



Thematic
analysis/diagnosis:
**Economic
development**

Executive Summary

Economic development aims to provide all citizens with increased well-being and living standards, through optimal use of natural, economic, human potentials that will enable knowledge-based growth, increased production, higher employment, while respecting the needs of future generations. Economic development is a key link that contributes to greater productivity, higher employment rate, quantitative/qualitative structural and technological changes as well as a sustainable increase in living standards and well-being of all individuals in the country.

In our country there are numerous factors that reduce the opportunities for more dynamic development, such as low productivity, unfavorable demographic trends, poor utilization of innovation capacities, environmental pollution, low level of efficiency of the country in promoting development, slow progress in the EU integrations, etc. Limiting factors pose certain challenges that need to be considered when designing a development strategy. Increasing the productivity of the workforce and the growth potential should be key priorities, as well as key goals in the design of development policies. Economic progress cannot be accelerated without raising the level of labor force productivity. Low productivity is related to many factors: insufficient investments in human capital, innovation capacities, quality of education, demographic changes, inefficiency of institutions, distrust of institutions, level of technological development, insufficiently high level of digitalization. Demographic changes have a significant impact on the development of the society as well as on the quality of life in the future. Students from our schools regularly perform poorly on international PISA tests, while the country still has a low literacy rate. In terms of appropriate staffing, there are still discrepancies between the demand and the supply for different occupations and profiles in the labor market. Regarding the institutions, although measures have been taken and some progress has been made, there are still long administrative and legal procedures, inefficient public spending, inefficient and excessive public administration, high level of perceived corruption, and these factors do not contribute positively to accelerated economic progress of the country. Maintaining fiscal stability also poses a significant challenge, given the growth of public debt as a result of the unfavorable fiscal consequences of the crisis caused by the pandemic and the necessary support from the state.

North Macedonia also lags far behind in terms of digitalization, although there has been significant progress since the onset of the pandemic. The level of innovation needs to be improved. Investments in research and development are at a very low level (0.22% of GDP, which is 10 times lower than the EU-27 average). Furthermore, the efforts for green growth impose the need to take measures in order to reduce pollution and introduce new and innovative solutions in the operation of economic entities. The high level of informal economy should also be addressed. In order to determine how most of the above-mentioned challenges have been addressed so far, our thematic analysis includes analyses of key strategic documents, stakeholders, key indicators and the identification of bottlenecks in the processes.

First, an elaboration of the key goals, policies and directions set out in the strategic documents is presented, which in important or special sections address issues related to economic development.

To this end, the analysis below analyzes the Economic Reforms Program 2022–2024; Fiscal Strategy of the Republic of North Macedonia for 2022–2024 (with forecasts until 2026) and Revised Fiscal Strategy of the Republic of North Macedonia for 2022–2024 (with forecasts until 2026); Work program of the Government of the Republic of North Macedonia for the period 2022–2024; Accelerated Economic Growth Plan 2022–2026; Public Investments Plan 2022–2026; Plan for fiscal sustainability and support of economic growth 2022–2026; National Strategy for Sustainable Development of the Republic of Macedonia 2009–2030; Industrial Strategy of the Republic of Macedonia 2018–2027; Priorities for the future development of the Republic of Macedonia, MANU; Strategy for balanced regional development of the Republic of North Macedonia 2021–2031; Innovation Strategy of the Republic of Macedonia 2012–2020 and the Strategy for Small and Medium Enterprises (2018–2023). In the context of these strategic documents, we analyze the compliance of the strategic documents in this thematic area, and we also identify the key challenges related to the implementation of these key documents so far.

It was especially important to identify the key institutions that adopt a dominant part of the policies in the field of economic development. Considering the fact that this thematic area overlaps and covers a number of sub-areas that are treated in separate thematic analyses – we attempt to structure the key institutions that are in charge of policy-making related to economic development. To this end, the roles of the following institutions were briefly elaborated: the Government of the Republic of North Macedonia, Committee for the Economic System and Current Economic Policy, Ministry of Finance, Ministry of Economy, Directorate for Technological Industrial Development Zones, Fund for Innovation and Technological Development, National Council for Sustainable Development, Sustainable Development and Investments Department (within the Ministry of Environment and Physical Planning), Chambers of Commerce of North Macedonia, and the Development Bank of North Macedonia AD Skopje.

The analysis in the thematic area further focuses on a brief elaboration of the key indicators of interest for the economic development. Especially on the description and definition of the indicators and their roles, the data sources for determining the said indicators, determining the existing trends for each of the indicators and the potential shortcomings in relation to them. Although special attention was paid to the selection of the key indicators that would not be subject to processing in other thematic areas, we are aware that, due to the scope of the area of Economic Development, small part of them may be covered by the elaboration in other thematic analyses. The following indicators were processed: Gross Domestic Product (GDP), Value Added, National Income, Fixed Assets Investments, Active Businesses, Business Trends in the Manufacturing Industry, Research and Development Costs – in the implementation sector, Employees in research development activity, Labor market tendencies, External migrations, Foreign trade, Foreign direct investments, Net national savings, Life expectancy, Healthcare costs.

The analysis was supplemented with a special elaboration from a strategic point of view, as well as from the perspective of potential treatment through special indicators on inter-thematic issues –

social inclusion; good governance; disaster risk management and resilience; digitalization and innovations; gender perspective; human rights.

To make such thematic analysis complete, in the end, we dedicated a special section for the remarks and suggestions related to the mapped documents, indicators, and challenges from the relevant actors/institutions and stakeholders.