MACEDONIA

INVESTMENT CLIMATE STATEMENT

2015

Table of Contents

Executive Summary

1. Openness To, and Restrictions Upon, Foreign Investment

1.1. Attitude Toward FDI

1.2. Other Investment Policy Reviews

1.3. Laws/Regulations of FDI

1.4. Industrial Strategy

1.5. Limits on Foreign Control

1.6. Privatization Program

1.7. Screening of FDI

1.8. Competition Law

1.9. Investment Trends

1.9.1. Tables 1 and if applicable, Table 1B

2. Conversion and Transfer Policies

2.1. Foreign Exchange

2.1.1. Remittance Policies

3. Expropriation and Compensation

4. Dispute Settlement

4.1. Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

4.2. Bankruptcy

4.3. Investment Disputes

4.4. International Arbitration

4.4.1. ICSID Convention and New York Convention

4.5. Duration of Dispute Resolution

5. Performance Requirements and Investment Incentives

5.1. WTO/TRIMS

5.2. Investment Incentives

5.2.1. Research and Development

5.3. 5.3 Performance Requirements

5.4. Data Storage

6. Right to Private Ownership and Establishment

7. Protection of Property Rights

7.1. Real Property

7.2. Intellectual Property Rights

8. Transparency of the Regulatory System

9. Efficient Capital Markets and Portfolio Investment

9.1. Money and Banking System, Hostile Takeovers

10. Competition from State-Owned Enterprises

10.1. OECD Guidelines on Corporate Governance of SOEs

10.2. Sovereign Wealth Funds

11. Corporate Social Responsibility

11.1. OECD Guidelines for Multinational Enterprises

12. Political Violence

13. Corruption

13.1. UN Anticorruption Convention, OECD Convention on Combatting Bribery

14. Bilateral Investment Agreements

14.1. Bilateral Taxation Treaties

15. OPIC and Other Investment Insurance Programs

16. Labor

17. Foreign Trade Zones/Free Ports/Trade Facilitation

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

19. Contact Point at Post for Public Inquiries

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.

However, investors complain that many laws are enforced unevenly or not at all, and corruption is widespread and largely goes unpunished. Bureaucracy and lack of communication and capacity within the government also frustrate investors. The judicial system is slow and many investors and citizens of Macedonia believe it to be corrupt. 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, interethnic and inter-religious tensions remain and are often aggravated by political rhetoric.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

As a small, open economy, Macedonia is heavily dependent on foreign direct investment (FDI), and therefore continues to take steps to attract more foreign investors. Follow-through and rule of law issues, however, remain concerns. The country has enacted legislation that not only provides roughly equal footing for foreign investors as compared to their domestic counterparts, but that also provides numerous incentives to attract such investment. 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 impose stricter standards of 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 Macedonia has run an expansive campaign to attract foreign investors. This campaign includes the promotion of Macedonia in many of the world's leading newspapers, magazines, TV stations, and frequent government-led roadshows. In addition, after the 2014 early parliamentary elections, the number of ministers tasked exclusively with attracting foreign investments increased from three to five. The government agency Invest Macedonia also markets the country to foreign investors, serving as the main point of contact for operational matters and follow-up with investors. Invest Macedonia has about 25 resident economic promoters in foreign countries. Macedonia is in the process of harmonizing its legal and regulatory systems with international, primarily European Union, standards.

Other Investment Policy Reviews

There is no OECD investment policy review available on Macedonia. There is no more recent UNCTAD investment policy review on Macedonia. The last one is from March 2012, and is available at the following web site: http://unctad.org/en/PublicationsLibrary/diaepcb2011d3_en.pdf.

Laws/Regulations of Foreign Direct Investment

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 Value Added Tax (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; the Banking Law; and the Labor Law. Laws governing business activity are frequently changed, often without proper consultation with the business community.

- The Trade Companies Law

This is the primary law regulating business activity in Macedonia (http://www.mse.mk/Repository/UserFiles/File/Misev/Regulativa/Zakoni%20ENG/LL_CG_TradeCompanies_Dec_2004_E.pdf). 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 of 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, as well as 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 may also 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.

- Labor Law

All employments are regulated by this law and collective agreements signed between unions and employers. The Labor Law (http://www.lexadin.nl/wlg/legis/nofr/eur/arch/mac/laborlaw.pdf) regulates the implementation of rights, obligations, and responsibilities of the employee and employer pertaining to employment.

Industrial Promotion

The government agency Invest Macedonia has the primary responsibility of informing and working with potential foreign investors. Its 25 economic promoters residing in key markets in the world disseminate information directly to targeted investors. Public information about investment opportunities in the country are disseminated via paid commercials in leading business newspapers, magazines, and TV channels. Government ministers in charge of attracting investors also disseminate information during road-shows to targeted markets. Invest Macedonia lists at its web site (http://www.investinmacedonia.com) key sectors for investment opportunities, falling in the following categories: automotive and ground transportation, information and communication, agribusiness, food processing and packaging, textiles, apparel and sporting goods, and pharmaceuticals.

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.

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.

Screening of FDI

The government institution in charge of attracting new foreign investments in country - Invest Macedonia - does the screening and due diligence review of foreign direct investments. Final approval of investment incentive packages is usually made by the Government. So far U.S. businesses have not commented or complained that the screening mechanism was a barrier to investment. The main purpose of the screening mechanism is ensure economic benefit for the country and national security. This screening process does not appear to disadvantage foreign investors. More details regarding the review process including information on necessary documents for the screening process are available directly from Invest Macedonia or at web site http://www.investinmacedonia.com.

Competition Law

The Commission for Protection of Competition (http://www.kzk.gov.mk/eng/aboutus_C.asp) is responsible for enforcing the Law on Protection of Competition, adopted in January 2005 (Official Gazette of the Republic of Macedonia No. 04/05). The basic competencies of the Commission for Protection of Competition include controlling proper implementation of the provisions stipulated in the Law on Protection of Competition, monitoring and analyzing the market conditions to the extent necessary for the development of free and efficient competition, initiating procedures in cases of law violations, and making decisions according to the provisions of the Law. The Commission is established as an independent body with the status of a legal entity, independent in its operations and decision making process within the authorities provided by the Law. The Commission consists of a President and four members appointed by the Parliament for a five-year mandate, with the right to reappointment. The Commission has not been very active, as there have not been major accusations of competition violations in the domestic market. Most recently, the Commission was involved in assessing the market concentration in the case of the intended merger between two big mobile operators in the domestic market, the Austrian-owned VIP with the Slovenian-owned One.

Investment Trends

The global economic crisis and the euro zone debt crisis caused a significant slowdown in Foreign Direct Investments (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 FDI surged to USD 334.7 million as the global economy recovered, and rose to USD 349.1 million in 2014. The increase in FDI was primarily due to some new foreign investments in the free trade zones, but also due to additional investments by existing foreign investors. The largest FDIs in recent years were in the automotive parts industry. Activities in the free trade zones accounted for most of the increase of the country's foreign trade, both on the export and the import side. 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 also limited Macedonia's ability to attract more investment. By all indicators, Macedonia ranks at the bottom in the Balkan region in receiving FDI. FDI accounted for only 3.1 percent of GDP in 2014, the same as in 2013.

Over the last year, Macedonia retained its high ranking in the 2015 World Bank's Ease of Doing Business Report, improving one notch from 31st to 30th. In 2014, Fitch reaffirmed Macedonia's BB+ credit rating, and S&P reaffirmed its credit rating of the country at BB- with stable outlook. Transparency International ranked Macedonia 64th out of 175 countries in its perceptions of corruption index.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	64 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	30 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	60 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 4,870	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

Macedonia's national currency, the Denar (MKD), is convertible domestically, but is not 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. To a much lesser extent, remittances go out of Macedonia. In 2014 net remittances amounted to USD 2 billion, accounting for 17.8 percent of GDP.

3. Expropriation and Compensation

The Republic of Macedonia has not adopted any legislation on expropriation. There is no tendency by the government authorities to discriminate against U.S. investors. In fact, the government actively seeks foreign direct investment. The Constitution of Macedonia and the

Law on Expropriation (Official Gazette 95/12, 131/12, 24/13, and 27/14), 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 spatial arrangement, rational usage, and humanization of public areas, protection of the environment and nature by building objects and doing works of significance to the state and local governments, stipulated by the spatial planning acts. The law also lists in detail specific activities considered to be of public interest.

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 expropriation, interest will be paid.

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 less than 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

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The government is actively working to harmonize domestic regulations with European Union norms by substantially reforming 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 are also subject to political pressure and corruption.

Judges face improper pressure on a regular basis, while the system of appointments for the nation's Judicial Council appears to make decisions for political reasons. This trend has become increasingly visible since 2010.

Bankruptcy

Macedonia's 2006 Bankruptcy Law governs the settlement of creditors' claims against insolvent debtors. Amendments in 2011 further streamlined the process. Bankruptcy proceedings may be initiated over the property of a debtor, be it a legal entity, an individual, a deceased person, joint property of spouses or business unions. Bankruptcy proceedings may not be implemented over a public legal entity or property owned by the Republic of Macedonia.

Investment Disputes

With the 1995 enactment of the Law on Courts, the judicial body evolved into a three-tiered court system: the Basic Courts (or Courts of the First Instance), the Appellate Courts, and the Supreme Courts. As of 2007, an Administrative Court was established to try administrative law cases, and in 2011 a Higher Administrative Court was also established to try appeals against administrative court rulings. These courts handle legal processes in providing resolution to business disputes and help improve the business environment.

International Arbitration

International arbitration is recognized and accepted under the Law on International Commercial Arbitration. The government accepts international arbitration on investment disputes and has registered over 40 internationally accredited arbiters. The Permanent Court of Arbitration was established in 1993 within the Economic Chamber of Macedonia (a non-government business association). It has the authority to administer both domestic and international disputes. However, it has never been utilized.

ICSID Convention and New York Convention

Macedonia has either signed on to, or has inherited by means of succession from the former Yugoslavia, a number of bilateral and multilateral conventions on arbitration including the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA); the RRecognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention); the Geneva Protocol on Arbitration Clauses from 1923; and the Geneva Convention on Enforcement of Foreign Arbitration Decisions. Macedonia is also a member state to the International Centre for Settlement of Investment Disputes (ICSID Convention), and the European Convention on International Commercial Arbitration.

Duration of Dispute Resolution

Administrative Court proceedings often fail to respect judicial precedent, requiring businesses to appeal, thus delaying justice considerably. 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 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

WTO/TRIMS

In a bid to attract foreign investment, particularly to the country's designated Technological Investment Development Zones (TIDZ), the government has enacted a number of incentives for foreign investors and continues to conduct road shows and advertising campaigns.

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.

WTO/TRIMS

Macedonia has been a member of World Trade Organization (WTO) since April 4, 2003, and it adheres to the Trade-Related Investment Measures (TRIMs) Agreement.

Investment Incentives

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.

Research and Development

The government in Macedonia does not restrict or ban foreign companies from participating in government financed research and development programs. Research and development public expenditures in Macedonia are aimed towards supporting creative work undertaken to increase knowledge in humanity, culture and society, and stimulate use of knowledge for developing new applications.

Performance Requirements

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.

Data Storage

The Government of Macedonia does not impose a forced localization policy for data; foreign investors are not required to use domestic content in goods or technology. Post is not aware of any requirements for foreign IT providers to turn over source code and/or provide access to surveillance (e.g., backdoors into hardware and software or turn over keys for encryption).

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/the-constitution-of-the-republic-of-macedonia.nspx).

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 have 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 (amended in 2013), the Law for Authors' and Common Rights (adopted in 2010), and the Law on Customs Measures for the 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 authors' 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. The Ministry of Interior is responsible for IPR-related crimes committed on the Internet.

Under the Law on Customs Measures for the Protection of IPR, the Customs Administration has enhanced authority to investigate cases of counterfeit goods. It has the right to seize suspect goods to prevent their distribution pending confirmation from the rights holder of 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 EUR 5,000, 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.

There have been allegations of the use of unlicensed or under-licensed software in government agencies in Macedonia. Substantial efforts to ensure government agencies only purchase and use licensed software have not led to any meaningful progress on the matter. 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/.

Resources for Rights Holders

Mrs. Veronica Scarborough
Deputy Political and Economic Chief
U.S. Embassy - Skopje
1000 Skopje, Macedonia
Office: +389 2 310 2362
Fax: +389 2 310 2499
Mob: +389 72 321 138
E-mail: scarboroughvj@state.gov

American Chamber of Commerce in Macedonia
Mrs. Michelle Osmanli, Executive Director
Ivo Lola Ribar 59A-1/15
1000 Skopje, Macedonia
Tel: +389 2 321 6714
http://amcham.com.mk/

Embassy of the United States
List of Attorneys:
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, and the government does not have a track record of investigating and punishing corrupt government officials. 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 even examples of laws contradicting one another.

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

In 2014 the government created the Inspections Council, an independent body responsible directly to the government, which encompasses 14 different inspectorates. The Inspections Council’s goal is to harmonize procedures for inspection surveillance between inspectorates which originally functioned under various ministries and to regulate and control functioning of the inspectorates as whole and individual inspectors. There are allegations, however, that the government uses inspections punitively against political opponents and critics.

In the World Bank's, 2015 Doing Business report, Macedonia ranked 30 out of 189, easiest countries in which to do business, a notch up from last year’s 31st place. Although the same report has complimented Macedonia’s efforts to reform business legislation, new reforms often are not fully implemented due to a lack of administrative capacity and political will. Additionally, the reforms are often 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 been steadily dropping until 2013, reflecting the effects of the global economic crisis. However, a slight turnaround in activity was registered in 2014. Market capitalization in 2014 reached USD 2.1 billion, a 2.58 percent rise from 2013. The main index, MBI10, gained 6.06 percent over the year, closing at 1,844 points at the end of 2014. Foreign portfolio investors accounted for an averaged 25.7 percent of total MSE turnover, 13 percentage points more than in 2013.

Macedonia's Securities 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 include 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 Law on mandatory listing, the number of companies listed on the Official Market increased from 116 in 2013 to 137 in 2014, and total turnover increased by significant 169.1 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. These are very attractive to domestic banks. 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 has yet to be 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, consisting of 15 banks, one less than in 2013 due to a merger between two smaller banks. In 2014, foreign capital was present in 14 of Macedonia's 15 banks, and was dominant in 11 banks. According to the National Bank of the Republic of Macedonia (NBRM), foreign investors' share in total banking assets at the end of 2014 was 66.9 percent, which is 1.6 percentage points less than a year ago. Most banks experienced a moderate increase in non-performing loans (NPL) in the first half of the year, but NPL had decreased again by the end of 2014 to 11.3 percent of total credit, which is a 0.2 percentage points drop from end-2013. Unlike the real sector, the banking sector weathered the global economic crisis relatively smoothly and remained profitable. Profits at the end of the third quarter of 2014 (latest available data) reached USD 50 million, which was more than double the profits a year ago. Also, the two most important profitability indicators, ROA (Return on Assets) and ROE (Return on Equity) doubled, reaching 0.9 percent and 7.6 percent, respectively.

Supervisory monitoring by the NBRM has continuously strengthened, enhancing depositors' confidence. Banks' liquid assets at the end of the third quarter of 2014 were 33.3 percent of total assets, rising by 2.1 percentage points compared to the same period of 2013. The stress tests conducted by the NBRM in 2014 showed that the banking sector is resilient to significant deposit withdrawals, liquidity shocks, increased credit risk, or to a sharp deterioration in the quality of loans. Capital adequacy ratio of the entire banking sector remained strong at 16.5 percent. The intermediation rate (measured as total assets/GDP) in 2014 was 70.7 percent and is considered very low even by regional standards. Credit is available on the local market and is allocated at market terms. The growth of credit to the private sector accelerated from 6.4 percent in 2013 to 10 percent in 2014, mainly due to higher credit growth to households (12.1 percent). The NBRM encouraged credit growth by adopting several measures, but kept the reference rate (the interest rate on Central Bank bills) at 3.25 percent throughout 2014. Despite this, banks were still rather cautious in extending larger loans. The weighted average lending rate of the banking system in 2014 was 7.2 percent, while the deposit rate was 2.4 percent.

Domestic companies secure financing primarily from their own cash flow 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 still 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 2013 law enables savings houses to transform themselves into financial companies, defined as non-deposit taking institutions under 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, as there is no separate law that governs these institutions.

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), 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

There are State Owned Enterprises (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.

OECD Guidelines on Corporate Governance of SOEs

SOEs in Macedonia do not adhere to the Organization for Economic Cooperation and Development (OECD) Guidelines on Corporate Governance for SOEs. Macedonia's constitution establishes the same terms of competition for both private and public enterprises with respect to access to markets, credit, and other business operations. Although the law does not give SOEs favorable positions or material advantages, Macedonia's judicial system is subject to political pressure. 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 they usually are political appointees appointed by the government. SOE general managers routinely report to a government minister. Third party market analysts take into consideration the SOEs' close ties to the government.

Sovereign Wealth Funds

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 a concept 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 stakeholders in the community.

OECD Guidelines for Multinational Enterprises

Macedonia's National Coordinating Body on Corporate Social Responsibility encourages companies to incorporate corporate social responsibility practices in their business strategies.

12. Political Violence

Aside from isolated incidents, politically-charged events have not regularly sparked 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, in an effort to remain on track for EU and NATO integration. The international community continues to encourage Macedonia 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 provider of international security and stability.

13. Corruption

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. The State Commission for Prevention of Corruption (SCPC) established in 2002, is responsible for implementation, regulating measures for corruption prevention, and conflicts of interest and public interest activities by certain state authorities. However, the Commission is passive, is not respected, and very few cases that are brought before the Commission proceed to the Public Prosecutor's Office for further investigation. Since 2002 the SCPC has forwarded about 140 cases to the Public Prosecutor's Office without any notable follow up (i.e., no indictments or convictions).

Transparency International ranked Macedonia 64th out of 176 countries on the 2014 Corruption Perception Index.

The government has reduced some opportunities for corruption by adopting "E-government" systems for managing international cargo transport licenses, issuing export/import licenses, and managing some public procurement. The Customs Agency 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 used and correctly implemented.

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.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Macedonia ratified the United Nations Convention against Corruption in early 2007, and has ratified the UN Convention against Transnational Organized Crime.

Macedonia has signed the Organization for Economic Cooperation and Development's (OECD) Convention on Combating Bribery.

Resources to Report Corruption

Commission for Prevention of Corruption and Conflict of Interest
Ms. Antonija Andonova, Public Relations
Dame Gruev 1
1000 Skopje, Macedonia
Tel: +389 70 378 217
E-mail: a.andonova@dksk.org.mk

Public Prosecution Office for Fighting Organzied Crime and Corruption
Mr. Jovan Ilievski, Chief
Boulevard Krste Misirkov BB, Sudska Palata
1000 Skopje, Macedonia
Tel: +389 2 321 9884
E-mail: jilievski@zjorm.org.mk

Transparency International - Macedonia
Ms. Slagjana Taseva, President
Naum Naumovski Borce 58
P.O. Box 270
1000 Skopje, Macedonia
Tel: +389 2 321 7000
E-mail: info@transparency.mk

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.

Bilateral Taxation Treaties

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 export 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 and a maximum of 26 working days of paid annual leave 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 (USD 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/Trade Facilitation

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) permits and regulates these zones. The Directorate for Technological Industrial Development Zones (http://www.fez.gov.mk) develops and establishes the TIDZs and supervises activities within them.

In 2007, Johnson Controls began producing automotive electronic equipment in the Bunardzik TIDZ. In 2014, Visteon Corporation, another American global automotive parts supply company, took over that factory. Johnson Controls operates an automotive upholstery plant in the Stip TIDZ. 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 currently employs 260 workers. 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 buses, 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*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	2014	11,326	2014	10,923	www.worldbank.org/en/country

Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2014	2.0	2012	4	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States ($M USD, stock positions)	2014	0.0	2013	0.0	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2014	3.1	2014	3.1	IMF

* Sources: State Statistical Office; National Bank of the Republic of Macedonia

Table 3: Sources and Destination of FDI

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 that investment directly comes from, 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 USD 383 million (7.8 percent of total). According to the National Bank, as of end-2014 the largest source of inward FDI is Austria with USD 680 million (13.9 percent of total), followed by Slovenia with USD 519 million (10.6 percent), Germany with USD 445 million (9.1 percent), and Greece with USD 406 million (8.3 percent).

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.					

Table 4: Sources of Portfolio Investment

Portfolio investment data is not available for Macedonia.

19. Contact for More Information

Mr. Arben Gega, Commercial Specialist
U.S. Embassy - Skopje
Samoilova 21
1000 Skopje, Macedonia
Tel: +389 2 310 2403
E-mail: gegaa@state.gov