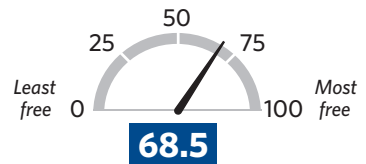


MACEDONIA

Economic Freedom Score



World Rank: **43** Regional Rank: **21**

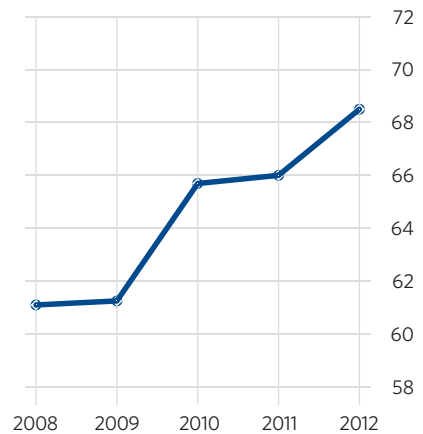
Macedonia's economic freedom score is 68.5, making its economy the 43rd freest in the 2012 *Index*. Its overall score has increased 2.5 points from last year, reflecting improvements in six of the 10 economic freedoms and an especially large gain in business freedom. Macedonia is ranked 21st out of 43 countries in the Europe region, and its overall score is above the world and regional averages.

The Macedonian government has undertaken significant reforms in many sectors of the economy over the past few years, inspiring economic growth and the development of a thriving entrepreneurial sector. The economy recorded one of the five largest gains in economic freedom in the 2012 *Index*, and its overall score has improved a remarkable 10.5 points since the country first appeared in the rankings in 2002. Competitive flat tax rates and a growing financial sector that allocates credit on market terms contribute to private-sector dynamism, as do the country's open-market policies related to trade and investment.

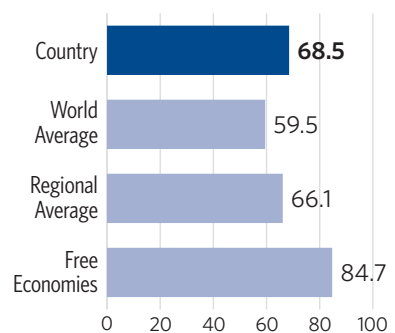
There are lingering constraints on the development of a truly vibrant private sector. Despite some progress, corruption remains a cause for concern. The inefficient legal framework does not provide effective protection for property rights and remains a substantial drag on economic efficiency.

BACKGROUND: When it gained independence from the former Yugoslavia in 1991, the Republic of Macedonia was beset by political and economic problems, but it has managed to put itself on a more stable footing in recent years. Early parliamentary elections were held in June 2011 at the request of the Social Democrats, and Prime Minister Nikola Gruevski maintained control of his seat and his coalition with the Democratic Union for Integration. During NATO's 2008 Bucharest summit, Greece unilaterally blocked an invitation for Macedonia to join the alliance because of a long-standing name dispute, despite Macedonia's having fulfilled NATO's Membership Action Plan. The dispute is expected to delay Macedonia's accession to the European Union as well. Macedonia still has a large informal economy, and judicial procedures remain slow.

Freedom Trend



Country Comparisons



Quick Facts

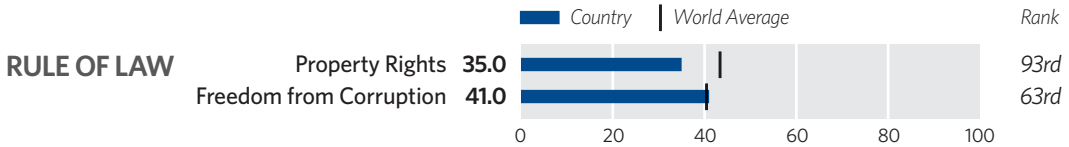
- Population:** 2.1 million
- GDP (PPP):** \$20.0 billion
- 0.7% growth in 2010
- 5-year compound annual growth 3.1%
- \$9,728 per capita
- Unemployment:** 31.7%
- Inflation (CPI):** 1.5%
- FDI Inflow:** \$293.2 million
- Public Debt:** 24.6% of GDP

How Do We Measure Economic Freedom?

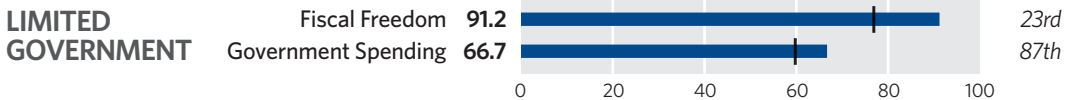
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
Data compiled as of September 2011.

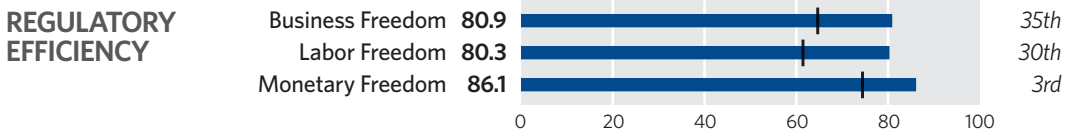
THE TEN ECONOMIC FREEDOMS



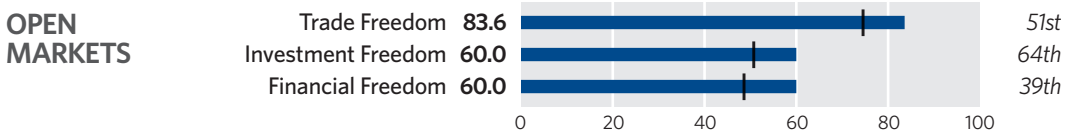
Protection of property rights is weak, and the judiciary is subject to executive influence. Relatively weak respect for the rule of law and the uncertainty of property rights, especially in registering real property and obtaining land titles, continue to undermine economic freedom. The law provides criminal penalties for official corruption, but implementation has not been effective. Corruption remains a cause for concern.



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, and overall tax revenue amounts to 26.1 percent of total domestic income. Government spending is equivalent to 33.3 percent of total domestic product, and the budget balance has shown a relatively small deficit. Public debt remains under control, standing at below 30 percent of GDP.



The overall freedom to establish and run a business has improved. Streamlined processes for business formation and operation provide an environment fairly conducive to dynamic private-sector growth. After years of high unemployment and underemployment, recent labor market reforms have focused on the use of fixed-term contracts and easing restrictions on work hours. Monetary stability has been relatively well maintained.



The trade weighted average tariff rate is 3.2 percent; lingering non-tariff barriers include non-transparent import standards and customs corruption. Despite reforms in the investment regime, bureaucracy deters dynamic growth in new investment. The financial sector has strengthened in recent years, and government involvement has been limited primarily to enacting prudent and efficient regulations. Banking is becoming more competitive.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+1.2	Business Freedom	+16.3	Trade Freedom	0
Freedom from Corruption	+3.0	Government Spending	+2.4	Labor Freedom	+0.6	Investment Freedom	0
				Monetary Freedom	+1.6	Financial Freedom	0