

Report on FYROM's 2006 progress report

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PURPOSE: to present the 2006 progress report on the former Yugoslav Republic of Macedonia (fYRoM).

CONTENT: on 17 December 2005, the European Council granted the status of candidate country to the former Yugoslav Republic of Macedonia. This is the first report on progress made by this country in preparing for EU membership. The report examines progress made by the former Yugoslav Republic of Macedonia towards meeting the Copenhagen criteria between 1 October 2005 and 30 September 2006. It also monitors regional cooperation, good neighbourly relations, and the respect for international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia.

1) Political criteria: the former Yugoslav Republic of Macedonia is well on the way to satisfy the Copenhagen political criteria. However, the pace of reforms has slowed down in 2006 and the country needs to step up its efforts. The short term political priorities in the European Partnership have been partially addressed. The Constitution was amended in December 2005, mainly to pave the way for the reform of the judiciary as recommended in the European Partnership. Eleven amendments were made to reform the court system, the immunity rules, the administrative sanction system, the selection and training system for judges and prosecutors, the Judicial Council and the Public Prosecutor's Office, and allow administrative bodies to impose sanctions.

The continued implementation of the **2001 Ohrid Framework Agreement** (which aims to promote the peaceful and harmonious development of civil society while respecting the ethnic identity and the interests of all Macedonian citizens) has contributed to the country's stability and to consolidating democracy and rule of law. To achieve further progress, all political parties need to make the necessary efforts to build consensus, in full compliance with the letter and spirit of the Agreement.

Progress has been made progress in strengthening the electoral process to prepare for the July 2006 parliamentary elections. The electoral process was conducted largely in accordance with international standards. However, there were still irregularities before and during the elections.

As regards the reform of the **public administration:** the 2000 Law on Civil Servants has been further implemented. Steps were taken to improve the management of the administration and transparency in public decisions. The decentralisation process has moved forward and public services started to improve. Continued strong commitment from the government and the municipalities is required to address the remaining challenges.

An important reform was made to the **judicial system**, as required in the European Partnership. The constitutional and legal framework for an independent and efficient judiciary is now largely in place.

Successful implementation of the reform remains a major challenge and a key priority of the European Partnership, which will require continuous efforts and a sustained track record.

Further steps remain to be undertaken to secure effective rule of law throughout the country. The adoption of a new police law met a key priority of the European Partnership, after delays which slowed down the reform in the police.

Constructive cooperation is needed between the government and the opposition to ensure its smooth implementation. The legal and institutional framework for **fighting corruption** has been strengthened. The cooperation and coordination among the bodies involved have improved. However, corruption remains

widespread. Many allegations of corruption have yet to be investigated. Full implementation of the legislation and strong political will to step up efforts are needed.

On **Human rights and the protection of minorities**: implementation of the Ohrid Agreement has gone ahead and in general, inter-ethnic relations have continued to improve. However considerable further efforts are needed in a number of fields (the Penal Code was amended to abolish prison sentences for libel; mechanisms for investigating ill-treatment of detainees need to be strengthened). The situation of the Roma community still continues to cause concerns.

Concerning **regional issues and international obligations**: the former Yugoslav Republic of Macedonia has maintained full cooperation with the International Criminal Tribunal for the former Yugoslavia. The country maintained a constructive position on Kosovo status talks. It has also remained an active partner in regional cooperation. Bilateral relations with neighbours have developed; however, there has been no progress on the name issue. Renewed efforts are needed, with a constructive approach, to find a negotiated and mutually acceptable solution on the name issue with Greece, under the auspices of the United Nations, thereby contributing to regional cooperation and good neighbourly relations.

2) Economic criteria: the former Yugoslav Republic of Macedonia is well advanced in establishing a functioning market economy. Continued stabilisation and reform efforts are needed to enable it to cope with competitive pressure and market forces within the Union in the medium-term. The country has maintained a broad consensus on the essentials of economic policies. As a result of a sound policy mix, macroeconomic stability and predictability have further increased. Inflation has remained under control.

Public sector accounts have been kept close to balance and the relatively low level of public sector debt has declined further. Price and trade liberalisation are largely completed, and the privatisation of state-owned enterprises has proceeded. Barriers to market entry and exit have been reduced by simplifying and accelerating bankruptcy and, in line with a key priority of the European Partnership, registration procedures. The financial sector's stability has improved. Furthermore, measures have been taken to improve the quality of human capital and to upgrade the country's infrastructure. Foreign direct investment inflows increased significantly, mainly driven by privatisation efforts. **Economic integration with the EU is well advanced.**

However, the functioning of the market economy is still impeded by institutional weaknesses, such as the slow speed of administrative procedures, corruption, red tape and a low degree of legal certainty. Shortcomings in the judiciary continue to be bottlenecks, impeding a faster improvement in the business climate. Furthermore, labour and financial markets are still poorly functioning, which hinders the reduction of the particularly high unemployment and hampers credit provision to enterprises. The education system does not sufficiently reflect the country's needs. These factors allowed only moderate economic growth. The considerable informal sector continues to cause major distortions in the economy.

3) Transposition of the *acquis communautaire*: the country has made further efforts to improve its ability to assume the obligations of membership. The country still faces major challenges in implementing and effectively enforcing the legislation. There was **some progress** in the fulfilment of the short-term priorities of the European Partnership such as:

- free movement of goods, free movement of workers and the free movement of capital: no progress has been made towards removing barriers to the right of establishment for EU natural and legal persons or on the freedom to provide cross border services;
- financial services and public procurement;
- intellectual property law: there has been some progress in particular in the area of industrial property rights;
- competition: some progress can be reported, mostly limited to the legal framework;

Progress has been achieved in the following areas however **considerable efforts are still required**:

- information society and media: progress is still needed in the liberalisation of the telecommunications market;
- agriculture and rural development: alignment has been initiated but is at an early stage. Progress has been made in parts of the area food safety, veterinary and phytosanitary policy. However, the enactment and implementation of legislation to align with the acquis is lagging behind. Preparations to align with the acquis, where relevant, in the area of fisheries are at an early stage;
- transport policy: considerable efforts to align and strengthen the administrative capacity in all transport sectors are needed;
- energy: there has been notable progress in this sector. Adoption of implementing legislation is a matter of priority, in particular in view of commitments under the Energy Community Treaty;
- taxation: progress in the legislative alignment could be reported. However, significant efforts will be needed to further align legislation, ensure effective implementation of the legislation, as well as to strengthen the administrative capacity in the area of tax collection;
- social policy and employment: notable progress has been, mainly in the field of labour and equal opportunities legislation. However, much of the acquis remains to be transposed, notably in the area of health and safety at work, and considerable efforts in the employment policy are required to address the difficult labour market situation;
- trans-European networks: the need for substantial financial input remains a bottleneck to upgrade the infrastructures;
- judiciary and fundamental rights: some progress has been made in the legal and institutional framework to fight corruption. The situation as regards protection of personal data remains a matter of concern;
- justice, freedom and security: progress is noted as regards migration and visa policy, and border management. Further implementation of the border management strategy is needed;
- environment: very significant efforts will be needed to ensure the implementation and the enforcement of the legislation
- customs union: substantial legislative progress took place in this area. Fees which were breaching the Stabilisation and Association Agreement have been abolished in line with a key priority of the European Partnership.

Community financing: the EC pre-accession **financial assistance** to the former Yugoslav Republic of Macedonia amounts to EUR 43.6 million for 2006. However, legislative progress is awaited to strengthen **public internal financial control and monitoring expenditure from the EU.**