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GET German Economic Team

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POLICY BRIEFING
NORTH MACEDONIA

Improving the Business Climate – Boosting Investment
Selected recommendations from Foreign Investors in North Macedonia

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Structure

- Motivation
- Approach and methodology
- Overview of recommendations
- Selected recommendations
- Final remarks and outlook

Motivation

Background

- Business climate in North Macedonia has improved over the last decade
  - Alignment of regulation with the EU and incentives for investment led to sizeable FDI inflows over the last decade
  - As a result: FDI stock increased from 35% of GDP in 2014 to 48% of GDP in 2023
- However, several areas of the business climate can still be enhanced through reforms

Purpose of this Policy Briefing

- Present results of a survey and interviews with foreign investors in North Macedonia
- Highlight challenges faced by business
- Put forward recommendations to tackle the identified challenges

Approach and methodology

Sample

- Foreign investors in North Macedonia
- Members of German AHK and other foreign investors

How was the study prepared?

- Companies replied to a structured questionnaire
- Analysis of feedback by GET
- Expert interviews
- Preparation of recommendations

Structure

- Each case has the same underlying structure:
  - Responsible government institution: who is the counterpart?
  - Problem statement: what is the problem for businesses?
  - Past reform/measures: what has already been done?
  - Recommendations: how can the problem be solved?

Overview of recommendations

Recommendations on private sector development	
Private sector development-1	Improvement of aftercare for foreign investors
Private sector development-2	Reducing entry barriers for foreign workers
Private sector development-3	Liberalisation of the rail market
Private sector development-4	Lower customs duties for industrial inputs
Recommendations in the field of administration	
Administration-1	Reducing delays in government payments to companies
Administration-2	Improvement the speed and quality of gov. procedures
Administration-3	Strengthening digitalisation in public services
Recommendations related to legal environment	
Legal environment-1	Resolving conflicting regulation
Legal environment-2	Improving the predictability of upcoming regulation
Legal environment-3	Abolishment of mandatory use of self-employed lawyers
Recommendations concerning taxes	
Tax-1	Improvement of the VAT refund system
Tax-2	Full implementation of IFRS

Selected recommendations

Private sector development-1	Improvement of aftercare for foreign investors
Private sector development-2	Reducing entry barriers for foreign workers
Private sector development-4	Lower customs duties for industrial inputs
Administration-3	Strengthening digitalisation in public services
Legal environment-1	Resolving conflicting regulation
Administration-1	Reducing delays in government payments to companies
Tax-1	Improvement of the VAT refund system

Improvement of aftercare for foreign investors (1)

Problem for companies

- Aftercare is a critical component of the investment lifecycle, up to 70% of all FDI projects are expansions or reinvestments
- Companies indicate lack of structured follow-up or institutional responsiveness once the initial investment has been completed
- Typical examples for structured follow-up: permit procedures, the provision of infrastructural services, and questions regarding financial support and state aid

Past reform measures and achievements

- In 2021, the TIDZ Directorate launched the Single-Entry Point Aftercare System to streamline investor support within special economic zones
- However, new system limited to zones and investors both within and outside the zones still report problems with insufficient aftercare

Improvement of aftercare for foreign investors (2)

Policy recommendations

» Short term:

- Move aftercare beyond reactive troubleshooting to regular exchange with foreign investors e.g. quarterly company visits to discuss planned projects, challenges and support needed

» Medium and long term:

- Based on the principle of “one face to the customer” consider consolidating the mandates of Invest North Macedonia and the TIDZ Directorate
- Develop a unified aftercare mechanism that serves both zone-based and non-zone investors
- Establish a dedicated aftercare team with well-defined roles and a realistic service portfolio

Reducing entry barriers for foreign workers (1)

Problem for companies

- Shortage of skilled labour, driven primarily by brain drain to the EU. Attracting skilled foreign workers necessary complementary measure to investing in domestic workforce
- Process of hiring foreign workers is described as very bureaucratic; difficult to receive all necessary documents (visa, residence permit and ID card) in 90-day limit
- Heavy administrative burden: All documents must be submitted in hard copy – often notarised, apostilled, and translated. Even for renewals full set of documents needed
- Government's decision to foreign labour quota only in January or February of same calendar year undermines companies' ability to plan

Past reform measures and achievements

- In March 2024, the Open Balkan Work Permit System between North Macedonia, Serbia, and Albania was launched which allows citizens of these countries to work without the need for a separate national work permit
- Initiative reflects strong political commitment to reducing barriers to labour mobility and administrative complexity

Reducing entry barriers for foreign workers (2)

Policy recommendations

- Short term:
  - Allow provisional registration at the Employment Agency upon approval of the residence permit to enable immediate employment, with a requirement to update the registration once the ID card is issued
  - Replace the current 90-day registration deadline with the Employment Agency with a fair timeframe such as 30 days from residence permit approval
- Medium and long term:
  - Enable digital submission of applications and supporting documents via the National e-Services Portal; simplify renewal procedures by avoiding resubmission of all information
  - Consider abolishing the yearly quota. Labour immigration is already limited by the checks of the Employment Agency for suitable candidates inside the country
  - Introduce a fast-track procedure for issuing residence and work permits to highly qualified foreign nationals or in shortage occupations such as cybersecurity experts
  - Extend the duration of temporary residence and work permits for highly skilled foreign workers to up to three years
  - Develop publicly funded or subsidised language and orientation programs to support the social and workplace integration of foreign workers and their families

Lower customs duties for industrial inputs (1)

Problem for companies

- North Macedonia's industry is deeply integrated into international value chains and relies on imported raw materials, and semi-finished components
  - EU is by far its most important partner — 61% of the country's trade is conducted with the EU, and 67% of FDI originates from EU
- Customs tariffs on industrial inputs in North Macedonia are often higher than those in the EU and neighbouring countries
- In highly competitive markets, higher tariffs undermine the competitiveness of North Macedonia's industry and act as a barrier to investment

Past reform measures and achievements

- Customs tariffs have been gradually reduced and eliminated or lowered to EU tariff levels
  - In 2022, North Macedonia permanently reduced or abolished customs tariffs on 258 raw materials and intermediate goods
  - As of 1 July 2025, customs tariffs on 67 raw materials were lowered, narrowing the gap between North Macedonian and EU rates by 50%
- Nevertheless, average customs duties for industrial production higher than in the EU – e.g. for electrical equipment 11% compared to 2% in EU

Lower customs duties for industrial inputs (2)

Policy recommendations

- Custom tariffs might make economic sense if the government's goal is to protect domestic companies from foreign competition. However, the domestic market is small, and most companies produce for export
- The main rationale for maintaining tariffs appears to be public revenue generation. However, tariffs on industrial inputs harm competitiveness
- We recommend a comprehensive and swift alignment of customs tariff rates for manufacturing sector inputs with those of the EU
- In most cases, a reduction to EU levels would result in duty-free imports. The specific list of tariff lines for lowering the customs duties can be coordinated with industry stakeholders
- The reduction of tariffs would also eliminate the competitive disadvantage vis-à-vis other Western Balkan countries, which mostly apply lower customs duties to key industrial inputs

Strengthening digitalisation in public services (1)

Problem for companies

- Public e-services in North Macedonia remain fragmented and often require manual steps to be completed despite initial steps being available online
- Lack of interoperability between institutions forces businesses to resubmit documents that should be accessible within the system
- Legal misalignment with digitalisation laws prevents full implementation of e-services due to outdated requirements like physical signatures and in-person verification
- Low awareness and adoption among businesses further hinder the use of existing digital services

Past reform measures and achievements

- A new Ministry of Digital Transformation was established, reflecting stronger political commitment to digitalisation
- The Ministry redesigned the national e-services portal (uslugi.gov.mk), improving usability and accessibility
- Key services were rolled out that already fully available online including birth certificates, citizenship verification, criminal record checks, and property title deeds

Strengthening digitalisation in public services (2)

Policy recommendations

- Short term:
  - Enhance user awareness: launch coordinated awareness initiatives to inform businesses about available e-services, their legal validity, and how to access them
  - Clarify and strengthen the legal effect of electronic signatures by clearly regulating the legal status of handwritten signatures applied on electronic devices
  - Operationalise and ensure effective business adoption of the public revenue office's new e-invoice system: prioritise technical support for companies
  - Accelerate legal harmonisation with the digitalisation framework: while digitalisation laws are already in place, sectoral legislation also needs to be adapted
- Medium and long term:
  - Expand and strengthen the use of the National Interoperability Platform: build on the existing platform by ensuring full integration of all relevant public institutions
  - Institutionalise the digital first principle: make digital service delivery the default method – not an optional alternative – across public administration

Resolving conflicting regulation (1)

Problem for companies

- Companies face challenges due to conflicting regulations, including inconsistencies between sectoral laws, overlapping jurisdictions, and unclear legal interpretations
- For example, tax treatment of managerial contracts varies across laws; bonuses are taxed at 10% under Company Law vs. 38% under PRO's interpretation of the Law on Labour Relations and Law on Mandatory Social Contributions
- No formal mechanism exists for resolving legal contradictions; guidance from ministries is often delayed or inconsistent, and bulletins or FAQs by PRO lack legal authority
- Regulatory uncertainty increases the risk of legal violations and drives up compliance costs for businesses

Past reform measures and achievements

- "Regulatory Guillotine" (2007–2012), simplified over 600 laws but also created legal uncertainties by removing rules without replacing them
- The National Electronic Registry of Regulations (ENER), launched in 2009, serves as a central law repository and public feedback platform
- Neither initiative has directly addressed contradictory regulations or provided authoritative interpretations of legal conflicts

Resolving conflicting regulation (2)

Policy recommendations

- Short term:
  - Create a formal channel for chambers to report regulatory contradictions to the Ministry of Justice. This can serve as basis to later resolve the contradictions
- Medium and long term:
  - Introduce a publicly accessible and searchable digital platform for known legal contradictions and provide free public access to relevant court decisions, and administrative rulings
  - Consider establishing a centralised “Regulatory Consistency Unit” in the Ministry of Justice or General Secretariat of the Government focusing on screening draft and existing legislation for conflicts and for issuing interpretative guidance
  - Consider developing a governmental AI-supported system to flag overlaps and contradictions in proposed legislation before they are adopted

Reducing delays in gov. payments to companies (1)

Problem for companies

- Companies report government payment delays are common in public contracts
- These delays cascade into the economy and create systemic liquidity issues, disproportionately affecting SMEs and new businesses and reinforcing existing market structures
- Payment delays also lead to higher costs for the government
  - Less companies participate in public tenders which reduces competition
  - Companies that participate often charge up to 20% to offset expected payment delays
- Legal enforcement mechanisms are weak, and businesses hesitate to sue the state for fear of jeopardising future contracts or facing retaliation

Past reform measures and achievements

- In 2023 revision of the Law on Financial Discipline has shortened payment deadlines to 30 days (general) and 60 days (public health institutions) effective from 2025
- Regulations on penalty interest for late payments are in place: National Bank's reference rate plus 10 percentage points; 15.53% for the period 01.07.2025–31.12.2025

Reducing delays in gov. payments to companies (2)

Policy recommendations

- Short term:
  - Consider establishing a protected appeals mechanism. This could include anonymous or third-party mediated complaint channels, enabling businesses to report grievances without fear of retaliation
  - Stop postponing the fiscal consolidation. High budget deficits not only threaten macroeconomic stability, but also have direct consequences for businesses and the investments climate
- Medium and long term:
  - Build capacity within the financial inspection authority. Regularly publish anonymised statistics on inspections, sanctions, and court outcomes to promote transparency and accountability
  - Strengthen tax administration and address the informal economy. Enhancing revenue collection will reinforce budgetary resources and support timely government payments

Improvement of the VAT refund system (1)

Problem for companies

- VAT refunds are legally due within 30 days, but delays of several months are common
- VAT is calculated on an accrual basis, requiring payment even on unpaid invoices, which strains business liquidity
- Tax accounts for VAT and corporate income tax are not consolidated due to fragmented systems, meaning companies with overall surpluses may still incur interest on outstanding debts

Past reform measures and achievements

- The Public Revenue Office (PRO) launched the Integrated Tax Information System (ITIS) to digitalise business processes and improve tax collection, though its rollout timeline remains unclear
- In June 2025, the PRO introduced the E-Invoice platform, replacing periodic VAT reporting with automated, traceable digital invoicing; full implementation is expected by Q3 2026

Improvement of the VAT refund system (2)

Policy recommendations

- Short term:
  - The PRO should adopt a risk-based approach to processing VAT refunds. Businesses deemed to pose a low or medium risk of tax fraud should be subject to fewer or no inspections
  - The transfer of VAT credits to a company's bank account should take place within a matter of days for which improvement in the budgetary situation may be required
- Medium and long term:
  - The tax authority should implement a system of consolidated accounting for VAT and corporate income tax, and taxpayers should be charged only the net balance
  - Small enterprises should be permitted to calculate their VAT liability based on settled invoices instead of on liable invoices. If it receives a VAT-liable invoice, it should be entitled to reclaim the VAT immediately even if payment is delayed. This approach is successfully applied in Germany

Final remarks and outlook

Observations

» North Macedonia has made significant strides in improving its investment climate in the recent past

» But regulation and administration has still room for improvement, companies still face a handful of practical challenges

Outlook

» Great potential for North Macedonia to intensify FDI attraction

» Priorities for government policy:

- Lower the budget deficit
- Improve investment aftercare and improve dialog with foreign investors
- Digitalise administration and resolve regulatory contradictions

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia* and Uzbekistan on economic policy matters. In addition to the advisory work in the seven project countries, the project also carries out activities in other countries within the covered regions, e.g. Albania and North Macedonia. Berlin Economics has been commissioned with the implementation of the consultancy .

**Within the framework of project activities in Georgia, we are in contact solely with reform-oriented partners for the time being; in Belarus advisory activities are suspended.*

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