys list: <http://macedonia.usembassy.gov/attorney.html>

## **8. Transparency of the Regulatory System**

There are no laws, policies, or legal regulations that formally impede foreign investment in Macedonia. Unfortunately, excessive bureaucratic "red tape" still poses difficulties in all spheres of government administration and provides opportunities for corruption and delays. Reports of inefficient and corrupt practices are common. Members of the business community frequently complain of opaque processes and unclear division of responsibilities within and between bureaucracies. In its determination to become an EU member, Macedonia has harmonized most of its legislation with the EU. Implementation remains weak, however, and there are examples of laws contradicting one another.

Since 2006, the government has produced extensive legislative reform through a "regulatory guillotine" process, which, according to the government, eliminated over 50 percent of all administrative procedures. However, businesses still complain of lengthy and overly complicated procedures.

In the World Bank's "Doing Business 2014" report, Macedonia was ranked the 25th easiest country in which to do business out of 189 countries, a slight drop from last year's 23rd place. Although the same report ranked Macedonia as the fifth best reforming country in the world, new reforms often are not fully implemented due to a lack of administrative capacity and political will. Additionally, the reforms often are not comprehensive, and their effect has been underwhelming for the business and investment environment as a whole.

## **9. Efficient Capital Markets and Portfolio Investment**

Macedonia's securities markets are modest in turnover and capitalization. The establishment of the Macedonian Stock Exchange (MSE) in 1995 made it possible to regulate portfolio investments. After reaching its peak in August 2007, the MSE index has steadily dropped, reflecting the effects of the global economic crisis. In 2013, foreign portfolio investors accounted for 12.7 percent of total MSE turnover, 0.4 percentage points less than in 2012. Market capitalization in 2013 was \$2.2 billion, a 9.1 percent drop from 2012. The main index, MBI10, gained 0.4 percent of its value from the beginning of the year, closing at 1,739 points at the end of 2013.

The Macedonian Security and Exchange Commission (SEC) licenses all MSE members for trading in securities and regulates the market. MSE has two market segments: the Official Market, and the Regular Market. Companies listed on the Official Market must publicly disclose any price sensitive information related to their operation on a regular basis. The Regular Market has two sub-segments: a market for publicly-held companies, which includes companies that have special reporting requirements for the SEC, and a “free market,” which includes all other companies that provide a minimal disclosure of records. Due to the newly implemented Law on mandatory listing, the number of companies listed on the Official Market increased from 32 in 2012 to 116 in 2013. However, total turnover decreased by 42.2 percent. Most of the trading activity takes place on the Official Market, where better-standing companies are listed and there are greater transparency requirements.

Individuals generally trade at the MSE as individuals, rather than through investment funds, which have been present since 2007. Government paper is present on the stock exchange in the form of denationalization bonds and a few special purpose bonds. In January 2004, the government started issuing treasury bills. In 2009, it started issuing T-bills with a foreign exchange clause. A fully convertible current account places no restrictions on portfolio investments, but short-term capital inflows are still relatively low even by regional standards. Full liberalization of the capital account, which would allow Macedonians to open foreign bank accounts in Macedonia, has not yet been implemented.

#### ***Money and Banking System, Hostile Takeovers***

There are no legal barriers to the free flow of financial resources and portfolio investments. Financial resources are almost entirely managed through the Macedonian banking system. In 2013, foreign capital was present in 15 of Macedonia’s 16 banks, and was dominant in 11 banks. According to the National Bank of the Republic of Macedonia (NBRM), foreign investors' share in total banking capital at the end of 2013 was 68.3 percent, which is 6.4 percentage points less than a year ago. Most banks experienced a moderate increase of non-performing loans (NPL) in the first half of the year. At the end of 2013, NPL accounted for 11.5 percent of total credit, a one percentage point increase from the same period of the previous year. Unlike the real sector, the banking sector weathered the global economic crisis relatively smoothly and remained profitable, with profits in 2013 double what they were in 2012.

Supervisory monitoring by the NBRM has continuously strengthened, enhancing depositors' confidence. Banks' liquid assets at the end of 2013 were 31.2 percent of total assets, and the most recent stress test conducted by the NBRM showed that the banking sector is resilient to significant deposit withdrawals or to a sharp deterioration in the quality of loans. Although it increased by 10.9 percentage points in 2013, the intermediation rate (measured as total assets/GDP) of 77.9 percent in 2013 is considered very low even by regional standards. Credit is available on the local market and is allocated by market terms. The growth of credit to the private sector grew to 6.4 percent in 2013 from 5.4 percent in 2012, although credit growth to the corporate sector slowed to 3.7 percent from 8 percent in 2012. Poor liquidity in the private sector and an increased NPL ratio have led banks to conduct more conservative lending. The NBRM tried to encourage credit growth by lowering the reference rate, (the interest rate on

Central Bank (CB) bills) to 3.25 percent in July 2013. Despite this, banks remained cautious in extending loans.

Domestic companies secure financing primarily from their own cash flows and from bank loans, due to the lack of corporate bonds and other securities as credit instruments. Because of the scarcity of other private financing, credit demand is high, affecting interest rates. The leasing market is underdeveloped but is starting to become more competitive.

Savings houses' share in the total assets of the banking system is less than 1 percent. A new law enables savings houses to transform themselves into financial companies, defined as non-deposit-taking institutions under the supervision of the Ministry of Finance. Reporting requirements for financial companies are less burdensome than those for savings houses. Four of the existing seven savings houses transformed themselves into financial companies. The remaining three still operate under the provisions of the Banking Law.

Takeovers of shareholding companies are regulated in the Law on Takeover of Shareholding companies, adopted in 2013 ([http://www.finance.gov.mk/files/u11/zakon\\_prezemanje\\_ad\\_januari\\_2014.pdf](http://www.finance.gov.mk/files/u11/zakon_prezemanje_ad_januari_2014.pdf)), replacing a 2007 law. This law describes takeover procedures, including penalties for irregular takeovers. There has never been a hostile takeover of a shareholding company or bank in Macedonia.

## **10. Competition from State-Owned Enterprises**

State owned enterprises (SOEs) are all considered to be public enterprises in which the government is the dominant shareholder. The Constitution of the Republic of Macedonia establishes the same terms of competition for both private and public enterprises with respect to access to markets, credit, and other business operations. Under the law, SOEs are not given favorable positions or material advantages. There are SOEs operating in several sectors, including energy, banking, water supply, utilities, and public transportation. There are also industries such as arms production and narcotics in which private enterprises may not operate without government approval. SOE general managers are usually appointed by the government. Members of SOE boards of directors are usually comprised of both internal and external members and are appointed by the government. SOE general managers routinely report to a government minister. Macedonia does not have a sovereign wealth fund.

## **11. Corporate Social Responsibility**

Although activities to promote corporate social responsibility have created some degree of awareness and capacity, corporate social responsibility remains an unclear and nascent concept. It is often perceived as an obligation pertaining only to large and very profitable companies.

The American Chamber of Commerce in Macedonia has organized business forums with an aim to help integrate corporate social responsibility into business practices and to make businesses more responsible to all of their stakeholders in the community. Established in December 2007,

the National Corporate Social Responsibility Body is working to mobilize companies to incorporate socially responsible practices in their business strategies.

## **12. Political Violence**

Since 2001, Macedonia has been essentially free of political violence. However, political and ethnic tensions remain and are often aggravated by political rhetoric, especially during elections. Macedonia's authorities have worked to improve their ability to provide security and stability in an effort to remain on track for EU and NATO integration. The international community continues to encourage the GOM to enact reforms and adopt EU best practices in rule of law and media freedom. A contributor to peacekeeping efforts in Afghanistan and elsewhere, Macedonia is dedicated to remaining a net provider of international security and stability.

## **13. Corruption**

### *UN Anticorruption Convention, OECD Convention on Combatting Bribery*

Although Macedonia's legal framework is sound, enforcement is weak, and the public is skeptical of the government's willingness to prosecute corrupt officials. The public generally views the police, courts, higher education, and healthcare sectors as the most corrupt public sectors. Instances of selective prosecution have compounded public mistrust of government institutions. Investors and businesspeople have reported being solicited for bribes, particularly when participating in public procurements and government projects. Transparency International ranked Macedonia 67th out of 177 countries on the 2013 Corruption Perception Index.

The government has reduced opportunities for corruption by adopting "e-government" systems for managing international cargo transport licenses, issuing export/import licenses, and managing public procurement. The Customs Agency in particular has improved services through internal reforms and the adoption of electronic customs clearance solutions. The simplified and automated processes enable businesses to monitor the status of their applications in these areas. Such systems are an improvement when put into practice, but often are not used.

The Law on Criminal Procedure criminalizes bribery and abuse of official position. Other anti-corruption laws include the Law on Money Laundering Prevention and the Law on Corruption Prevention, which provide for penalties including prison and confiscation of illegally-obtained property. Macedonia has signed the Organization for Economic Cooperation and Development's (OECD) Convention on Combating Bribery. Macedonia ratified the UN Convention against Corruption in early 2007 and has ratified the UN Convention against Transnational Organized Crime.

## **14. Bilateral Investment Agreements**

Macedonia has concluded an "Agreement for Promotion and Protection of Foreign Direct Investments" with the following countries: Albania, Austria, Bosnia and Herzegovina, Bulgaria, Belarus, Belgium, Luxembourg, Germany, Egypt, Iran, Italy, India, Spain, Serbia, Montenegro, China, North Korea, Malaysia, Poland, Romania, Russia, Slovenia, Turkey, Ukraine, Hungary, Finland, France, the Netherlands, Croatia, Czech Republic, Switzerland, and Sweden.

Macedonia is a signatory of three multilateral Free Trade Agreements:

- The Stabilization and Association Agreement (SAA) with the EU member-states;
- The European Free Trade Agreement (EFTA) with Switzerland, Norway, Iceland and Liechtenstein; and
- The Central European Free Trade Agreement (CEFTA) with Albania, Moldova, Croatia, Serbia, Montenegro, Bosnia and Herzegovina and Kosovo.

Bilateral Free Trade Agreements are in force with Turkey and Ukraine.

Macedonia does not have a bilateral investment or double taxation treaty with the United States.

## **15. OPIC and Other Investment Insurance Programs**

Financing and insurance for exports, investment, and development projects are made possible through agencies such as the U.S. Trade and Development Agency (TDA); the U.S. Export-Import Bank (EX-IM); the Overseas Private Investment Corporation (OPIC); the European Bank for Reconstruction and Development (EBRD); the International Bank for Reconstruction and Development (World Bank); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the Southeast Europe Equity Fund (SEEF). Most of the funding for major projects is achieved through co-financing agreements, especially in the transportation, telecommunications, and energy infrastructure development fields.

OPIC and MIGA are the country's chief investment insurance providers. OPIC insurance and project financing have been available to investors in Macedonia since 1996. OPIC's three main activities are risk insurance, project finance, and investment funding. MIGA provides investment guarantees against certain non-commercial risks (i.e., political risk insurance) to eligible foreign investors who make qualified investments in developing member countries. MIGA also offers coverage against the risks of currency transfer restrictions, expropriation, breach of contract, and war or civil disturbance.

Although its primary focus is investment assistance – including direct loans and capital guarantees aimed at the export of non-military items – EX-IM also provides insurance policies to protect against both political and commercial risks. TDA, SEEF, the World Bank, and the EBRD focus more directly on financing agreements.

## **16. Labor**

Relations between employees and employers are generally regulated by individual employment contracts pursuant to Section II, Articles 13-21 of the Law on Working Relations. Employment of foreign citizens is regulated by the Law on Foreigners. The employment contract, which must be in writing and kept on the premises, should address the following provisions: description of the employee's duties, duration of contract (finite or indefinite), effective and termination dates,

location of work place, hours of work, rest and vacation periods, qualifications and training, and salary and pay schedule.

The law is relatively flexible with regard to working hours. Normal working hours for an employee are eight hours per day, five days per week. According to regulations, an employee is entitled to a minimum of 20 working days of paid annual leave and a maximum of 26 during the course of a calendar year. Work permits are required for foreign nationals. There is, however, no limitation on the number of employed foreign nationals or the duration of their stay. As noted previously, many international businesses report that the process of obtaining visas and work permits can be challenging.

There are two main associations of trade unions – The Union of Trade Unions and the Confederation of Free Trade Unions. Each association is comprised of independent branch unions from the public and private business sectors. Both associations, along with the representatives of the two largest employer associations and representatives from relevant ministries, are members of the Economic Social Council. The Council meets regularly to discuss issues of concern for both employers and employees and reviews amendments to labor-related laws.

Trade unions are interest-based, autonomous labor organizations. Membership is voluntary and activities are financed by membership dues. Almost 75 percent of legally employed workers are dues-paying union members. However, largely as a result of Macedonia's high unemployment, the difficult economic climate, and political infighting, unions generally do not exercise much leverage.

In 2011, the government, employers' associations, and trade union associations agreed on a minimum wage of 8050 MKD (\$187) per month. The Law on Minimum Wage, which took effect on January 1, 2012, is in the process of being phased in over a three-year period.

National collective bargaining agreements are negotiated between labor unions, the Ministry of Labor and Social Welfare, economic chambers, and employer associations. There are two main agreements for the public and private sectors on the national level. Separate contracts are negotiated by union branches or at the industry or company level. Key challenges faced by unions include high levels of unemployment and the effects of privatization on inefficient state companies.

## **17. Foreign Trade Zones/Free Ports**

There are four major designated free trade zones, known as Technological Industrial Development Zones (TIDZs), in Macedonia: Skopje 1 (Bunardzik), Skopje 2 (an area north-east of Skopje), an area in the city of Stip, and an area in the city of Tetovo. In addition, there are seven other smaller TIDZs. Only three of the major zones, and none of the smaller zones, contain operating companies. Amended legislation (<http://www.fez.gov.mk/tir-zones-law.html>) establishes and regulates these zones. The Directorate for Technological Industrial Development Zones (<http://www.fez.gov.mk>) develops the TIDZs and supervises activities within them.

In 2006, Johnson Controls, an American automotive components manufacturer, invested in a manufacturing plant in the Bunardzik TIDZ. The plant began operations in mid-December 2007. In 2014, the American company Visteon Corporation purchased this factory, along with the rest of Johnson Controls' global automotive electronics business. The Visteon factory produces automotive electronic equipment and has grown steadily since its opening, now employing almost 150 workers. In October 2011, Johnson Controls began construction of an automotive upholstery plant in the Stip-based TIDZ. The plant was opened and became operational in January 2014 and is projected to create 1,400 new jobs. Another U.S. based company, Kemet Electronics Corporation, which produces capacitors, invested in a production facility at the Bunardzik TIDZ. Kemet commenced operations in October 2012 and will employ 500 workers when it reaches full production capacity. Other foreign investors present at the Bunardzik TIDZ include: Johnson-Matthey, which produces catalytic converters for automobiles; TeknoHose, an Italian firm that produces high-pressure hydraulic fittings; and Protek Group, a Russian pharmaceutical company. Samvardhana Motherson Reflectec is also constructing a plant in the Bunardzik TIDZ and will produce die-cast automobile parts and exterior glass for rearview mirrors. Van Hool, a Belgium manufacturer of busses, built a production facility at TIDZ Skopje 2.

## 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

**TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy**

	Host Country Statistical Source* - State Statistical Office		USG or International Statistical Source		USG or International Source of Data (BEA; IMF; Eurostat; UNCTAD, Other)
<b>Economic Data</b>	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2013	10,309	2013	10,061	<a href="http://www.worldbank.org/en/country">http://www.worldbank.org/en/country</a>
<b>Foreign Direct Investment</b>	Host Country Statistical source* - National Bank of the Republic of Macedonia		USG or International Statistical Source		USG or international Source of Data (BEA; IMF; Eurostat; UNCTAD, Other)



U.S. FDI in partner country (Millions U.S. Dollars, stock positions)	2013	1.1	2012	4	(BEA) click selections to reach. Bureau of Economic Analysis Balance of Payments and Direct Investment Position Data U.S. Direct Investment Position Abroad on a Historical-Cost Basis By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States (Millions U.S. Dollars, stock positions)	2013	0.0	2012	-1	(BEA) click selections to reach Balance of Payments and Direct Investment Position Data Foreign Direct Investment Position in the United States on a Historical-Cost Basis By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP (calculate)	2013	3.2	2013	3.3	IMF

**TABLE 3: Sources and Destination of FDI  
Macedonia, 2012**

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	4,943	100%	Total Outward	95	100%
Netherlands	1,033	21%	Serbia, Republic of	54	57%
Austria	583	12%	Netherlands	24	25%
Greece	576	12%	Russian Federation	14	14%
Slovenia	479	10%	Greece	6	7%
Hungary	457	9%	Croatia	5	6%

"0" reflects amounts rounded to +/- USD 500,000.

Source: <http://cds.imf.org>

The results from the IMF on inward direct investment presented in Table 3 differ from the data provided by the National Bank of the Republic of Macedonia due to different means of determining the country of origin of investments. In particular, the IMF tends to credit investment to countries from which investment comes directly, whereas the National Bank often

credits investment to a third country, if that is where the bank determined the investment originated. For example, for tax reasons, much investment in Macedonia passes through the Netherlands. The IMF lists the Netherlands as the largest investor in Macedonia, whereas the National Bank recognizes the Netherlands only as the fifth largest source of FDI in Macedonia with \$ 365 million (7% of total). According to the National Bank, the largest source of inward FDI is Austria with \$636 million (13% of total), followed by Slovenia with \$493 million (10%), Greece with \$401 million (8%), and Germany with \$383 million (8%).

### **19. Contact Point at Post for Public Inquiries**

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