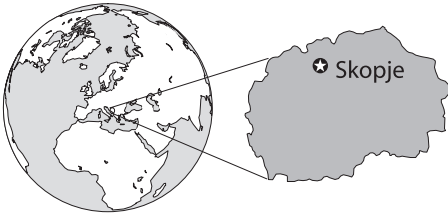


MACEDONIA



World Rank: **56**

Regional Rank: **26**

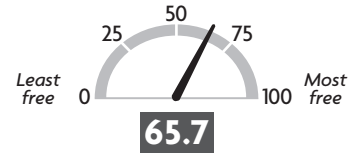
Macedonia's economic freedom score is 65.7, making its economy the 56th freest in the 2010 *Index*. Its overall score has increased 4.5 points from last year, reflecting a major improvement in labor freedom and smaller improvements in six other economic freedoms. Macedonia is ranked 26th out of 43 countries in the Europe region, and its overall score is above the world average.

Reforms in labor market flexibility and regulation of investment enabled Macedonia's economy to achieve one of the highest score improvements in the 2010 *Index*. Macedonia also enjoys high levels of trade freedom, fiscal freedom, and monetary freedom. Personal and corporate income tax rates are very competitive, and tax administration has been strengthened. Monetary stability is relatively well maintained. Macedonia is generally open to global trade, and the financial sector has weathered the global financial crisis relatively well.

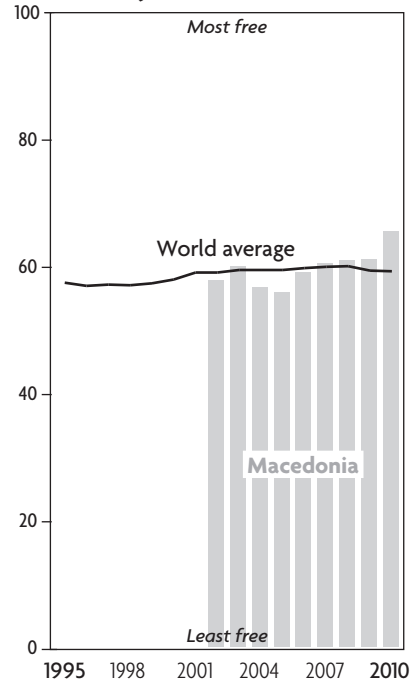
Macedonia still lacks sufficient institutional support for property rights and the fight against corruption. The court system is prone to corruption, political interference, and inefficiency, and human trafficking and smuggling of drugs and weapons remain serious problems.

BACKGROUND: Since gaining its independence from the former Yugoslavia in 1991, the Republic of Macedonia has been politically and economically troubled. In 2001, the Ohrid Agreement prevented civil war by giving greater recognition to the Albanian minority within a unitary state. Macedonia still has high unemployment, weak economic growth, and significant informal economic activity. The elections that returned reform-minded Prime Minister Nikola Gruevski to power in June 2008 were criticized by international monitors; international observers agreed that the 2009 presidential and municipal elections marked a significant improvement. During the 2008 Bucharest summit, Greece blocked an invitation to Macedonia to join NATO because it believes that Macedonia's name does not appropriately acknowledge its Greek region. The dispute is expected to delay Macedonia's accession to the European Union as well.

Economic Freedom Score



Country's Score Over Time



Quick Facts

Population: 2.0 million

GDP (PPP): \$20.5 billion

4.9% growth in 2008

4.7% 5-year compound
annual growth

\$10,041 per capita

Unemployment: 33.5%

Inflation (CPI): 8.3%

FDI Inflow: \$598 million

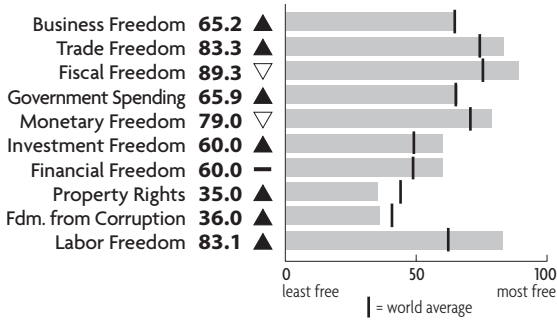
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

MACEDONIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 65.2

The overall freedom to establish and run a business in Macedonia has improved with recent regulatory reforms. Starting a business now takes an average of four days, compared to the world average of 35 days. Obtaining a business license is costly but takes less than the world average of 218 days.

TRADE FREEDOM — 83.3

Macedonia's weighted average tariff rate was 3.3 percent in 2008. Import taxes, some import restrictions, import licensing, non-transparent regulations and standards, and customs corruption add to the cost of trade. Ten points were deducted from Macedonia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 89.3

Macedonia has low taxes. The individual income and corporate tax rates are a flat 10 percent. Other taxes include a value-added tax (VAT) and a property transfer tax. The capital gains tax was abolished effective January 1, 2009. In the most recent year, overall tax revenue as a percentage of GDP was 29.5 percent.

GOVERNMENT SPENDING — 65.9

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 33.7 percent of GDP. Some small and medium-size hydroelectric plants have been privatized, and the electricity sector remains an important target for further reform. Macedonia's expansionary fiscal stance in response to the global downturn is unique within the region, and pension and wage increases threaten future budget stability.

MONETARY FREEDOM — 79

Inflation has been moderately high, averaging 6.4 percent between 2006 and 2008, although the rate declined sharply in 2009. Most prices are determined in the market, but the government subsidizes agriculture and influences certain prices through state-owned enterprises and utilities, such as electricity. Five points were deducted from Macedonia's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 60

Foreign and domestic investors receive equal treatment, and non-residents may invest in domestic firms with few exceptions. Despite reforms in the investment regime, the legal system and investment bureaucracy can be slow, inefficient, lacking in adequate resources, and subject to political pressures and corruption. Contract enforcement can be inconsistent. Residents and non-residents may hold foreign exchange accounts subject to approval and restrictions. Payments and transfers face few controls. Foreign investors are permitted land-use rights but not land ownership.

FINANCIAL FREEDOM — 60

Macedonia's financial sector is not fully developed, but it is growing as the country encourages private-sector development and foreign investment. Bank competition has increased, and the foreign presence in the financial system is substantial, accounting for more than 80 percent of total bank assets. The three largest banks account for about 70 percent of all deposits and loans. Banking intermediation is relatively low, but credit is allocated on market terms. Macedonia's 2007 Banking Law substantially enhanced the sector's legal and regulatory framework. Nonperforming loans have reduced by half, from more than 16 percent of total loans in 2004 to less than 8 percent in recent years. Capital markets are underdeveloped and unable to provide a full range of credit alternatives for businesses, but activity on the Macedonian Stock Exchange has grown, and the number of companies listed has increased.

PROPERTY RIGHTS — 35

Protection of property rights is weak. The judiciary is subject to executive influence. The lack of effective rule of law and the uncertainty of property rights, especially in registering real property and obtaining land titles, undermine investment and development. The government has taken some action to combat piracy of items like CDs, DVDs, and software, but many pirated items remain for sale.

FREEDOM FROM CORRUPTION — 36

Corruption is perceived as significant. Macedonia ranks 72nd out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, an improvement for the second consecutive year. The law provides criminal penalties for official corruption; however, the government has not implemented the law effectively, and officials engage in corrupt practices with impunity. Corruption is found in all branches of government, especially the police and judicial system. Enforcement of laws against offenses like drug abuse, money laundering, and corrupt practices has been lackluster.

LABOR FREEDOM — 83.7

Macedonia's labor regulations have become more flexible. After years of chronic high unemployment, Macedonia has enacted major labor market reforms that include the use of fixed-term contracts and the easing of restrictions on work hours.