

## **FREE MOVEMENT OF CAPITAL**

I. REGIME OF CAPITAL MOVEMENTS AND CURRENT PAYMENTS.....	2
II. PAYMENT SYSTEMS .....	45
III. MONEY LAUNDERING .....	49

## I. REGIME OF CAPITAL MOVEMENTS AND CURRENT PAYMENTS

1. On the basis of the attached table, could the authorities please indicate the situation for each type of capital transaction (whether the transaction has been liberalised, any conditions attached to the liberalisation, authorisation procedures, applicable domestic legislation, etc.)?

Chapter 4 includes an attached table indicating the degree of liberalisation of the capital transactions in the Republic of Macedonia referring to this answer.

Country: Arrangements applicable to Capital movements  As of January 2003		
Type of transaction	Legislation reference	Description of the current regime
<b>I. DIRECT INVESTMENT <sup>1</sup></b>		
A. Direct investments on national territory by non residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/03 and 51/2003), Article 8; Custom Law (21/98; 26/98; 63/98; 86/99; 25/00; 109/01; 31/01; 4/02; 55/02; 42/03) Article 183	Direct investments of non-residents in the Republic of Macedonia are free, except in a few sectors (military industries, the arms trade, trade in narcotics and restrictions designed to protect historical monuments and cultural assets of the country). Non-residents are required to register the investment and all subsequent modifications thereof in the Ministry of Economy within 60 days. Non-residents are allowed to invest in existing firms, establish their own firms, or establish joint ventures, under the same conditions as for domestic investors. Imports of spare parts and equipment (which are not cars or office furniture and which are not older than 5 years) by joint-venture firms are exempt from custom duties if the foreign share in the investment is at least 20% in the last 3 years and if the investor stays in the company in the next 3 years. All registered foreign investment is protected from nationalisation. The transfer of the profit and other proceeds is free, after all tax obligations in the Republic of Macedonia have been met.
B. Direct investments abroad by residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 7	Direct investments of residents abroad are free. Residents are required to register the investment and all subsequent modifications thereof in the Ministry of Economy within 60 days.
<b>II. INVESTMENTS IN REAL ESTATE (NOT INCLUDED UNDER I)</b>		

<sup>1</sup> 1) Establishment and extension of branches or new undertakings belonging solely to the person providing the capital, and the acquisition in full of existing undertakings.

2) Participation in new or existing undertakings with a view to establishing or maintaining lasting economic links.

3) Long-term loans with a view to establishing or maintaining lasting economic links.

4) Reinvestment of profits with a view to maintaining lasting economic links.

## Chapter 04 Free movement of capital

A. Investments in real estate on national territory by non-residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001;103/2001; 54/2001;51/2003), Article 12	Nonresidents may acquire real estate in the Republic of Macedonia pursuant to the provisions of a special law or an international agreement under condition of reciprocity. Registration of the acquiring of the real estate within 60 days within the Central Register is required. Nonresidents who acquired real estate may sell it locally to residents, if the acquiring of the real estate is registered within the Central Register.
B. Investments in real estate abroad by residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001;103/2001; 54/2001;51/2003), Article 11	Residents are generally not allowed to acquire real estate abroad, except under the condition of reciprocity pursuant to the provisions of an international agreement. Republic of Macedonia may acquire real estate abroad for diplomatic and consular purposes. Registration of the acquiring of the real estate within 60 days, within the Central Register is required.
<b>III. OPERATIONS IN SECURITIES NORMALLY DEALT IN ON THE CAPITAL MARKET (not included under I, IV and V) <sup>2</sup></b>		
<b>A. Transactions in securities on the capital market</b>		
1. Acquisition by non-residents of domestic securities dealt in on a stock exchange	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 16 and Decision on the manner of and conducting nonresidents' operations with securities in the RM (Official Gazette of the RM no. 53/03; 11/03;19/03 and 14/2004)	Non-residents may subscribe, pay and trade in securities in the Republic of Macedonia solely through authorised participants. Nonresidents have to open custody accounts for purchases of securities, except for purchases 1) from initial public offerings; 2) of shares which represent more than 10% of voting rights or more than 10% in equity of a shareholder company; or 3) of private placements. Commercial banks have to pay a premium, established quarterly by the NBRM, for the right to buy foreign exchange to cover the security position of this custody account except for the balances of the portfolio investments that have been made by investor for one year. The premium is set quarterly by the Governor of the National Bank of the Republic of Macedonia (NBRM).
2. Acquisition by residents of foreign securities dealt in on a stock exchange	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 14 and 59 and Decision on the determining the types of securities that the authorised banks may purchase and sell abroad (Official Gazette of the RM no. 53/02)	Authorised banks could purchase abroad only 1) securities issued by an OECD-member state or international financial institution; and 2) securities with minimum BAA rating according to Moody's or BBB according to Standard and Poor's without any restrictions. Deposit Insurance Fund, insurance companies, Pension Funds & Investment Funds may trade with certain foreign securities in accordance with the laws regulating their operations. Other residents could purchase abroad securities traded on the stock exchanges with which the Macedonian Stock Exchange has an agreement. After the end of phase I of SAA, all residents will be allowed to acquire foreign securities.
3. Acquisition by non-residents of domestic securities not dealt in on a stock exchange	Securities Law (Official Gazette of the RM 63/00, 103/00, 34/01, 4/02, 37/02, 31/03, 85/03), Article 10	Non-residents may acquire domestic securities not dealt in on a stock exchange, only from initial public offers or private placements. Additionally, non-residents may acquire domestic securities not dealt in on a stock exchange in cases of so called "non-traded" transactions (e.g. Compensations, inheritance, pledge, repo, gifts). With an introduction of Over the counter market in Republic of Macedonia, nonresidents will be allowed to acquire domestic securities on that market.
4. Acquisition by residents of foreign securities not dealt in on a stock exchange	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 14 and 59 and Decision on the determining the types of securities that the authorised banks may purchase and sell abroad (Official Gazette of the RM no. 53/02)	Same as under III-A-subitem 2
<b>B. Admission of securities to the capital market</b>		
1. Admission of domestic securities to a foreign capital market	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 13 and 59	Residents must obtain prior permission from the Securities and Exchange Commission to introduce securities abroad. After the end of phase I of SAA, no prior permission from SEC will be needed.

<sup>2</sup> a) Shares and other securities of participating nature  
b) Bonds

## Chapter 04 Free movement of capital

2. Admission of foreign securities to a domestic capital market	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 15 and 59	The issuance and introduction of foreign securities in the domestic capital market are allowed only with prior permission from the Securities and Exchange Commission. Foreign debt securities with more than three-year maturity are not allowed until the end of phase I of SAA.
<b>IV. OPERATIONS IN UNITS OF COLLECTIVE INVESTMENT UNDERTAKING<sup>3</sup></b>		
<b>A. Transactions in units of collective investment undertakings</b>		
1. Acquisition by non-residents of units of national undertakings dealt in on a stock exchange	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 19	Non-residents may purchase units in the Republic of Macedonia.
2. Acquisition by residents of units of foreign undertakings dealt in on a stock exchange	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 18; Law on Insurance Supervision ("Official Gazette of RM" 27/02, 84/02, 98/02 and 33/04) Article 84 and 85, and Law on obligatory capital funded retirement insurance ("Official Gazette of RM" 29/00, 85/03 and 40/04) Article 105, 106 and 107	Insurance companies and Pension Funds may purchase participation units in or shares of authorised mutual and investment funds based in and approved by a European Union country, Japan or the United States of America and invest primarily in quoted equities in such countries;
3. Acquisition by non-residents of units of national undertakings not dealt in on a stock exchange	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 19	Non-residents may purchase units in the Republic of Macedonia.
4. Acquisition by residents of units of foreign undertakings not dealt in on a stock exchange	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 18; Law on insurance supervision ("Official Gazette of RM" 27/02, 84/02, 98/02 and 33/04) Article 84 and 85, and Law on obligatory capital funded retirement insurance ("Official Gazette of RM" 29/00, 85/03 and 40/04) Article 105, 106 and 107	Same as under IV -A-subitem 2
<b>B. Admission of units of collective investment undertakings to the capital market</b>		
1. Admission of units of national collective investment undertakings to a foreign capital market	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2001; 51/2003), Article 18 and 59	Residents must obtain prior permission from the Securities and Exchange Commission to introduce units of national collective investment undertakings to a foreign capital market. After the end of phase I of SAA no prior permission from SEC is needed.
2. Admission of units of foreign collective investment undertakings to the domestic capital market	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 19	not allowed
<b>V. OPERATIONS IN SECURITIES AND OTHER INSTRUMENTS NORMALLY DEALT IN ON THE MONEY MARKET</b>		
<b>A. Transactions in securities and other instruments on the money market</b>		
	The regulations governing capital market securities apply	The regulations governing capital market securities apply
1. Acquisition by non-residents of domestic money market securities and instruments	Same as under III-A-subitem 1	Same as under III-A-subitem 1

<sup>3</sup> a) Units of undertakings for collective investment in securities normally dealt in on the capital market (shares, other equities and bonds).

b) Units of undertakings for collective investment in securities or instruments normally dealt in on the money market.

c) Units of undertakings for collective investment in other assets.

## Chapter 04 Free movement of capital

2. Acquisition by residents of foreign money market securities and instruments exchange	Same as under III-A-subitem 2	Same as under III-A-subitem 2
B. Admission of securities and other instruments to the money market	The regulations governing capital market securities apply	The regulations governing capital market securities apply
1. Admission of domestic securities and instruments to a foreign money market	Same as under III-B-subitem 1	Same as under III-B-subitem 1
2. Admission of domestic securities and instruments to a foreign money market	Same as under III-B-subitem 2	Same as under III-B-subitem 2
VI. OPERATIONS IN CURRENT AND DEPOSIT ACCOUNTS WITH FINANCIAL INSTITUTIONS		
A. Operations carried out by non-residents with domestic financial institutions	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 24 and Decision on the manner and the terms of opening and managing accounts of non-residents (Official Gazette of the RM 53/2002)	All nonresidents may open foreign exchange accounts with domestic banks authorised for foreign exchange transactions upon proof of identity. Nonresidents may operate accounts without restrictions, cash withdrawals are limited up to EUR 10.000 per month and for cash deposits above EUR 2.000 a certificate from the Customs authorities is required. Nonresidents-diplomatic representatives of the foreign countries or international institutions may operate accounts without restrictions and no limitation is imposed. All nonresidents may open denar accounts with domestic banks authorised for foreign exchange transactions upon proof of identity. Nonresidents may operate accounts without restrictions, cash withdrawals are limited up to EUR 10.000 per month in denar equivalent value. Nonresidents-diplomatic representatives of the foreign countries or international institutions may operate accounts without restrictions and no limitation is imposed.
B. Operations carried out by residents with foreign financial institutions	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 23 and Decision on the manner and terms under which the residents that are not authorised banks may open and hold accounts in foreign banks (Official Gazette of the RM 53/02; 98/02)	The following residents are allowed to hold accounts abroad: banks; government representatives; natural persons with permanent residence in Macedonia and a valid resident visa or work permit issued abroad with a validity of more than six months during the period of their stay abroad; natural persons with a permanent residence in foreign country and a valid visa or work permit issued in the Republic of Macedonia; resident legal entities performing services in the international transportation of goods and passengers, investment companies, insurance companies and science institutions. NBRM's approval is required for residents other than banks, government representatives and natural persons.
VII. CREDITS RELATED TO COMMERCIAL TRANSACTIONS OR TO THE PROVISION OF SERVICES IN WHICH A RESIDENT IS PARTICIPATING		
A. Credits granted by non-residents to residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 i 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Non-residents may grant credits to residents for their account and on their behalf, without restriction.
1. Short-term (less than one year)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 i 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Non-residents may grant credits to residents for their account and on their behalf, without restriction.

## Chapter 04 Free movement of capital

2. Medium-term (from one to five years)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 i 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Non-residents may grant credits to residents for their account and on their behalf, without restriction. Prior registration with the NBRM is required.
3. Long-term (five years or more)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Non-residents may grant credits to residents for their account and on their behalf, without restriction. Prior registration with the NBRM is required.
B. Credits granted by residents to non-residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Residents may grant credits to non-residents for their account and on their behalf, without restriction.
1. Short-term (less than one year)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 i 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Residents may grant credits to non-residents for their account and on their behalf, without restriction.
2. Medium-term (from one to five years)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Residents may grant credits to non-residents for their account and on their behalf, without restriction. Prior registration with the NBRM is required.
3. Long-term (five years or more)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Residents may grant credits to non-residents for their account and on their behalf, without restriction. Prior registration with the NBRM is required.
<b>VIII.FINANCIAL LOANS AND CREDITS</b>		
A. Loans and credits granted by non-residents to residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Nonresidents may grant financial loans and credits to residents whitout restrictions.Prior registration with the NBRM is required.
1. Short-term (less than one year)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Nonresidents may grant financial loans and credits to residents whitout restrictions. Prior registration with the NBRM is required.
2. Medium-term (from one to five years)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Nonresidents may grant financial loans and credits to residents whitout restrictions. Prior registration with the NBRM is required.
3. Long-term (five years or more)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Nonresidents may grant financial loans and credits to residents whitout restrictions. Prior registration with the NBRM is required.

## Chapter 04 Free movement of capital

B. Loans and credits granted by residents to non-residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Residents may grant financial loans and credits to nonresidents without restriction. Prior registration with the NBRM is required.
1. Short-term (less than one year)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Residents may grant financial loans and credits to nonresidents without restriction. Prior registration with the NBRM is required.
2. Medium-term (from one to five years)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Residents may grant financial loans and credits to nonresidents without restriction. Prior registration with the NBRM is required.
3. Long-term (five years or more)	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Residents may grant financial loans and credits to nonresidents without restriction. Prior registration with the NBRM is required.
IX.SURETIES, OTHER GUARANTEES AND RIGHTS OF PLEDGE		
A. Granted by non-residents to residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2, 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Sureties, other guaranties and rights of pledge are deemed credit operations. Reporting to the NBRM is required.
B. Granted by residents to non-residents	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2, 20 and 42 and Decision on the manner of submitting reports for credits operations (Official Gazette of the RM 53/02; 58/03)	Sureties other guaranties and rights of pledge are deemed credit operations. Reporting to the NBRM is required.
X.TRANSFERS IN PERFORMANCE OF INSURANCE CONTRACTS		
A. Premiums and payments in respect to life insurance		
1. Contracts concluded between domestic life assurance companies and non-residents	Law on Insurance Supervision ("Official Gazette of RM" 27/2002, 84/2002, 98/2002 and 33/04)	Residents and non-residents have the same treatment with respect to conclusion of insurance contracts with domestic life assurance companies.
2. Contacts concluded between foreign life assurance companies and residents	Law on Insurance Supervision ("Official Gazette of RM" 27/2002, 84/2002, 98/2002 and 33/04), Article 2	Legal entities and natural persons performing certain activities, and citizens of the Republic of Macedonia shall be insured with life assurance companies established in accordance with this Law. At the moment, it is not allowed for foreign life assurance companies and residents to conclude insurance contracts. Note: Foreign life assurance companies will be allowed to perform insurance business through branches starting from January 1, 2008 (Articles 63, 64 and 251 paragraph 2). Member countries life assurance companies will be allowed to perform insurance business through branches or directly, as of the day on which the Republic of Macedonia acquires full membership of the European Union (Articles 59, 60, 61, 62 and 251 paragraph 3).

## Chapter 04 Free movement of capital

B. Premiums and payments in respect of credit insurance		
1. Contracts concluded between domestic credit insurance companies and non-residents	Law on Insurance Supervision ("Official Gazette of RM" 27/2002, 84/2002, 98/2002 and 33/04)	Residents and non-residents have the same treatment with respect to conclusion of insurance contracts with domestic credit insurance companies.
2. Contacts concluded between foreign credit insurance companies and residents	Law on Insurance Supervision ("Official Gazette of RM" 27/2002, 84/2002, 98/2002 and 33/04), Article 2	Legal entities and natural persons performing certain activities, and citizens of the Republic of Macedonia shall be insured with credit insurance companies established in accordance with this Law. At the moment, it is not allowed for foreign credit insurance companies and residents to conclude insurance contracts. Note: Foreign credit insurance companies will be allowed to perform insurance business through branches starting from January 1, 2008 (Articles 63, 64 and 251 paragraph 2). Member countries credit insurance companies will be allowed to perform insurance business through branches or directly, as of the day on which the Republic of Macedonia acquires full membership of the European Union (Articles 59, 60, 61, 62 and 251 paragraph 3).
C. Other transfers of capital in respect of insurance contracts	Law on Insurance Supervision ("Official Gazette of RM" 27/2002, 84/2002, 98/2002 and 33/04), Articles 42, 43 and 44	Insurance company may enter into agreements for transferring insurance contracts pertaining to one or several classes of insurance (hereinafter: insurance portfolio) along with the assets covering the technical provisions and/or the mathematical provisions at the level of technical and/or mathematical provisions that should be set aside against insurance portfolios being transferred to another insurance company.
XI.PERSONAL CAPITAL MOVEMENTS		
A. Loans	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2 and 5	Loans as unilateral transfers of funds from and into the Republic of Macedonia are free.
B. Gifts and endowments	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2 and 5	Gifts and endowments as unilateral transfers of funds from and into the Republic of Macedonia are free.
C. Dowries	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2 and 5	Dowries as unilateral transfers of funds from and into the Republic of Macedonia are free.
D. Inheritance and legacies	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2 and 5	Inheritances and legacies as unilateral transfers of funds from and into the Republic of Macedonia are free.
E. Settlements of debts by immigrants in their previous country of residence	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2 and 5	Immigrants can freely settle their debt to the previous country of residence.
F. Transfers of assets constituted by residents, in the event of emigration, at the time of their installation or during their period of stay abroad	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2 and 5	Residents can freely transfer their assets in the event of emigration, at the time of their installation or during their period of stay abroad.
G. Transfers, during their period of stay, of immigrants' savings to their previous country of residence	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Articles 2 and 5	Transfers, during their period of stay, of immigrants' savings to their previous country of residence are free.
XII.PHYSICAL IMPORT AND EXPORT OF FINANCIAL ASSETS		



## Chapter 04 Free movement of capital

A. Securites	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 30	The transfer of securities to or from abroad can be performed by an authorised bank. The temporary transfer of securities to and from the country for the purpose of exercising the rights arising from the securities by the securities' owner should be reported in advance to the NBRM.
B. Means of payment of every kind	Foreign Exchange Law (Official Gazette of the RM 34/2001; 49/2001; 103/2001; 54/2002; 32/2003 and 51/2003), Article 29 Decision on the manner and amount of cash domestic currency, checks and monetary gold that may be taken in or out of the Republic of Macedonia (Official Gazette of the RM. no.66/2003) and Decision on the conditions and amount of foreign currency cash and checks allowed to be imported in or exported from the Republic of Macedonia (Official Gazette of the RM. no 77/02; 13/03 and 65/03)	Exports and imports of Denars are limited to up to MKD 20.000 . -Residents can freely export foreign currency banknotes and cheques up to EUR 2.000, and import up to EUR 10.000 without document. For export of foreign currency banknotes and cheques up to EUR 4.000, a document issued by an exchange bureau or a bank is needed. Export exceeding EUR 4.000 is not allowed. For import of foreign currency banknotes and cheques exceeding EUR 10.000, the rules for preventing money laundering apply. -Nonresidents can freely export and import foreign currency banknotes and cheques. For export and import of up to EUR 2.000 there are no declaration requirements to the Custom authorities. Import exceeding EUR 2.000 must be declared upon arrival in the country to the Custom authorities, and for export exceeding EUR 2.000 the document received upon arrival must be submitted to the Custom authorities. Rules for preventing money laundering apply.
XIII.OTHER CAPITAL MOVEMENTS*		
A. Death duties		Under Foreign Exchange Law there are no limitations.
B. Damages (where these can be considered as capital)		Under the Foreign Exchange Law there are no limitations.
C. Refunds in the case of cancellation of contracts and refunds of uncalled-for payments (where these can be considered as capital)		Under the Foreign Exchange Law there are no limitations.
D. Authors' royalties: patents, designs, trade marks, etc.		Under the Foreign Exchange Law there are no limitations.
E. Transfers of the monies required for the provision of services (not included under VI)		Under the Foreign Exchange Law there are no limitations.
F. Miscellaneous		

\* Regarding the part XIII from the Matrix, which applies to the movement of capital, the Ministry of Finance points out that according to the Law for Foreign exchange operation and other separate Laws which regulate these areas, there are no limitations regarding the transfers of funds on these basics.

**Arrangements applicable to Capital Movements**

(Annex to main monitoring table section I.A.)

**RESTRICTIONS ON DIRECT INVESTMENT BY NON-RESIDENTS UNDER SECTOR SPECIFIC LEGISLATION**

Sector	National legislation (reference number, date of entry into force)	Managing authority / competent ministry	Description of relevant provisions / legal citation (bans, ceilings, authorisation or licensing procedures ... regardless of possible justification)	Comments (e.g. possible justification for restriction in the light of the reservations set out in the annexes of the Agreement or legislation in the pipeline)
Example: Postal services	Post Law, law no. / year, OJ p...., entry into force on dd/mm/yyyy	Ministry of ...	Section x, § y of the Post Law provides for - a ceiling of x % of foreign participation, - an authorisation procedure including the following criteria:...	A draft law providing for the following amendments ... is currently pending before Parliament...
Agriculture			no restrictions	
Alcohol		Ministry of Agriculture and Forestry	no restrictions	
Banking	Banking Law (Official Gazette of RM no. 63/00; 103/00; 37/02 and 51/03); entry into force 6th August, 2000	Ministry of Finance	According to article 6: "- all natural and legal persons, domestic and foreign, may establish a bank - A foreign bank may also establish a subsidiary"	Starting from 1st January, 2003 any natural or legal person (domestic or foreign) may acquire 100% of the shares of a bank. (according to Article 123 of the Law. Starting from 2008, in Macedonia the operation of foreign branches would be allowed, as a part of the banking reform in the following years.
Betting (see also gambling, lotteries)	Law on Games of Chance (Official Gazette of RM No. 10/97, 54/97, 13/01 and 2/02) entry into force March 14, 1997	Ministry of Finance	According to Article 14 of the Law: "-Foreign legal and natural persons can not independently organise games of chance, unless otherwise stipulated in this Law" According to Article 58-c of the Law: "-A foreign legal or natural person may organise betting only if in the period of one year it invests not less than 1.000.000 EUR in the country and provides employment to not less than 10 persons with Macedonian citizenship."	A new Law on Games of Chance is being drafted, according to which the approach of the existing Law is going to be changed. Namely, with the new Law, organisers of games of chance have to be registered in the Republic of Macedonia
Broadcasting	Broadcasting Law (Official Gazette of RM No. 20/97)	Ministry of Transport and Communications	no restrictions	
Brokerage	Securities Law (Official Gazette no. 63/00; 103/00, 34/01, 4/02, 37/02, 31/03 and 85/03) entry into force 6th August, 2000	Ministry of Finance	According to Article 4 of the Law: "- Dealing with securities may be executed by a brokerage house or a bank established in the Republic of Macedonia." According to Article 107 of the Law: "-A brokerage house may be established by at least two natural or legal persons, domestic and/or	The Law provides equal treatment of residents and non-residents concerning being shareholders of a brokerage company. A completely new Securities Law is being drafted, according to which a new part for the operation of a foreign subsidiary of a brokerage

Note: This is an indicative and not necessarily exhaustive list. Sectors which are not mentioned explicitly should be cited in the last row 'any other'.

			foreign -An exception from this limitation is the case when the bank, savings bank or insurance company establishes a brokerage house" According to Article 109 of the Law: "-The brokerage house must obtain a license from the SEC prior to its entry in the trade register"	house is introduced, allowing them to operate in the Republic of Macedonia.
Coffee products			no restrictions	
Construction services	Law on Construction of Investment Objects (Official Gazette of RM No. 15/90 and 18/99), Law on Construction Land (Official Gazette of RM No. 53/01), Law on Ownership and Other Real Rights (Official Gazette of RM No. 18/01)	Ministry of Transport and Communications and Ministry of Justice	According to the Law on Construction Land, Article 6: "-Construction land may be owned by RM and by domestic natural and legal persons under the conditions laid down in this Law and other law." In accordance with Article 19 referred to in the Law on Construction Land: "-regarding construction land, a right to long-term lease may be established in favour of domestic and foreign legal persons (up to 99 years)." According to the Law on Ownership and Other Real Rights, Article 245: "- Construction land may be leased to a foreign natural or legal person under reciprocity conditions and consent by the Ministry of Justice, upon opinion from the Ministry of Transport and Communication and the Ministry of Finance."	no restrictions regarding construction of investment objects If a foreign natural and legal person establishes a mixed firm with a domestic natural or legal person registered in the Registration Court in RM, the firm may obtain non-built construction land and acquire ownership thereof, due to the status of domestic legal person.
Energy and power production	Law on Energetics (Official Gazette of RM No. 47/97, 40/99, 98/00, 94/02, and 38/03)	Ministry of Economy	no restrictions	
Fishing	Law on Fisheries (Official Gazette of RM No. 62/93)	Ministry of Agriculture and Forestry	According to Article 8 of the Law: "-A concession on fish stock from open waters for economic and sports fishing is granted to domestic legal persons."	
Forests	Law on Forests (Official Gazette of RM No. 47/97 and 07/00) Law on Ownership and Other Real Rights (Official Gazette of RM No. 18/01)	Ministry of Agriculture and Forestry; Ministry of Justice;	According to Article 8 of the Law on Forests: "-State forests are not subject to sale." According to the Law on Ownership and other Real Rights, Article 246: "-Agricultural land may be leased to a foreign legal or natural person under reciprocity conditions and consent by the Ministry of Justice, upon opinion from the Ministry of Agriculture and Forestry and the Ministry of Finance."	Forests are treated like agricultural land in the Law on Ownership and Other Real Rights

Gambling (see also lotteries)	Law on Games of Chance (Official Gazette of RM No. 10/97, 54/97, 13/01 and 2/02)	Ministry of Finance	According to Article 14 of the Law: "Foreign legal and natural persons can not independently organise games of chance, unless otherwise stipulated in this Law" According to Article 44 of the Law: "A foreign legal or natural person may organise gambling only if in the period of one year it invests in the country not less than 1.000.000 EUR and provides employment to not less than 10 persons with Macedonian citizenship."	A new Law on Games of Chance is being drafted, according to which the approach of the existing law is going to be changed. Namely, with the new Law, organisers of games of chance have to be registered in the Republic of Macedonia.
Hotels	Law on Tourism Activities (Official Gazette of RM No. 62/04), entered into force on 24 September 2004, and the Law on Catering Activities (Official Gazette of RM No. 62/04), entered into force on 24 September 2004	Ministry of Economy	no restrictions	
Hunting		Ministry of Agriculture and Forestry	no restrictions	
Imported goods & services (e.g. agencies)	Trade Law (Official Gazette of RM No. 16/04)	Ministry of Economy	no restrictions	
Insurance companies	Insurance Supervision Law (Official Gazette of RM no 27/02; 84/02; 98/02 and 33/04)-entered into force on May 4th, 2002	Ministry of Finance	According to Article 13 of the Law: "all natural and legal persons, domestic and foreign, may establish an insurance company" According to Article 16 of the Law: "an individual shareholder (domestic or foreign) can acquire maximum 25% of the total amount of shares of the company. - a bank or another insurance company when founding an insurance company has no limitations on equity held"	The Law provides equal treatment of residents and non-residents for becoming a shareholder of an insurance company.
Investment companies	Investment Fund Law (Official Gazette of RM 9/00), entering into force February, 19, 2000	Ministry of Finance Securities and Exchange Commission	According to Articles 42 and 44 of the Law: Investment fund management companies must be granted a license by the Securities and Exchange Commission of RM and must be registered according to the Company Law	
Land development	Law on Agricultural Land (Official Gazette of RM No. 25/98, 18/99, and 02/04) Law on Ownership and Other Real Rights (Official Gazette of RM No. 18/01)	Ministry of Agriculture and Forestry Ministry of Justice	According to the Law on Agricultural land, Article 15: "Agricultural land in state ownership may be granted under concession, lease and usufruct." According to Article 16 of the Law on Agricultural Land: "Concession on utilisation of agricultural land may be granted to domestic and foreign legal and natural persons by the Government of RM." According to Article 23 of the Law on Agricultural land: "Agricultural land in state ownership may be leased to	

			domestic and foreign natural and legal persons..." According to the Law on Ownership and Other Real Rights, Article 246: "-Agricultural land may be leased to a foreign legal or natural person under reciprocity conditions and consent by the Ministry of Justice, upon opinion from the Ministry of Agriculture and Forestry and the Ministry of Finance"	
Lotteries	Law on Games of Chance (Official Gazette of RM no 10/97, 54/97, 13/01 and 2/02) entered into force March 14, 1997	Ministry of Finance	According to Article 14 of the Law: "-Foreign legal and natural persons can not independently organise games of chance, unless otherwise stipulated in this law" According to Article 18 of the Law: "-Lotteries.....can be organised by a company registered in the Republic of Macedonia....."	A new Law on Games of Chance is being drafted, according to which the approach of the existing law is going to be changed. Namely, with the new Law, organisers of games of chance have to be registered in the Republic of Macedonia.
Legal / Notary services	Public Notary Law (Official Gazette of RM No. 59/96 and 25/98*) Advocacy Law (Official Gazette of RM No. 59/2002)	Ministry of Justice	According to Article 12 from the Advocacy Law: "- in the Bar Directory any person, national of the Republic of Macedonia may be registered, who fulfils the general conditions to establish a labour relation in the public administration bodies, a graduated lawyer having passed the bar exam and who enjoys distinction in the bar practice."  The Law on Notary Public Practice, in Article 10 are laid down the conditions for nominating a notary public i.e. for a notary public may be nominated a person, who: - "is a national of the Republic of Macedonia - has contractual capacity and fulfils the general conditions provided for in the Law on Establishing Labour Relation in State Body - has graduated from the Faculty of Law - has at least five years work experience in legal matters - has passed the notary public exam - enjoys distinction in the notary public practice may prove that he/she shall provide equipment and premises, which, in line with the criteria set up by the Minister, are necessary for the notary public practice."	According to the Law on Notary Public Practice, the notary public function is entrusted to a person who is a national of the Republic of Macedonia, who fulfils the conditions referred to in Article 10 of the Law, which means that a foreign person may not practice the notary public function on the territory of the Republic of Macedonia. Regarding the procedure of foreign persons before a notary public there are no restrictions but there are also special provisions, which strengthen the protection of their rights such as Article 29, drawing up documents in a foreign language, Article 46 providing for compulsory presence of two witnesses for acts drawn up in a foreign language, and Article 54 paragraph 1 items d and e, according to which a notary act is absolutely annulled unless provisions referred to in these points are observed. Foreign natural or legal persons exercise their protection on the basis of authorisation of a lawyer in the Republic of Macedonia pursuant to the positive regulations regarding general authorisation referred to in the Law on Obligational Relations and the Law on Litigation Procedure.
Management companies	please see the explanation written for "Investment companies"			

Mass Media (see also printed media)	Broadcasting Law (Official Gazette of RM No. 20/97)	Ministry of Transport and Communications	Article 10 from the Law: "Foreign natural and legal person may be a co-establisher of a trade radio broadcasting company up to 25% of the company equity. Assets of a number of foreign legal persons, as co-establishers, in one trade radio broadcasting company may amount to up to 49% of the total equity of the company"	In 2005 the drafting of the Law on Freedom of Information and Expression will be initiated.
Mining		Ministry of Agriculture and Forestry	no restriction	
Narcotics	<p>Law on Drugs, Associated Curable Medications and Medical Accessories (Official Gazette of RM No. 21/98),</p> <p>Law on Production and Trade of Narcotics (Official Gazette of SFRY No. 13/91),</p> <p>Rulebook on content and terms of keeping evidence and reports on the terms of delivery and date on production and trade of narcotics (Official Gazette of SFRY No. 54/79 and 4/80),</p> <p>Decision on determining narcotics to be put into circulation for medical and veterinary purposes (Official Gazette of SFRY No. 70/78, 52/83, and 47/85),</p> <p>Law on Establishing bodies to Perform Particular Activities in the Field of Production and Trade of Narcotics (Official Gazette of RM No. 24/83)</p> <p>Rulebook on conditions and procedure for the issue of export and import licences of narcotics and products containing narcotics (Official Gazette of SFRY No. 92/91)</p> <p>Decision on establishing a narcotics list (Official Gazette of SFRY No. 70/78, 14/81, 39/82, 28/85, 10/87, 53/88, 2/89, 80/89, and 73/90) 80/89, 73/90)</p> <p>National Programme on eradication of drug abuse and drugs trafficking (Official Gazette of RM No. 35/96).</p>	Ministry of Health and the Drug Bureau of Medications		<p>According to the Law on production and Trade of Narcotics (Official Gazette of SFRY No. 13/91), the Republic of Macedonia has ratified and applied International Conventions of the United Nations on the control of production and trade of narcotics and psychotropic substances from 1961, 1972, and 1988, in international trade.</p> <p>Drafting activities have been started on a new Law on Narcotics and Psychotropic substances to be adopted in 2005.</p> <p>According to the existing regulation there are no restrictions regarding foreign direct investments.</p>
National security & defence	Law on Production and Sale of Armaments and Military Equipment ("Official Gazette of the Republic of Macedonia", No. 54/02). entered into force July, 23, 2002	Ministry of Defence	According to Article 13 of the Law: "-Foreign legal entities and natural persons can, on their own, or with domestic legal entities and natural persons, establish companies for production of armaments and military equipment should a consent be given by the Government. Foreign legal entities and natural persons can invest	The Law does not regulate restrictions for entry of foreign investments in the production of armaments and military equipment.

			<p>funds in a company for production of armaments and military equipment on the basis of prior consent by the Government."</p> <p>According to Article 24 of the Law: "-Foreign legal entities and natural persons can, with domestic legal entities and natural persons, establish companies for sale of armaments and military equipment, if consent is given by the Ministry of Economy.</p> <p>Foreign legal entities and natural persons can invest in a company for sale of armaments and military equipment on the basis of prior consent by the Ministry of Economy.</p> <p>Funds of foreign legal entities and natural persons referred to in paragraphs 1 and 2 of this Article cannot participate with more than 49% in the equity of the company for sale of armaments and military equipment."</p>	
Natural reservations	Law on Protection of Nature (Official Gazette of RM No 67/04), entered into force on 12 September 2004, and shall apply from the day of establishment of municipality councils and the Council of the City of Skopje and the election of the municipality mayors and the Mayor of the City of Skopje upon conducting the next local elections.	Ministry of Environment and Physical Planning	According to Article 8 of the Law: "- Due to the application of the foreseen measures and activities for protection of nature, the owner or user of the land is obliged to permit unimpeded transit of others and for other utilisation of his/her land pursuant to the provisions referred to in this Law and other law."	The right to acquisition of construction and agricultural land are elaborated in the sectors: "Construction service" and "Land development".
Natural resources	Law on Mineral Raw Materials (Official Gazette of RM No 18/99 and 29/02)	Ministry of Economy	Article 85 paragraph 1 of the law	No restrictions exist for capital entry. Foreign legal and natural persons have the same rights for granting concession regarding research and exploitation of raw materials.
Postal services	Law on Postal Services (Official Gazette of RM No 55/02)	Ministry of Transport and Communications	<p>According to Article 9 from the Law: "-Exclusively the main postal operator carries out reserved postal services covering Acceptance, sorting, transfer and delivery of postal consignments, including direct post office both in the domestic and international postal traffic, provided that these consignments weigh up to 350 gr.</p> <p>-Non-reserved postal services in the scope of universal postal service beside the postal operator may be also carried out by other postal operators under the conditions and terms provided in this Law."</p> <p>According to Article 18 of the Law: "-Carrying out non-reserved postal services may be granted under concession"</p>	

Printed media (see also mass media)			no restrictions	
Quarrying	Law on Mineral Raw Materials (Official Gazette of RM No 18/99 and 29/02)	Ministry of Economy	Article 85 paragraph 1 of the law	No restrictions exist for capital entry. Foreign legal and natural persons have the same rights to granting concession for research and exploitation of raw materials.
Security services	Securities Law (Official Gazette no. 63/00; 103/00, 34/01, 4/02, 37/02, 31/03 and 85/03) entry into force 6th August, 2000; Regulations on the method and conditions for sitting for special examinations on investment advising (Official Gazette of RM 50/02) entry into force July 16th, 2002 and Regulations on the manner and conditions for sitting for a special examination for dealing with securities (Official Gazette of RM no. 93/00) entry into force November 18, 2000	The Ministry of Finance is in charge of the Law and the Securities Exchange Commission is the supervisory authority in charge for the by-laws	<p>According to Article 111 of the Law:</p> <p>"-The brokerage house may operate only through persons with a license from the SEC for dealing with securities"</p> <p>According to Article 3 of the Regulations on the manner and conditions for sitting for a special examination for dealing with securities:</p> <p>"- The applicants may attend the training if they meet the following terms:</p> <ul style="list-style-type: none"> <li>be at least 18 years old;</li> <li>have completed at least a four-year high school;</li> <li>have paid the tuition fee for attending the training and for sitting for the special examination for dealing with securities."</li> </ul> <p>According to Article 8 of the previously mentioned Regulations:</p> <p>-"The Securities and Exchange Commission shall issue a certificate for dealing with securities to the candidate who has successfully passed the special examination."</p> <p>According to Article 125 of the Law:</p> <p>"-An investment advisory company may provide investment advisory services.</p> <p>-An investment advisory company may operate only through persons licensed by SEC for investment advising"</p> <p>According to Article 4 of the Regulations on the method and conditions for sitting for special examinations on investment advising:</p> <p>"- The applicants may attend the training if they meet the following terms:</p> <ul style="list-style-type: none"> <li>have at least a University undergraduate degree (in Macedonia: VII/1)</li> <li>have at least 3 years of working experience in the field of finances or corporate law;</li> <li>have officially applied for the training and sitting for the examination; and</li> <li>have paid the tuition fee for attending the training and for sitting for the special examination for investment advising."</li> </ul>	<p>The Law provides equal treatment of residents and non-residents.</p> <p>At the moment a new Securities Law is being prepared. Regarding dealing with securities, the new law will follow the same approach of the existing law. Regarding the investment advisors there are going to be some changes. First of all, they are going to be called portfolio managers.</p>



			<p>According to Article 5 of the previously mentioned Regulations:</p> <p>"- If among the applicants there are some that have previously obtained some related international certificate or diploma to become investment advisors, and if the examining commission evaluates the same as valid for exempting the applicant from attending the training, then the applicant shall sit for the examination only for the first subject (of the legal and institutional framework of the Macedonian financial market) out of 9 subjects;</p> <p>According to Article 8 of the previously mentioned Regulations:</p> <p>"- The Securities and Exchange Commission shall issue a certificate for investment advising to the candidate who has successfully passed the special examination stipulated by Article 5 of these Regulations."</p>	
Stock Exchange / Securities	Securities Law (Official Gazette no. 63/00; 103/00, 34/01, 4/02, 37/02, 31/03 and 85/03) entry into force 6th August, 2000	Ministry of Finance	<p>According to Article 72 of the law:</p> <p>"- A stock exchange may be established by natural or legal persons, domestic or foreign."</p> <p>According to Article 83 of the Law:</p> <p>"- The participation of one shareholder in the total capital of the stock exchange may not exceed more than 10% of the shares with managing rights."</p>	The Law provides equal treatment of the residents and the non-residents. At the moment a new Securities Law is being prepared without any changes to the current approach.
Tele-communication	Law on Tele-communication (Official Gazette of RM No 33/96, 17/98, 28/00, and 22/98)	Ministry of Transport and Communications	<p>According to Article 22 from the Law:</p> <p>"-from 31.12.2004 not a single legal and natural person besides the existing public telecommunication operator may:</p> <ul style="list-style-type: none"> <li>-provide, organise, advertise, promote, or in any way take part in organising call-back services;</li> <li>-provide fixed telephone services, telegraph services, telex services, public phone box services or rented lines services as well as construction, possession and operation in fixed public telecommunication networks"</li> </ul>	By the end of this time period, i.e. from 2005 services in fixed telephony by other legal persons are enabled
Tertiary education	Law on Higher Education		no restrictions	
Tobacco		Ministry of Agriculture and Forestry	no restrictions	
Transport (air-, maritime-, railway- and other related services)	<p>Law on Macedonian Railways (Official Gazette of RM No 09/98)</p> <p>Law on Road Traffic Transport (Official Gazette of RM No 07/99)</p> <p>Law on Public Roads (Official Gazette of RM No 26/96 and 29/02);</p> <p>Law on Air Transport (Official Gazette of SFRY No 45/86)</p>	Ministry of Transport and Communications	<p>According to Article 2 of the Law on Macedonian Railways:</p> <p>"- Railway traffic, construction, reconstruction, repair, maintenance, and protection of railway infrastructure as well as activities of public interest are carried out by Macedonian Railways Public Enterprise.</p> <p>-Railway infrastructure may be utilised by other legal and natural persons under the conditions and terms laid down in this Law and in</p>	<p>A new Law on Macedonian Railways is being drafted, which will enable entry of foreign direct investments as it will enable privatisation of a part of railway transport.</p> <p>According to the Law on Road Traffic Transport and the Law on Public Roads there are no restrictions for entry of foreign investments.</p> <p>The Law on Air Transport (Official Gazette of SFRY No</p>

			international agreements."	45/86) does not provide provisions for restrictions regarding entry of foreign direct investments. Also the draft Law on Air Transport (first phase has passed in the Parliament) does not provide provisions to restrict foreign investments.
Any other (e.g. privatised companies/special rights)				

**2. What are the plans and timetables for complete liberalisation of medium and long-term capital movements? Please distinguish between decisions already adopted, measures programmed, and conditional measures.**

Medium and long-term capital movements in the Republic of Macedonia are regulated by the Law on Foreign Exchange Operations ("Official Gazette of the Republic of Macedonia" Nos. 34/01, 49/01, 103/01, and 51/03). This Law regulates the inflow and outflow of capital of the Republic of Macedonia pursuant to Articles 58, 59, and 60 of the Stabilisation and Association Agreement between the Republic of Macedonia and the European Union.

The main characteristics of the Law on Foreign Exchange Operations is the gradual liberalisation of the capital movement taking into account the timescale and the type of the capital in line with the obligations undertaken by the Stabilisation and Association Agreement and the strategy of gradual opening of the Republic of Macedonia towards the free movement of capital.

In order not to amend the Law on Foreign Exchange Operations at accession of the Republic of Macedonia to the European Union, these movements of capital are regulated in the transitory and final provisions, which were not liberalised immediately after this Law entered into force, but will, however, undergo liberalisation in a certain phase of the implementation of the Stabilisation and Association Agreement.

The following movements of capital have not been entirely liberalised, however, the Law on Foreign Exchange Operations provides timelines for their liberalisation:

- **Investments by residents in real estate abroad** are not permitted until the expiration of the first SAA phase (referred to in the Articles 11 and 59 of the Law on Foreign Exchange Operations)
- **Issue and introduction of domestic securities and resident share certificates of resident investment funds abroad**, until the expiration of the first SAA phase, is permitted solely upon prior approval by the Securities and Exchange Commission (Articles 13, 18, and 59 of the Law on Foreign Exchange Operations).
- **Residents**, except authorised banks, the Deposit Insurance Fund, insurance companies, pension funds and investment funds, **cannot purchase securities** until the expiration of the first SAA phase (Articles 14 and 59 of the Law on Foreign Exchange Operations).
- Issue and introduction of **foreign debt securities** on domestic market with maturity of three years or more is not permitted until the expiration of the first SAA phase (Articles 15 and 59 of the Law on Foreign Exchange Operations).
- Domestic enterprises and natural persons can freely open and hold **foreign exchange accounts** abroad after the expiration of the second SAA phase. In the meantime, certain residents may hold foreign exchange accounts abroad upon prior approval by the National Bank of the Republic of Macedonia in accordance with the prescribed criteria (Articles 23 and 59 of the Law on Foreign Exchange Operations).
- **Regarding investments by non-residents in real estate in the Republic of Macedonia**, as well as life and credit insurance transfers, the Law on Foreign Exchange Operations is liberal regarding transactions, however, it is conditioned by the provisions referred to in the relevant

special laws or ratified international agreements (Article 12 of the Law on Foreign Exchange Operations).

Other transactions pursuant to the Law on Foreign Exchange Operations are entirely liberalised. The annex table in question 1 of this Chapter ([04 I 1](#)) details all capital transactions and their liberalisation levels.

### 3. Describe the key features of the current law on foreign exchange operations.

By accepting IMF Article VIII Status in June 1998, the Republic of Macedonia introduced current account transaction convertibility abroad, entirely liberalising current account transactions between residents and non-residents.

In order to implement the Stabilisation and Association Agreement (SAA) with the European Union, a new Law on Foreign Exchange Operations was passed in April 2001 and entered into force in October 2002. Pursuant to the new Law on Foreign Exchange Operations a high level of liberalisation of capital transactions was implemented, in line with the SAA provisions.

The Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia Nos 34/01, 49/01, 103/01, 54/02, 32/03, and 51/03) has been drafted on the basis of SAA and is completely aligned with the SAA provisions.

The main purpose of the Law on Foreign Exchange Operations is to regulate the terms and conditions for performance of operations that affect the balance of payments of the Republic of Macedonia and all other operations in foreign currencies if they are performed within the Republic of Macedonia and as such do not affect the balance of payments of the Republic of Macedonia. In this respect, the subject matter of the Law is the overall operations among residents and non-residents, regardless of the area where they are performed and whether it is in domestic or foreign currency. The subject matter of the Law are also the operations between the residents themselves, but only if the object of operation are foreign means of payment or if the operations are in foreign currency.

The Law divides the subjects according to their place of residence, i.e. according to their seat into residents or non-residents.

Definitions, i.e. the terms in the Law are in line with the EU regulations and that would facilitate access to EU membership because, in this regard, the terminology of the Law would not need to be changed and harmonised later on.

The Law is structured on several main subjects: current transactions, capital transactions (direct investments; investment in real estate, securities operations, credit operations and deposit account operations), payments and transfers, foreign exchange market and denar exchange rate, special NBRM measures, reporting and supervision of the enforcement of the Law.

The main foreign exchange operations regulated by the Law on Foreign Exchange Operations are briefly elaborated in the remaining part of the answer.

**Current transactions** between residents and non-residents are liberalised in line with the Law on Foreign Exchange Operations. Conclusion of contracts in foreign currency between residents is also liberalised; however, the currency of contract transactions is in denars (Articles 3 and 4).

**Direct investments** of the residents abroad are liberalised in line with the Law on Foreign Exchange Operations. Direct investments of non-residents in the Republic of Macedonia are liberalised, except in the specific fields (military industry; natural, cultural and historic treasures; trade in arms; trade in narcotics). Pursuant to the Law there is an obligation to register all direct investments of residents and non-residents in the Ministry of Economy. The residents may freely transfer abroad the profit generated and the capital invested, pursuant to Article 59, paragraph 1 of the SAA (Articles 7, 8, and 9).

**Investments of residents in real estate abroad** are not permitted until the expiration of the first SAA phase (Article 11). As for **investments in real estate in the Republic of Macedonia by non-residents**, the Law on Foreign Exchange Operations refers to the application of a special law. Consequently, the regime of acquiring real estate in the Republic of Macedonia by non-residents is not regulated in this Law (Article 12).

The Law on Foreign Exchange Operations provides liberal conditions for issue and introduction of domestic securities abroad and investments of residents in securities abroad as well as issue and introduction of foreign securities in the Republic of Macedonia and investment of non-residents in securities in the Republic of Macedonia. Namely, until the expiration of the first SAA phase, **the residents may issue and introduce domestic securities** on foreign markets upon obtained approval by the Securities and Exchange Commission, and after the expiration of the first SAA phase, only submission to the Securities and Exchange Commission is required (Articles 13 and 59). Authorised banks **may invest in foreign securities** abroad in line with the criteria determined by the National Bank of the Republic of Macedonia. In addition to authorised banks, the Deposit Insurance Fund, insurance companies and pension and investment funds may purchase securities abroad pursuant to the laws that regulate their operation.

Upon the expiry of the first SAA phase other residents (citizens and enterprises) may invest in foreign securities abroad (Articles 14 and 59).

**Foreign securities may be issued and introduced** in the Republic of Macedonia upon the approval by the Securities and Exchange Commission, with the exception of foreign debt securities, with maturity of three years or more, whose issue and introduction is not permitted. Issue and introduction of these debt securities will be liberalised after the expiration of the first SAA phase (Articles 15 and 59). Non-residents **may invest in domestic securities** through authorised participants on the stock market. Securities are negotiated abroad or from abroad by an authorised bank (Articles 16 and 59).

Non-residents may open **foreign currency and denar accounts** in Macedonian commercial banks and hold disposable assets (Article 24). Domestic enterprises may keep foreign currency on the foreign exchange accounts in the banks of the Republic of Macedonia and keep the assets on such accounts for an unlimited period. Domestic enterprises and natural persons may freely open and hold foreign exchange accounts in foreign banks upon the expiration of SAA. In the meantime, opening foreign exchange accounts abroad is permitted only after obtaining prior approval by the National Bank of the Republic of Macedonia and on the basis of provided criteria (Articles 23 and 59).

**Credit transactions**, short-term and long-term, are entirely liberalised, and compulsorily recorded in the National Bank of the Republic of Macedonia. Authorised banks may conclude credit transactions with non-residents on their behalf and for their own account or on their behalf and for the account of a third party; whereas residents which are not authorised banks may conclude credit operations on their behalf and for their own account with non-residents. Accordingly, enterprises and banks in the Republic of Macedonia may, without any complex administrative procedures, take loans from foreign banks or foreign companies; only a notification procedure is required to the National Bank of the Republic of Macedonia. Credit relations among residents may also be concluded in foreign currency under the conditions prescribed by the National Bank of the Republic of Macedonia (Articles 20 and 21).

Pursuant to the Law on Foreign Exchange Operations, **payment operations abroad** may be carried out by the banks authorised for these operations by the National Bank of the Republic of Macedonia. Residents such as trade companies, sole proprietors, and subsidiaries of foreign legal persons in the Republic of Macedonia, may pay and charge in effective foreign currencies in transactions with non-residents on terms and conditions prescribed by the National Bank of the Republic of Macedonia (Articles 26 and 26-a).

The Law lays down that the **foreign exchange market** covers all operations regarding purchase and sales of foreign currency, and the participants on the foreign exchange market may be: authorised

banks, which can conclude purchase and sales operations on their own behalf and for their own account as well as on their own behalf and for the account of the third person; and other entities only on their own behalf and for their own account. Residents may purchase foreign currencies only for the needs of payment abroad and sell only on the basis of received payments from abroad (Article 31).

The main determination of the Law on Foreign Exchange Operations is that the exchange rate on the Foreign Exchange Market is freely established on the market (Article 33).

In case large capital outflows or inflows cause distortions in the balance of payments, which can affect the operations on the Foreign Exchange Market in the Republic of Macedonia as well as the management of the monetary and foreign exchange policy, the National Bank of the Republic of Macedonia may introduce special protective measures, but for period not exceeding six months, which is in accordance with SAA Article 59, paragraph 4. This possibility is provided for the risk of exceptional distortions in the balance of payments and of disturbances of the financial system stability (Articles 37, 38, and 39).

The implementation of the Law on Foreign Exchange Operations is handled by the National Bank of the Republic of Macedonia, the Ministry of Finance, customs authorities and the State Foreign Exchange Inspectorate, the Ministry of Economy, and the Securities and Exchange Commission. These supervisory bodies exchange the information on violations of provisions referred to in this Law and jointly work on the established irregularities (part 9 of the Law).

Penalty provisions are prescribed for violation of the provisions referred to in the Law on Foreign Exchange Operations. Namely, criminal liability is provided for serious violations. In addition to fines, a ban on performing certain operations may be issued for the violations committed (part 10 of the Law).

The transitional provisions lay down limitations on the enforcement of this Law pending the application of the Stabilisation and Association Agreement between the Republic of Macedonia and the European Union and until the expiration of the first phase (part 11 of the Law).

**4. Please comment on the strategy for liberalisation of short-term capital movements. How is this strategy linked to other economic developments? How consistent is it with other policy objectives, in particular that of the exchange rate? Given experience elsewhere, are excessive inflows not considered more likely than initial outflows? Which instruments are available to manage inflows?**

The strategy for liberalisation of the short-term capital movement in the Republic of Macedonia is a gradual process, characterised by the presence of certain implicit limitations in the initial phase of the liberalisation as a prevention from possible destabilising speculations. Thus, pursuant to the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia Nos. 34/01, 49/01; 103/01, and 51/03), which entered into force on 15.10.2002, an entire liberalisation of the short-term commercial and financial credits is realised in support of the free exchange of goods and services, and a partial liberalisation of portfolio investments aiming at gradual integration in the international financial markets and control of sudden short-term capital inflows/outflows.

The entire liberalisation of the short-term financial and commercial credits is followed by the establishment of an information system for their monitoring through compulsory registration in the National Bank of the Republic of Macedonia (NBRM).

Partial liberalisation of portfolio investments provides the following possibilities:

a) Residents may issue and introduce domestic securities on foreign markets only on the basis of approval by the Securities and Exchange Commission (Articles 13 and 59);

b) Resident authorised banks may trade on their own behalf and for their own account on the foreign markets with securities issued or guaranteed by governments and OECD member states, by

international financial institutions, and with other securities whose issuers have a high investment rating evaluated by at least one first class international rating agency. Investment rating criteria are determined by the National Bank of the Republic of Macedonia with a special decision ("Decision on determination of the type of securities that authorised banks may buy and sell abroad", Official Gazette of the Republic of Macedonia No. 53/02). Apart from authorised banks, at the moment, the Insurance Deposit Fund, pension funds, investment funds and insurance companies have the right to invest in foreign securities. All residents may invest in securities on those foreign markets which collaborate with the Macedonian Stock Exchange (Articles 14 and 59).

c) Non-residents may issue and introduce foreign securities on the domestic market only upon approval by the Securities and Exchange Commission, whereas issue and introduction of debt securities is limited to maturity of up to three years pursuant to the Law on Foreign Exchange Operations (Articles 15 and 59);

d) Pursuant to Article 16 of the Law, non-residents may trade with securities in the Republic of Macedonia only through an authorised participant where detailed regulation of the terms and conditions of the trade are under the competence of the National Bank of the Republic of Macedonia, which has adopted a special decision for that purpose ("Decision on the terms and conditions for non-resident securities in the Republic of Macedonia, Official Gazette of the Republic of Macedonia No. 53/02). By this Decision a unique method is established of securities transactions by banks and by authorised participants, and control is introduced over the inflow and outflow of foreign currency emerging from these types of investments, through registration in NBRM of the foreign exchange rights of the authorised banks. According to the Decision, in order to trade with securities non-residents must compulsorily open a custody account at the authorised bank in the Republic of Macedonia, whereby they conclude a contract, while the authorised bank is obliged to buy the right to obtain foreign currencies for those securities from the NBRM. The authorised bank is obliged to keep records for the securities condition and trade and inform NBRM on regular basis. The value of the purchased rights should be at any moment equal to the position of the securities. The rights are of a three-month length period and may be used every working day in the course of the quarter, and the purchase premium is determined quarterly by the Governor of NBRM. Purchased rights may be used only for foreign exchange outflow abroad by simultaneous decrease of the non-resident securities position in the course of the quarter. This Decision gives the possibility that the bank does not purchase the right unless the non-resident states in the custody account contract that the purchased securities shall not be transferred within a one-year period from the moment of their acquisition and authorises the custody bank to give an order to the Central Securities Depository to incorporate a ban of securities disposal in favour of the bank for a one-year period.

Such characteristics of the strategy for short-term capital liberalisation are consistent with the need for long-term assets sources to finance the current account of the balance of payments amounting to about 7% of GDP (without official transfers), as well as with the level of the development of the available instruments and financial markets (mostly the money and short-term securities market and the foreign exchange market).

The strategy of gradual and controlled liberalisation of short-term capital is also consistent with the current policy of the foreign exchange rate which presents a nominal anchor of the monetary policy.

Having regard to the experience of the other countries in transition, the liberalisation of the capital flows in conditions of higher interest rates in the Republic of Macedonia than in the developed countries and the recently obtained BB+ investment rating according to the Standard & Poor's Rating Agency will probably result in higher capital inflow. In that, the securities portfolio is not sufficiently diversified due to the presence of only a small number of short-term securities on the domestic market (in 2004 the first continuous issuance of three-month and six-month government securities started, whereas, NBRM has been issuing treasury bills with 7 and 28-day maturity).

From the aspect of available instruments to manage the inflows, beside the above-mentioned NBRM legal authority for the prescription of the terms and conditions of the securities trade, NBRM is actually able to intervene with market instruments through intervention on the foreign exchange

market and through auctions of treasury bills on the open market. The former experience shows that the treasury bills, as a basic NBRM monetary instrument have enough capacity to sterilise the liquidity surplus, so that the action may also be taken by changing the mandatory reserve rate.

The Law on Foreign Exchange Operations (Articles 37, 38, and 39) also provides for the possibility, in case of risk of significant disturbances in the balance of payments and disturbances in the stability of the financial system caused by large capital inflow in the Republic of Macedonia, that the NBRM may introduce special measures (for up to 6 months) regarding non-resident accounts positions in the Republic of Macedonia; trade with foreign currency, if a resident is included; residents taking loans and credits from non-residents, as well as advance collection of residents from non-residents or deferred payments by residents to non-residents; payment of matured and outstanding debts of residents to non-residents; transfer of valuables, cash, securities, and gold to, and from, the Republic of Macedonia; transaction of securities and gold between residents and non-residents and issue of guarantees and/or similar security and provision of pledge and other types of guarantees in favour of non-residents.

In the answers on questions no 9 and 12 from section I. Monetary And Exchange Rate Issues, subsection D. Monetary And Exchange Rate Policy, of Chapter 11, ([11 I D 9](#) and [11 I D 12](#), respectively) the relations among the foreign exchange rate policy, the monetary policy and the liberalisation of capital movement are elaborated in details.

**5. On current account convertibility, it is our understanding that IMF Article VIII status was accepted in 1998. In this context, can the Republic of Macedonia confirm whether there are any remaining technical issues?**

In June 1998, the Republic of Macedonia accepted IMF Article VIII, hence introduced denar current account convertibility and total liberalisation of current account transactions among residents and non-residents. Namely, making and receiving payments intended for export and import of goods, services, income and transfers are completely liberalised pursuant to the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia Nos. 34/01, 49/01, 103/01, and 51/03). The transfer of gain and other profit generated from foreign direct investments are free after settling all obligations towards the state. Therefore, we may freely conclude that the Republic of Macedonia does not have any remaining technical issues.

**6. What are the obligations of the State regarding bonds issued for payment of frozen foreign exchange deposits: principal/interest? What is the market value of these bonds (in percentage)? What can these bonds be used for?**

Having regard to the need of permanent regulation of payment of the foreign exchange deposits and of providing the funds for their payment, in 2000 the Law on the Manner and the Procedure of Payment of Foreign Currency Deposits of the Citizens, guaranteed by the Republic of Macedonia, was passed (Official Gazette of the Republic of Macedonia Nos. 32/00, 108/2000, 4/2002, and 42/2003). Therefore, this long standing problem which significantly undermined citizens' confidence in saving and in the banking system of the Republic of Macedonia, was finally solved permanently.

The bonds that the Republic of Macedonia issued on the base of the old foreign exchange savings are in a dematerialised form, registered and denominated in EUR and they are unrestrictedly transferable (Article 10 of the Law). The payment of the bonds is done according to the EUR middle exchange rate of the National Bank of the Republic of Macedonia valid on the day of the bond maturity.

The nominal value of the bonds is paid in 20 semi-annual instalments on 1 April and 1 October, and the first instalment is due on 1 April 2002 (Article 11 of the Law). The annual interest rate of the bonds is 2% and is paid in denars according to the middle exchange rate of the National Bank of the Republic of Macedonia valid on the day of the maturity. The payment of the interests is on 1 April and 1 October, and has started from 1 April 2001 (Article 12 of the Law).

Pursuant to the Law, Article 17, bonds in nominal value may be used for:

- Payment of obligations pursuant to Article 109, paragraph 2 of the Law on Transformation of Socially-Owned Enterprises for conversion of internal shares into ordinary shares;
- Payment of concession contribution and long-term lease;
- Purchase and payment of stocks and shares in state owned enterprises in transformation;
- Payments for purchase of denar claims, which pursuant to the Law on Financial Recovery and Reconstruction of part of the banks in the Republic of Macedonia are transferred to the Bank Rehabilitation Agency (at the moment these assets are transferred to the Ministry of Finance like a legal successor, since from April 2004 the Agency had ceased to exist),
- Purchase and payment of state-owned flats;
- Purchase of business premises owned by the Republic of Macedonia;
- Payment for awarding and purchasing of urban land owned by the Republic of Macedonia;
- Purchase of agricultural land owned by the Republic of Macedonia; and
- Purchase and payment of state capital.

These bonds are traded through the Macedonian Long-Term Securities Exchange, in line with the stock-exchange market rules and may be traded by domestic and foreign natural and legal persons (Article 20 of the Law).

These bonds are specially characterised by the fact that claims from the citizens do not expire (Article 18 from the Law).

On 19 September 2000 the trade with these bonds on the First Market in the Macedonian Long-Term Securities Exchange started. The initial price of these bonds was 60.91% of the bond value. However, depending on their demand, their value fluctuates with an upward trend. At the moment (October 2004), the market price of the bonds is 72.6% of their nominal value.

The funds for bonds payment (principal and interest) are provided annually in the Budget of the Republic of Macedonia (Article 14 of the Law). The table below includes details on bonds data.

	Issue year	Amount (mill EUR)	Pay-off year of the first instalment	Pay-off year of the last instalment	Term of payment	Interest rate	Principal payment date	Interest payment date	Condition of the debt principal 01.10.2004 (mill EUR)
Foreign exchange deposit bonds	2000	546,5	1 April 2002	1 October 2011	10	2% annually	1 April and 1 October	1 April and 1 October	356,3

*Source: the Ministry of Finance*

The value of interests paid in 2004 is 7.9 million EUR.

**7. What has been the contribution of foreign direct investment to the development of the economy? What was the size of FDI inflows (annual, cumulative and per capita) in recent years? What were the originating countries and into which sectors was it mainly channelled? What share has been brownfield (e.g. in the context of privatisation) and what share greenfield investment?**

In the period from 1991 to the end of 2003 the total investments in Macedonia amounted to USD 1.024 billion, a cumulative estimation of USD 497 per capita.

The positive effects of FDI are reflected in increased competition, better quality of services, enlarged number of products, new technologies, and cost transparency. This can be noticed, in particular, in the sectors where the largest FDI inflows have been registered, such as telecommunications (37 %), banking (17 %), foodstuff production (8 %), production of oil, chemicals, rubber, plastic products (4 %), trade (3 %), as well as insurance (2 %).



The largest share of the FDI in the Republic of Macedonia, amounting to 37 %, was channelled to the telecommunication sector; a result from the privatisation of the state-owned telecommunications company. The privatised telecommunications company still has a monopoly on the fixed-line telephony, as well as to the entrance of the second foreign mobile operator in the area of mobile telephony.

FDI inflows in the banking sector amount to about 17 % of the total foreign investments. The Macedonian banking system is almost entirely reformed. As of 2003, in Macedonia there are 21 banks and 15 savings houses, so that almost the entire banking capital in the country (99 %) is concentrated in the banks. As much as 18 banks are authorised for foreign operations. The foreign capital in the banking system is of exceptional importance because 47.2 % of the banking capital belongs to foreign investors. As much as 15 banks, have in the structure of their capital a certain percentage of foreign shares, whereas 8 of them have majority shares, over 51 %, belonging to foreign investors.

The share of foreign investments in the insurance sector is also worth mentioning (about 2 %, i.e. USD 21.000.000) where entry of foreign capital contributed to an increase in the insurance services provided and an improvement of their quality. The largest national insurance company, was taken over by foreign investors through the process of privatisation, in addition, entrance of other foreign insurance companies has been registered.

Almost all FDI inflows in the period between 1997 and the end of 2003 came from the member states of the European Union. In 2003 FDI originating from EU, accounted for 56 % of the total inflow.

The biggest cumulative investor in Macedonia is Hungary investing USD 323 million (as a result of the purchase of JSC Macedonian Telecommunications), Greece with USD 234 million, followed by Cyprus, Germany, Switzerland etc.

Regarding foreign direct investments, annually and cumulatively, FDI per capita, investment origin, see Chapter 15 Question 4 section I subsection I ([15 I I 4](#)).

NBRM has carried out an additional research on FDI structure based on the FDI structure in the banking sector and the records of the Privatisation Agency on foreign investments from privatisation and post-privatisation. According to these analyses, about 20 % of the total FDI inflow has been invested directly through the process of state-owned enterprise privatisation by the Privatisation Agency of the Republic of Macedonia. Taking into account the privatisation of JSC Macedonian Telecommunications, the privatisation and post-privatisation of the banking sector, and FDI inflow in firms during the post-privatisation process, the percentage of total FDI through privatisation and post-privatisation amounts to 74 %.

**8. Could the authorities comment on privatisations of state-owned enterprises in the past and those envisaged in the future? Which sectors are involved? Does the government maintain any special rights (e.g. 'special shares', representation on the board of directors, veto rights on important decisions) in privatised companies? How many residual shares does the State own in privatised companies? Who/which institution is in charge of their management? How is the State represented in companies where it owns shares? Is there a strategy or an action plan for the management of State capital?**

**Could the authorities comment on privatisations of state-owned enterprises in the past and those envisaged in the future?**

Soon after the embarking on the process of privatisation in the Republic of Macedonia it became obvious that the presence of state capital, distinctive from the social capital could be identified in the balance sheet of a large number of Macedonian enterprises. This was a reason for enacting a special Law on Privatisation of the State Capital (Official Gazette of the Republic of Macedonia Nos. 37/96, 25/99, 81/99, 49/00, and 06/02) in 1996. Pursuant to this Law, the social capital has been sold

together with the state capital during the privatisation process. In the enterprises subject to privatisation and possessing social capital, the status of the capital (social and state), was to a great extent equalised in order to achieve a favourable block of shares and to facilitate the attraction of numerous investors.

Four major periods of privatisation could be distinguished during the privatisation of the social (and later the state capital as well), as follows: (1) privatisation by the way of issuing internal shares pursuant to the Law on Social Capital (Official Gazette of the Republic of Macedonia Nos. 84/89 and 46/90) and the Law on Enterprises (Official Gazette of the Republic of Macedonia Nos. 77/88 and 61/90); (2) privatisation by the application of transformation models pursuant to the Law on Transformation of Enterprises with Social Capital (Official Gazette of the Republic of Macedonia Nos. 38/93, 48/93, 21/98, 07/97, 09/98, 21/98, 25/99, 39/99, 81/99, 49/00, 6/02, 31/03, and 38/04); (3) introduction of the possibility of privatisation by the way of direct sale of shares by direct negotiation with the strategic investor pursuant to the amendments to the Law on Transformation of Enterprises with Social Capital of 1999 (which was abandoned the following year due to the inherent non-transparency of the direct sale method); and (4) privatisation performed by massive sale of shares of social or state capital through the Macedonian stock market by public offering auction pursuant to the amendments to the Law on Transformation of Enterprises with Social Capital of 2003.

In addition to the privatisation of state capital as discussed above, privatisation of enterprises in state ownership, that were excluded from privatisation on the grounds of the Law on Transformation/Privatisation of Enterprises with Social Capital, is being carried out on the basis of special laws separately for each respective industry.

### **Which sectors are involved?**

Privatisation of the JSC Macedonian Telecommunications was carried out on a basis of a special law. A number of other industries are expected to be privatised in the future: some parts of the health sectors (pharmacies, dental medicine, and spas), electric power company (generation and distribution of electricity), railways, post, some parts of social welfare activities, some parts of the culture activities etc. Programs are being prepared to fully implement the maximum transparency rule, by elaborated marketing campaigns and fair selection of high-quality investors, in order to successfully complete the projected privatisation of these enterprises.

The Electric Power Company is in the most advanced phase of its privatisation. Two documents have already been prepared by the consultant and adopted by the Government of the Republic of Macedonia: (1) Restructuring Model of the Electric Power Company, and (2) Implementation Plan for Restructuring of the Electric Power Company, and these activities have launched the process of transformation.

In March 2004 the Law on Transformation of the Electric Power Company, Joint Stock Company for Production, Distribution, and Supply of Electric Power in State Ownership (Official Gazette of the Republic of Macedonia No. 19/04) was adopted, which stipulates that this Joint-stock Company be divided into two new companies:

- Joint-stock Company MEPSO – owner and operator of the transmission system and manager of the electric power system as well as market operator , which shall remain in state ownership; and
- Joint-stock Electric Power company (new), which shall cover the production assets and the function of generation, distribution and supply with electric power, and which will enter the privatisation process following a decision and a strategy developed by the Government of the Republic of Macedonia.

The model with regard to the transformation of the Macedonian Railways has been selected. It is projected that the existing public enterprise be transformed by means of its division into two parts: Infrastructure – Public Enterprise in state ownership, and Transport – Joint-stock Company, which might be later transferred to the private sector. In addition to this reorganisation, the transformation plan provides for a financial reorganisation of both companies; lay-off of employees; spin-off of all non-core activities; a proper definition of the infrastructure and the Government liability as its owner

and a comprehensive definition of the possible Governmental support of the railway traffic. For that purpose a new Law on Railways has been drafted, being in line with the European Union directives. The new amendments to the March 2004 Law on Health Protection (Official Gazette of the Republic of Macedonia Nos. 38/91, 46/93, 55/95, and 10/04), lay down provisions with regard to privatisation of some health sectors (pharmacies, dental medicine, and spas).

**Does the government maintain any special rights (e.g. 'special shares', representation on the board of directors, veto rights on important decisions) in privatised companies?**

The Government of the Republic of Macedonia nominates its representatives in the Shareholders' Assembly or in the Owners' Assembly (pursuant to the provisions referred to in the Law on Transformation of Enterprises with Social Capital and the Law on Privatisation of State Capital, on the basis of social or state capital shares/stakes issued in the company). The rights of the state representatives in the corporate bodies are aligned with the rights enjoyed by other shareholders stipulated in the Company Law (Official Gazette of the Republic of Macedonia 28/04) and in the company acts. In particular cases/privatisations, such as JSC Macedonian Telecommunications, the Government of the Republic of Macedonia enjoys so-called special rights. The above is performed pursuant to the provision referred to in the Telecommunications Law (Official Gazette of the Republic of Macedonia Nos. 36/96, 17/98, 22/98, and consolidated text Official Gazette of the Republic of Macedonia No. 28/00), which stipulates that the Government of the Republic of Macedonia is entitled to create a class of one or more shares (golden share) in the existing public telecommunications operator, thus obtaining additional rights.

How many residual shares does the State own in privatised companies?

State capital expressed in shares/stakes obtained upon various legal grounds as of 31.12.2004 has amounted to a nominal value of EUR 929 million. This amount includes the value of the capital in the Electro Power Company of Macedonia with EUR 683 million. The Table below presents the number of companies and the value of the capital where the Government and governmental institutions and enterprises have ownership, according to the percentage of the company ownership.

**REVIEW OF THE STATE OWNERSHIP IN TRADE COMPANIES**

Ownership percentage	Government/ Ministries	Funds	Pension Fund	Institutions	Public corporations	Privatisation Agency	Total
to 20%							
Capital value (MKD)	105.630.922	16.334.293	4.409.681.196	101.796.447	40.823.861	672.154.670	5.346.421.389
Capital value (EUR)	1.721.935	266.272	71.884.123	1.659.428	665.487	10.957.084	87.154.330
Number of companies	21	11	324	75	22	53	506
from 20%-50%							
Capital value (MKD)	4.648.532.837	0	125.699.091	0	78.733.604	3.177.933.711	8.030.899.244
Capital value (EUR)	75.777.747	0	2.049.075	0	1.283.471	51.804.874	130.915.166
Number of companies	6	0	3	0	1	18	28
from 50%-100%							
Capital value (MKD)	3.614.717	0	0	0	0	177.124.583	180.739.300
Capital value (EUR)	58.925	0	0	0	0	2.887.385	2.946.310
Number of companies	1	0	0	0	0	5	6
100%							
Capital value (MKD)	43.400.483.920	0	0	0	0	0	43.400.483.920
Capital value (EUR)	707.490.083	0	0	0	0	0	707.490.083
Number of companies	3	0	0	0	0	0	3
Total							
Capital value (MKD)	48.158.262.396	16.334.293	4.535.380.287	101.796.447	119.557.466	4.027.212.964	56.958.543.853
Capital value (EUR)	785.048.691	266.272	73.933.198	1.659.428	1.948.958	65.649.343	928.505.890
Number of companies	31	11	327	75	23	76	543

Source: Calculated on the basis of the data from the Central Security Depository

According to the Privatisation Agency, its portfolio of residual shares as of 31.12.2004, preceded by an extensive activity of residual shares trading by the end of 2004, comprises 86 enterprises with a

total nominal value of their capital amounting to EUR 53,7 million. The Agency has 100% ownership in two of these enterprises with a total nominal value of their capital of EUR 9,0 million. It owns majority capital, over 50%, but less than 100% in 17 enterprises with a total nominal value of their capital amounting to 33,5 million EUR. In 17 enterprises the Privatisation Agency holds a significant majority share, between 20% and 50%, with a total nominal value of the capital of EUR 3,3 million. In the remaining 50 enterprises the Agency possesses shares or stakes of less than 20% and a total nominal value of the capital of 7,7 million EUR. It should be noted that the number of shares and stakes transferred to the Agency may nominally increase as a result of possible default of payment of the outstanding instalments by the privatisation contract signatories. This imposes the question of a continuous monitoring of their status. In addition, one can also notice a certain non-correspondence between the Privatisation Agency data and the Central Securities Depository ones. As it was emphasised in the question commenting privatisation, some enterprises, the residual shares of which cannot be presently traded by the Agency, are the once having not identical records in the Central Securities Depository and in the Privatisation Agency. Both institutions are currently making efforts to reconcile the data.

**Who/which institution is in charge of their management? How is the State represented in companies where it owns shares? Is there a strategy or an action plan for the management of State capital?**

Pursuant to the Law on Privatisation of State Capital, the Government Privatisation Commission manages and possesses the state capital as obtained and defined in this Law on behalf of the Government of the Republic of Macedonia. The Privatisation Agency is in charge of the technical and administrative operations for the needs of the Privatisation Commission.

Considering the fact that privatisation is in its completion phase, the Privatisation Agency is scheduled to cease its operation by 31.03.2005 pursuant to the amendments to the Law on Transformation of Enterprises with Social Capital (Official Gazette of the Republic of Macedonia Nos. 31/03 and 38/04). The 2003 amendments to this Law precisely stipulate the allocation of all activities, rights and duties, and the property currently owned by the Privatisation Agency of the Republic of Macedonia to other state institutions. The capital which will not have been sold by that time, pursuant to this Law, shall be transferred to the Pension and Disability Insurance Fund, whereas the competences shall be undertaken by the Ministry of Economy, Ministry of Finance and the Public Enterprise for Management of Housing and Business Premises of the Republic of Macedonia.

Further activities with regard to the management of the state capital are focused on speeding up the process of disposal of the remaining part of the state capital portfolio of the Privatisation Agency of the Republic of Macedonia. Privatisation is intended to be one of the essential mechanisms within the public sector transformation process on both national and local level. Privatisation shall be carried out following a thorough analysis of the specific industry conditions, and the possibility for application of different methods of privatisation shall be considered, starting from privatisation by spinning off part of the industries, implementing different types of concessions, BOT and BOO arrangements or embarking to a full fledged privatisation of assets in the case it is deemed to be the most efficient solution. Attracting foreign capital shall be considered as an important objective in the course of the privatisation, without limiting possible participation of the citizens. Privatisation shall be preceded by setting up an effective legal and regulatory framework as needed.

In spite of the significant privatisation in 1990's and the beginning of the first decade of this century, the state still remains owner of some commercial enterprises, and even though the state strategy in this respect is basically focused on divesting state ownership, it shall not occur instantly and certainly not in each individual case in which the state is the owner of the capital. In the meantime, the state has to improve the principles of state capital management with a purpose of improving the operative efficiency of enterprises with state capital. The state should aim at application of the accepted principles of corporate governance, assisting thus in ensuring economic benefits not only for enterprises with state capital but also for the society in general.

The Republic of Macedonia has not yet defined a specific strategy with regard to state capital management. The issue of corporate governance in cases where the state is the sole owner is

conducted on the basis of the global legal frame for corporate governance (primarily the Company Law) or the laws on individual public activities on the basis of which the state has established public enterprises. In some way the corporate governance in companies exclusively owned by the state is covered by the applicable legislation, but better practices for corporate governance should be implemented in the future for the cases where the state is the owner of a majority or a minority capital share.

When the Privatisation Agency ceases to exist, the shares and stakes it manages shall be reallocated to the Pension and Disability Insurance Fund of the Republic of Macedonia. Until the time of reallocation, the Privatisation Agency has been engaged as a representative of the state that was in charge of the nomination of members in the companies' executive boards. This has often been conducted upon proposal by the relevant ministries. There is no elaborated written procedure for the nomination and monitoring of the operation of the nominated members. The need to better define these policies and procedures will be even more critical with the reallocation of the shares in the Fund. In this respect, it is important to mention that the Law anticipates that, in cases when the reallocated shares or stakes contribute to less than 50% of the total company stock, they will be converted into preference shares, thus implying that the Fund shall not be concerned for active management of the shares. But if they participate with more than 50% in the company stock, they maintain the ordinary shares or stakes status and the Fund shall have to undertake the role of active owner. So far the legislation does not provide for detailing of the management procedures. The decision to convert minority shares into priority shares implicitly indicates the state determination not to be engaged in the management of companies with state capital. However, taking into consideration the extensive portfolio of the Pension and Disability Insurance Fund, the Fund (in accordance with the Government of the Republic of Macedonia, and in particular, with the Ministry of Finance) will have to draft a management strategy. This strategy shall include not only portfolio management but also active management of particular companies. The Fund might transfer the portfolio management activity to professional managers, but the outlining of the objectives to be obtained and the mechanisms to be engaged in this regard need to be defined by the Pension and Disability Insurance Fund.

Management of other state assets should be also discussed, in particular, the receivables, which are under the competence of the Sector for Assets Management within the Ministry of Finance. The issue with regard to management of the state capital is also raised in the framework of receivables management, in the course of their collection, sale, assigning, or other type of their management. A particular case is when the enterprises, from which the state has receivables, undergo bankruptcy procedure and when a Board of Creditors is established in which the state, being one of the creditors has to nominate its representatives. During the operation of the Asset Management Agency there were certain internal procedures in place, which could be further detailed and the principles and practices in all segments of state capital management should be levelled regardless of what is the source of their developing: ownership or debt relation.

While discussing management of state capital, the operation of the Public Enterprise for Management of Housing and Business Premises of the Republic of Macedonia should be also considered. This Agency operates on the basis of its own regulations and rules, however, the global management principles should also apply.

1. In the course of setting up a detailed strategy of management of state capital, the fundamental principles of corporate governance of the state enterprises drafted by OECD<sup>1</sup> should be observed, and even though they are in a phase of discussion and detailing, they clearly define the basic matters that need to be respected. They are classified in six chapters and refer to the following: Ensuring of an efficient legal and regulatory frame for state enterprises. Consequently, it is expected that the state shall ensure such a legal frame where the state and private sector should be treated on equal basis so that the state enterprises shall not have an advantage over private companies neither through regulatory nor industrial policy of the state. General rules should apply for both state and private companies on equal basis. In other words, the functions of the state as a regulator and as an owner should be clearly divided. It seems that Macedonian legal system does ensure fairly levelled playing

field, however, there is still a room for improvement in the enforcement of these regulation in practice.

2. The state should act as a good, active and responsible owner. It should define a clear and consistent ownership policy, defining that the management of the state enterprises shall be transparent and accountable, containing the necessary level of competence and efficiency. It is probable that this area should be in the focus in the future period. Consequently, the ownership policy should be defined to determine: (a) aims, (b) the role of the state in the corporate governance, and (c) mechanisms to be deployed for the accomplishment of the policy. The so-called entity responsible for ownership should be identified within the governmental administration. If more institutions in a country are in charge of the ownership (as is the case in Macedonia) the coordinating entity should also be appointed. The accountability of the coordinating entity and the other entities in charge of the ownership should be clearly defined. In these terms with the accountability towards the Assembly is a better form of organisation (which, for example, a department of the Ministry of Finance is not provided with). The key point in the management process is that the entity responsible for the ownership introduces a well-structured and transparent nomination procedure of the members in the managing and other boards in the enterprises where the state has full or majority ownership. The state should refrain from direct participation in the day-to-day management of the companies, but it should hold accountable its members of the companies boards, allowing them operative autonomy. For each enterprise where the state owns shares or stakes, it is responsible, through the entity liable for the ownership to (a) participate in the assemblies of shareholders (assemblies of members) and to vote on the basis of the shares (stakes) owned by the state, (b) strive for establishing information systems that shall enable regular monitoring and evaluation of the company performance, (c) ensure dialogue with the external company auditors, (d) establish remuneration of the members of the company boards which shall be in accordance with the long-term company interests and attractive enough to qualified professionals.
3. Equal treatment of shareholders (stakeholders). The state should also be sensitive concerning the rights of other shareholders in the companies where it owns shares and should ensure transparency to all shareholders.
4. The state should ensure that enterprises in its ownership fulfil their liabilities regarding other stakeholders in the companies, and that are in line with the general legal and moral codes of operation.
5. Transparency and disclosure of information pursuant to the rules for good corporate governance. Setting up a department for internal control, regular implementation of external audit (independent from the state audit).
6. Managing boards in the state enterprises should have the following attributes: they should have the appropriate authority, competences, impartiality, integrity and accountability so that they can strategically manage and monitor the executive management. It is important to point out that nomination of the members from administration should be applied to limited and transparent nomination procedures, as a rule. Good practices of corporate governance suggest that the Board President's role should be different from the General Executive Director. The boards of directors should be submitted to annual evaluation of their operation.

With regard to the above-stated the Ministry of Finance should prepare a detailed strategy for state capital management, which, in particular, should cover the following:

- a) Determination of the objectives of state ownership;
- b) Assessment of whether, and where, if needed, there is a necessity for amending the regulation regarding achievement of the state capital management strategy in terms of its incorporation of the best corporate governance practices;
- c) Definition of the coordinative entity of the ownership and its competences.
- d) Drafting an accurate registry of the property owned by the state and the nominee owners institutions in charge of ownership management.
- e) Definition of the procedure regarding cooperation between relevant ministries, relevant entities in charge of state ownership, and the coordinating entity of the ownership and their setting accountability mechanisms.

- f) Definition of the procedures regarding nomination of the executive board members in the companies with state owned capital;
- g) Definition of the procedures with regard to monitoring of the performance of the enterprises and nominated members of their boards.
- h) All institutions in the country responsible for management of the state capital or state assets (the Sector for Assets Management within the Ministry of Finance, the Pension and Disability Insurance Fund, the Public Enterprise for Management of Housing and Business Premises of the Republic of Macedonia, other ministries and state institutions) should be entrusted to draft their own policies (or to reconsider their existing ones) from the point of view of management of the assets and from the point of view of their consideration to the best practices of corporate governance in their operation; and
- i) Definition of the procedures regarding management of the present state capital portfolio and other assets (or reconsideration where those procedures have not been optimally set up): sale, exchange of property, assigning, purchase etc.

**9. Was there considerable inflow of capital other than FDI (portfolio investment, other)? If so, did it pose problems for the conduct of monetary policy or the exchange rate? How were such problems resolved? If such inflows have not yet taken place, how do the authorities envisage managing their impact in the future?**

The partial liberalisation of capital transactions began in October 2002 after the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia Nos. 34/01, 49/01, 103/01, and 51/03) had entered into force. Large capital inflows have not taken place due to the shortness of the time period. Therefore, portfolio investments (which are partly liberalised) present an insignificant percentage of GDP. In addition to the partial liberalisation of these transactions, a factor contributing to the low level of this kind of inflows is the quite weak diversification of securities portfolio of both equity securities and debt securities.

On the other hand, in certain periods, more substantial inflows have been realised on the basis of medium-term loans and credits, where inflows based on credits from multilateral creditors (IBRD, IMF, IFC, EBRD) have dominant participation which also does not pose any problems from the aspect of implementation of the monetary policy.

One of the most significant foreign exchange inflows in the banking system was the inflow based on foreign exchange deposits due to the euro-conversion in 2001. Namely, the introduction of the euro in the beginning of 2002, as well as the need for conversion of currencies into euro resulted in moving the foreign exchange saving from “under-the-mattress” to the banking system. However, the significant increase in the foreign exchange liquidity of the banks did not result in the pressure of appreciation of the domestic currency, which is mainly due to several factors: a) uncertainty regarding foreign exchange deposit withdrawal, where the banks led an extremely conservative policy regarding their placement and conversion in domestic currency; and b) the refraining from greater activities on the part of large economic subjects, caused by the security crisis in 2001.

Table: Capital and financial account of the balance of payments (% from GDP)											
Type of transaction/year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Capital and financial account	-0,51	4,79	6,30	7,21	9,15	7,96	-3,47	0,29	7,02	10,00	3,67
Capital account, net	0,00	0,89	0,04	0,00	0,00	-0,05	0,00	0,01	0,04	0,22	-0,14
Financial account, net	-0,51	3,91	6,26	7,21	9,15	8,01	-3,47	0,28	6,98	9,78	3,81
Direct investments and portfolio investments, net	0,00	0,71	0,27	0,26	0,86	3,58	0,88	4,88	12,83	2,07	2,11
Direct investments, net	0,00	0,71	0,21	0,25	0,80	3,57	0,88	4,88	12,82	2,06	2,03
Direct investments in the country, net	0,00	0,71	0,21	0,25	0,81	3,57	0,89	4,86	12,85	2,06	2,04
Direct investments in the country, inflow	0,00	0,71	0,21	0,25	0,82	3,57	0,89	4,98	12,95	2,17	2,10
Direct investments abroad, net	0,00	0,00	0,00	0,00	0,00	0,00	-0,01	0,02	-0,03	0,00	-0,01
Portfolio investments, net	0,00	0,00	0,06	0,01	0,06	0,01	0,00	0,00	0,01	0,01	0,07
Other investments, net	1,75	4,44	8,24	6,82	8,39	5,92	-0,45	2,78	-3,61	4,24	2,80
Commercial credits, net	-3,27	2,89	3,24	1,74	7,16	1,30	0,22	4,11	-1,75	2,20	1,79
Loans, net	-3,63	-2,86	0,66	0,94	2,02	6,14	2,12	0,38	-3,12	0,22	0,51
Currencies and deposits, net	3,23	1,12	1,94	2,58	-1,01	-1,57	-3,28	-3,03	0,62	1,19	0,06
Others, net	5,42	3,28	2,40	1,55	0,22	0,06	0,49	1,32	0,64	0,64	0,45
Source: NBRM and SSO Processed by NBRM											

The available inflow management instruments are presented in the answer to Chapter 4: Free movement of capital, I. The regime of capital and current account payment movements. Question 4 ([04 I 4](#)).

**10. Is the financial system sufficiently developed to cope with the greater freedom of capital movements? What are the implications for financial supervision? Is there a clear division of competencies among the authorities that are in charge of financial supervision? Please provide details.**

The provisions referred to in the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia Nos. 34/01, 49/01, 103/01, and 51/03) enable sufficient liberalisation of the foreign exchange regime. It can be concluded that in the course of the two-year enforcement of this Law, the financial institutions have not had any disturbances, i.e. problems, due to the high liberalisation of the capital movements. There is, of course, always a need for a continuous development of the financial system, so that competition may empower all financial institutions to lead a prudent business policy, protected from the potential risks from their operations.

The financial system of the Republic of Macedonia comprises the following financial institutions:

- Banks;
- Savings houses;
- Exchange offices;
- Insurance companies;
- Financial lease companies;
- Brokerage companies;
- Swift money transfer companies
- The Macedonian Securities Exchange Market;
- The Central Securities Depository;
- The Deposit Insurance Fund;



Table: Financial institutions in the Republic of Macedonia,							
		Banks	Savings houses	Insurance companies	Stock broker companies	Lease companies	Total
		1	2	3	4	5	6
1	Number of institutions	21	15	7	10	6	59
2	Number of employees	4595	129	906	41	9	5551
3	Assets (in mil. MKDs)	104.875	1.262	12.236	381	524	119.278
	- share in the total assets of the financial institutions (%)	87,9%	0,01%	10,26%	0,32%	0,44%	
	- share in GDP (%)	41,16%	0,5%	4,8%	0,15%	0,21%	46,82%
Source: Ministry of Finance, NBRM, and the Securities and Exchange Commission							

Pursuant to the legislation in the Republic of Macedonia, supervisory bodies are clearly set up for all financial institutions, and the competences of the financial supervisory bodies are clearly defined.

Banks, savings banks, exchange offices, and the companies for swift money transfer services are under direct supervision of the National Bank of the Republic of Macedonia. Insurance companies and financial lease companies are under the supervision of the Ministry of Finance. The Macedonian Stock-Exchange Market, brokerage companies and the Central Securities Depository are under the competence of the Securities and Exchange Commission.

Even though current legislation is set up and appropriate supervisory bodies are established, investment funds and pension funds have not been established yet in the Republic of Macedonia. Reform of the pension system is ongoing, and in 2005 it is expected that two pension funds as a second mandatory pillar of the pension system will be established by tender procedure. It is provided that investment funds will be under the direct supervision of the Securities Commission, and a special Agency for Supervision of the mandatory fully funded pension insurance will be in charge of the supervision over the private pension funds.

**In Chapter III, the answers:** ([03 II A 4 18](#)), ([03 II B 2 6](#)), and ([03 II C 1 1](#)) detail the legal frame and competences of all supervisory bodies of the financial institutions in the Republic of Macedonia.

Due to the high liberalisation of capital movements that has been enabled since 2002 by the Law on Foreign Exchange Operations, supervisory bodies in the Republic of Macedonia, within their secondary legislation, have established criteria and methods regarding the operation of the financial institutions with the intent of protecting them from foreign exchange risks.

The banks have a dominant share in the financial system of the Republic of Macedonia. Thus, the biggest portion of this answer will contain an elaboration of banking regulations from the aspect of capital movement and protection from foreign exchange risks.

In order to implement the monetary and foreign exchange policy of the National Bank of the Republic of Macedonia, a range of prudent standards is provided regarding capital transactions, i.e. investments of both residents abroad and non-residents in the Republic of Macedonia.

Pursuant to the Law on Foreign Exchange Operations, there is a complete liberalisation of the bank credit operations both in the area of credit approval to non-residents and in the area of lending of foreign exchange to residents. The conditions to be fulfilled for foreign exchange credit approval to residents are prescribed in the Decision on terms and conditions regarding conclusion of foreign exchange credit operations between residents (Official Gazette of the Republic of Macedonia No. 66/02). The prudent standards included in the Banking Law and its secondary legislation regulating

undertaking of credit risk by the banks is equally applied to all credit exposure regardless of whether it is denar, foreign exchange, or credit exposure to residents or non-residents. In the case of placement of assets with non-resident banks, pursuant to the Decision on establishment of the methodology for classification of the active balance and off-balance bank positions according to the level of their risk (Official Gazette of the Republic of Macedonia No. 21/01-consolidated text), the banks are obliged to provide a special reserve for country risk. The risk rate for different countries is presented in a special list which is provided to the banks on a quarterly basis by the National Bank of the Republic of Macedonia.

The Law on Foreign Exchange Operations regulates in detail capital transactions related to securities operations:

- Issuance and introduction of domestic securities abroad;
- Investment by residents in securities abroad;
- Issuance and introduction of foreign securities in the Republic of Macedonia;
- Investments in securities by non-residents in the Republic of Macedonia; and
- Direct investments on the basis of investments in securities.

In order to restrict the risk undertaken by the banks regarding investments in foreign securities, the National Bank of the Republic of Macedonia has adopted a Decision on determining the type of securities, which authorised banks may purchase and sell abroad (Official Gazette of the Republic of Macedonia No. 53/02). This Decision determines the qualitative criteria of issuers, as well as the credit rating of the securities banks may invest in.

The Law on Foreign Exchange Operations and the Decision on the terms and conditions of securities operations of non-residents in the Republic of Macedonia (Official Gazette of the Republic of Macedonia Nos. 53/02; 11/03, and 19/03) regulate the conditions for securities operations for non-residents in the Republic of Macedonia. Regarding all investments of non-residents in securities, with the exception of the cases from Item 1 of the above-mentioned Decision, it is provided that non-residents must, compulsorily, open custody accounts with the authorised banks in the Republic of Macedonia. Authorised banks keeping custody accounts are obliged to keep records of the purchased and sold securities. In order to restrict the speculative character of the non-resident transactions with securities and the possible disturbances of the foreign exchange market that may be caused by these transactions, the non-resident is obliged to:

- Provide a statement that the purchased securities will not be sold within one year from the day of their acquisition;
- Authorise the custody bank to give an order to the Central Securities Depository, which will instruct to record a prohibition on having at disposal securities that would be to the benefit of the bank for a period of one year.

Unless the above-mentioned statements or authorisations are obtained, the authorised bank is obliged to purchase the foreign exchange provision right within the National Bank of the Republic of Macedonia for the position of the securities it is in custody of. The value of the purchased rights at any moment must be at least equal to the position of the securities. The rights are of 3-month duration and may be used each working day in the course of the quarter, and the premium is determined by the Governor of the National Bank of the Republic of Macedonia. The purchased rights may be used only for foreign exchange outflow abroad and only with a simultaneous decrease of the position of the investor's securities in the course of the quarter.

The monitoring of the bank exposure to the risk from exchange rate fluctuations arising from bank exposure (open long or short positions) in some currencies is regulated by the Decision on determination and calculation of open foreign exchange positions of the banks (Official Gazette of the Republic of Macedonia No. 103/01 – consolidated text). This regulation is a prudent instrument to monitor the risk exposure of the banks and minimise the risks created as a result of significant disturbances of the exchange rate of certain currencies, where the banks have an open position in relation to the denar. Pursuant to this Decision, the open foreign exchange position of a particular

currency may amount to up to 20% of the guarantee bank capital, with the exception of the open foreign exchange position in euro, which may be up to 30% of the guaranteed bank capital, the open aggregate foreign exchange position up to 50% of the guarantee bank capital, and the open short foreign exchange position in a particular currency and the aggregate short open foreign exchange position up to 10% of the guarantee bank capital. In line with the Decision on the methodology of establishing risk weighted bank assets (Official Gazette of the Republic of Macedonia No. 50/01), due to the provision of an appropriate level of capital to cover exchange rate risks, in the calculation of the capital adequacy indicator, the open aggregate foreign exchange position, established in line with the Decision on estimation and calculation of open foreign exchange bank positions, is also taken into account.

As a result of the liberalisation of the foreign exchange regime, in the course of 2003 an obligation for the banks was introduced to allot and maintain a compulsory foreign currency reserve. This obligation was introduced by the Decision on compulsory bank foreign currencies reserve (Official Gazette of the Republic of Macedonia No. 19/03). According to this Decision, the base for calculation of the compulsory reserve are the foreign exchange bank obligations to residents and non-residents. The compulsory foreign exchange reserve rate, introduced by this Decision, is 7,5%, and is calculated on the 10<sup>th</sup> day of each month, and is allotted in euro on a special foreign exchange account in NBRM.

All above-mentioned secondary legislation that additionally regulates the provisions of the Law on Foreign Exchange Operations as well as prudent supervisory standards, enable the prudent framework to restrict bank possibilities as dominant subjects in the financial system to undertake high risk exposures in conditions of a liberalised foreign exchange regime, in particular, in the part of capital transactions.

What is missing in the existing legal framework is the prudent regulation to regulate bank exposure to market risk and interest rate risk emerging from investments in both domestic and foreign equity and debt securities, as well as inclusion of quantitative indicators regarding exposure to these risks in the methodology of calculation of the capital adequacy rate as a general indicator of the bank solvency position.

Pursuant to the Law on Foreign Exchange Operations insurance companies, pension funds, and investment funds may invest in securities abroad. The conditions to be fulfilled by issuers and the securities credit rating in which insurance companies, pension funds, the Deposit Insurance Fund, and investment funds may invest are regulated by the laws that regulate the operation of these institutions, and which to a great extent do not deviate from the criteria prescribed in the Decision on determination of the type of the securities which authorised banks may purchase and sell abroad.

With regard to other financial institutions, we will discuss insurance companies. Pursuant to the Law on Supervision of Insurance (Official Gazette of the Republic of Macedonia Nos. 27/02, 84/02, 98/02, and 33/04), companies are obliged to carry out adjustment of invested assets covering technical reserves, and which are exposed to risk of potential losses as a result of the change in interest rates, exchange rate fluctuation, credit risk and other market risks, due to the obligations emerging from insurance contracts affected by these changes. In the course of asset investments covering technical reserves, an insurance company is also obliged to take into account the maturation of its obligations arising from insurance contracts. In addition to this, an insurance company may adjust its investments to assets which cover mathematic reserve with its obligations arising from insurance contracts, whose amounts depend on the foreign exchange rate fluctuation only up to 80%.

Types of permitted investments of the insurance companies are detailed in the answer to the question ([03 II B 4 21](#)) Chapter 3 of the Questionnaire.

The scope and the type of invested assets of capital pension funds and investment funds are detailed in the answer to the question (04\_I\_ 11) Chapter 4.

**11. Does a substantial inflow of capital provide the opportunity for a more balanced opening of the capital account, by allowing residents to invest abroad? In this context, what are the investment rules applied to institutional investors (e.g. pension funds) regarding investment in foreign securities?**

Large foreign capital inflow means a bigger capital account, which in conditions of low accumulation of the domestic capital gives possibilities of easier liberalisation (or management) of the capital account outflow as well as investments abroad.

Pursuant to the Law on Foreign Exchange Operations, insurance companies, pension and investment funds as well as institutional investors in the Republic of Macedonia may purchase securities abroad in line with the laws that regulate their operations.

After the expiry of the first SAA phase, other residents (citizens and enterprises) may also invest in foreign securities abroad.

Nowadays only 9 insurance companies operate in the Republic of Macedonia as institutional investors. The investment policy of the insurance companies, including legal criteria and restrictions to invest in foreign securities, is detailed in the answer to the question ([03 II B 4 21](#)) Chapter 3 of the Questionnaire.

In 2005 two pension funds will be established as a second compulsory pillar of the pension system. Pursuant to the Law on Mandatory Fully Funded Pension Insurance, in Article 105 (Official Gazette of the Republic of Macedonia Nos. 29/00, 85/03, and 40/04) the securities in which pension funds may invest abroad are determined, as follows:

1. Bonds and other securities issued by foreign governments and central banks of the member states of the European Union, Japan and USA;
2. Debt securities which have a recommended investment rating, consistent with international credit rating agencies, issued by non-public, foreign companies or banks from the member states of the European Union, Japan and USA;
3. Shares issued by foreign companies or banks which have a recommended investment rating, consistent with international credit rating agencies, and which are traded on major stock exchange markets in the member states of the European Union, Japan or USA;
4. Share documents, shares and other securities issued by authorised investment funds established in the member states of the European Union, Japan or USA, which have mainly invested in shares quoted on the stock markets in those countries.

Investment in particular types of foreign instruments is subject to the following restrictions pursuant to Article 107 of the Law:

- Up to 20% of the value of the pension fund assets may be invested in foreign issuer's instruments out of the Republic of Macedonia. In the scope of this restriction, up to 5% of the assets value of the pension fund may be invested in the instruments indicated in item 2, and up to 5% of the assets value of the pension fund may be invested in the instruments indicated in items 3 and 4;
- Pension fund assets may be invested in securities of the same issuer up to 10% of the nominal value of each security issued by that issuer.

The Supervision Agency of the capital funded pension insurance, in line with the Rulebook for investments in the pension funds (Official Gazette of the Republic of Macedonia No. 44/04), regulates in detail the quality of securities in which pension fund assets may be invested; the countries or groups of countries in which pension fund assets may be invested and the highest amounts from pension funds assets that may be invested in one company or a trade company, or in one instrument.

The Law on Investment Funds (Official Gazette of the Republic of Macedonia No. 09/00) does not regulate special investment restrictions of the investment fund assets in foreign securities. The Law, according to Article 14, provides investment restrictions regarding both domestic and foreign securities, as follows:

- Funds must not invest more than 20 % of their assets in securities of a single issuer;
- Funds may acquire up to 20 % of the total number of securities issued by a single issuer;
- Funds may acquire up to 15 % of the total nominal value of debt securities issued by a single issuer; and
- Funds may not invest in more than 15 % of the total number of shares issued by one issuer, and more than 10 % of the total nominal value of debt securities issued by a single issuer.

**12. Please explain in detail the nature and scope of restrictions on the acquisition of real estate by foreigners in your country.**

1. One of the fundamental values of the general provisions referred to in the Constitution of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 52/91) determines that everything not prohibited by the Constitution and law is permitted in the Republic of Macedonia (Article 8, paragraph 2)

The Constitution of the Republic of Macedonia determines that a foreign person may acquire the right to ownership in the Republic of Macedonia under conditions determined by law (Article 31).

Regarding real estate, constitutional provisions referred to in Article 56, paragraphs 1 and 3, and Article 30, paragraph 2 are in line with this constitutional provision.

Namely, pursuant to Article 56, paragraph 1 referred to in the Constitution of the Republic of Macedonia, all natural resources of the Republic of Macedonia, the flora and fauna, all amenities as well as the objects of cultural and historical importance determined by law are goods of common interest for the Republic of Macedonia and enjoy special protection. Pursuant to paragraph 3 of this Article, the terms and conditions under which particular common goods in the Republic of Macedonia may be subject to concession are regulated by law.

Pursuant to Article 30 paragraph 2 of the Constitution of the Republic of Macedonia, ownership of property creates rights and liabilities and serves for the benefit of the individual and the community.

Acquisition of the right to real estate ownership for domestic and foreign persons in the Republic of Macedonia is regulated by a number of laws.

The Law on Ownership and Other Real Rights (Official Gazette of the Republic of Macedonia No. 18/01) is a *lex generalis* regulating generally the issue of real estate ownership and other real rights, thus settling the issue of real estate ownership in general, but it refers to a special law (*lex specialis*) regarding certain property right issues. This Law and the special laws in line with the Constitution of the Republic of Macedonia build a system regarding acquisition and restriction of real estate property rights for both domestic and foreign persons.

In line with this system of the rights and restrictions to real estate ownership acquisition, foreigner rights are equal with the rights of the domestic persons, but there are differences regarding particular real estate (restrictions for foreign persons) depending on the real estate features or reciprocity concerning the acquisition of property rights.

In the Republic of Macedonia, in the case of existence of acquisition right to particular property there are no quantitative restrictions.

2. In the legislation of the Republic of Macedonia in the field of ownership, pursuant to the Law on Ownership and Other Real Rights, there is real estate that may be owned only by the state or may not be subject to domestic and foreign legal and natural persons' property rights (determined to be of general or public interest by positive regulations). Thus, domestic and foreign persons may not be holders of the property right for common goods, public roads, waters, watercourses and lakes, woods in state ownership (except in the case of exchange of state owned woods with woods in domestic private ownership for consolidation of the complexes), and agricultural land in state ownership (except in the case of exchange of agricultural land in state ownership with private owned agricultural land in line with conditions determined by law).

Pursuant to the Law on Ownership and Other Real Rights (Official Gazette of the Republic of Macedonia No. 18/01), common goods (streets, roads, bridges, squares, parks) are state owned goods used by all natural and legal persons (Article 16, paragraph 4).

Pursuant to the Law on Public Roads (Official Gazette of the Republic of Macedonia Nos. 26/96, 40/99, 96/00, and 29/02), public roads are common goods and are in state ownership (Article 2, paragraphs 1 and 2).

Pursuant to the Law on Waters (Official Gazette of the Republic of Macedonia Nos. 04/98 and 19/00), waters, watercourses and lakes as common goods of the Republic of Macedonia enjoy special protection determined by this Law and are owned by the state. (Article 2)

Pursuant to the Law on Forest Protection (Official Gazette of the Republic of Macedonia Nos. 47/97 and 07/00), forests in state ownership are common goods of the Republic of Macedonia and enjoy special protection determined by this Law. They are treated like agricultural land and are not subject to acquisition of property right.

With regard to the mentioned real estate, foreign natural and legal persons have an equal legal position with domestic persons because both categories are excluded from the possibility to acquire the property right.

**3.** Foreign persons in the Republic of Macedonia, unlike domestic persons, may not acquire property rights to the following types of real estates: construction land, agricultural land, and forests in private ownership.

Pursuant to the Law on Ownership and Other Real Rights (Official Gazette of the Republic of Macedonia No.18/01) (Articles 245 and 246), the Law on Construction Land (Official Gazette of the Republic of Macedonia No. 53/01), and the Law on Agricultural Land (Official Gazette of the Republic of Macedonia Nos. 25/98, 18/99, and 2/04), foreign natural and legal persons may not acquire right to own land (construction and agricultural) in the Republic of Macedonia.

Foreign persons may have a long-term lease right to construct business buildings and premises as well as residential buildings and flats, upon approval by the Ministry of Justice, upon prior opinion acquired from the Ministry in charge of urban planning and construction and the Ministry of finance; and regarding long-term lease of agricultural land on the basis of approval by the Ministry of justice, upon prior opinion acquired from the Ministry of agriculture, forestry and water economy and the Ministry of finance.

To acquire the long-term lease right to construction and agricultural land, there is a condition of reciprocity provided for in the Law on Ownership and Other Real Rights, determined by the Ministry of justice.

**4.** Pursuant to the Law on Forest Protection (Official Gazette of the Republic of Macedonia Nos. 47/97 and 07/00), foreign natural and legal persons may not acquire the right to forest ownership in the Republic of Macedonia.

Pursuant to the Law on Agricultural Land (Official Gazette of the Republic of Macedonia Nos. 25/98, 18/99 and 02/04), foreign persons may not acquire the right to own agricultural land in public and private ownership.

Pursuant to the Law on Nature Protection (Official Gazette of the Republic of Macedonia No. 67/04), foreign persons may not acquire the right to real estate ownership situated in the protected natural areas.

**5.** In the legislation of the Republic of Macedonia there is a condition according to which foreign natural and legal persons in their right to acquire real estate are equal with domestic persons,

however, the acquisition of such right may be accomplished only if the foreign natural or legal persons establish a legal person registered in the Republic of Macedonia as a domestic legal person.

**13. Please outline considerations involved in plans for the eventual liberalisation of inward investment in real estate in your country, distinguishing, if appropriate, between agricultural, forest, industrial, residential (urban, rural, coastal), security areas. In this context, what progress has been made on the establishment of a land register?**

1. Fundamental values, pursuant to Article 8 paragraph 1 of the Constitution of the Republic of Macedonia (Official Gazette of the Republic of Macedonia No. 52/91), among others, are: legal protection of property; freedom of market and entrepreneurship; respect for generally accepted norms of international law. In this scope, everything that is not forbidden by the Constitution and by law is free. (Article 8, paragraph 2)

Pursuant to Article 30 paragraph 1 of the Constitution of the Republic of Macedonia, the right of ownership and the right of inheritance are guaranteed.

Pursuant to Article 30 paragraph 2 of the Constitution of the Republic of Macedonia no person may be deprived of their property and have their rights arising thereof restricted, except when public interest determined by law is in question.

Pursuant to Article 30 paragraph 3 of the Constitution of the Republic of Macedonia, in cases of property expropriation or in case of ownership restriction, the rightful compensation is guaranteed, which cannot be lower than the market value.

Pursuant to Article 30 (paragraph 2) of the Constitution of the Republic of Macedonia, ownership creates rights and obligations and serves for the benefit of the individual and the state.

The Constitution of the Republic of Macedonia specifies that a non-resident in the Republic of Macedonia may acquire a property right under conditions determined by law (Article 31). This means that the foreign person's property right is acquired pursuant to law.

The Law on Ownership and Other Real Rights (Official Gazette of the Republic of Macedonia No.18/01), is *lex generalis* and regulates the issue of real estate ownership and other real rights in general; thus the law regulates, in general, the issue of real estate ownership; however, for certain issues it focuses on a special law (*lex specialis*) to regulate the rights to ownership. This Law and the special laws in correlation with the Constitution of the Republic of Macedonia set up a system regarding acquisition and restriction of the rights to real estate ownership both for domestic and foreign persons.

2. In the Republic of Macedonia there is a possibility of investments in real estate by domestic and foreign natural and legal persons in: construction land; agricultural land; forests; roads; residence space (apartments); business premises (administrative and economic space); mineral raw materials; waters; commercial activities; energetics.

Investments may range from acquisition of real estate ownership if there is a legal basis for the acquisition of the right to property, to acquisition of long-term lease, concession, lease and usufruct.

***Investment in real estate by domestic natural and legal persons***

Domestic natural and legal persons may invest in:

- Construction land by acquiring ownership, long-term lease, concession and lease;
- Agricultural land by acquiring ownership when the investment (acquisition) refers to agricultural land of private ownership (since agricultural land in state ownership may not be disposed of), by acquiring a long-term lease, concession, lease and usufruct;
- Forests by acquiring ownership when the investment (acquisition) refers to forests in private ownership (since forests in state ownership are not subject to sale), and state owned forest may be acquired only in case of exchange with private forest due to consolidation of forest

complexes in state ownership, and investments in way of concession pursuant to the provisions referred to in the Law on Concession;

- Roads by acquisition by way of concession for construction and use of a motorway, part of the lane or part of the travel belt of a public road;
- Residential space (apartments) by acquisition of ownership and by lease;
- Business premises (administrative and commercial space) by acquisition of ownership and by lease;
- Waters by acquisition of concession;
- Mineral raw materials by acquisition of concession;
- Carrying out public utilities by acquisition of concession;
- Activities in the field of energetics or production, transmission and distribution of electric power, international transport of crude oil through an oil pipeline, production, transport and distribution of natural gas and production, transmission and distribution of thermal and geothermal energy, on the basis of licence (concession), and construction of objects intended for performance of particular activities in the field of energetics by investments on the basis of agreement between the Government of the Republic of Macedonia and the investor, who, for that purpose, establishes a special trade company;
- Construction, use, maintenance and protection of navigation courses, ports, winter ports, anchorages, and ocean resorts, on proposal by the Ministry of transport and communications, the Government of the Republic of Macedonia may give approval (concession), if the domestic natural and legal person owns the necessary capital and has the personnel and equipment capacity for successful execution of the works subject to the concession.

### ***Investments in real estate by foreign natural and legal persons***

Foreign natural and legal persons may invest in:

- Construction land, by acquiring the right to a long-term lease (up to 99 years) for construction of business building and business premises and residence apartments on the territory of the Republic of Macedonia (on the basis of approval by the Ministry of justice, upon obtained opinion of the Ministry in charge of town planning and construction and the Ministry of finance, under reciprocity conditions) and by way of concession. Therein, the foreign persons do not obtain the property right of the construction land, but only of the objects;
- Agricultural land, by acquiring the right to long-term lease of the agricultural land, on the basis of approval by the Ministry of justice, upon obtained opinion from the Ministry of agriculture, forestry and water management and the Ministry of finance, under conditions of reciprocity, by way of concession and lease. Foreign natural and legal persons may not acquire the property right by investing in this type of real estate.
- Forests by acquiring a concession;
- Roads, by acquiring a concession for construction and use of motorway, part of the lanes, or part of the travel belt of a public road;
- Residential space (apartments), by acquiring the property right to an apartment or residential building under conditions of reciprocity, and by way of lease, whereas foreign legal persons may also invest by way of long-term lease;
- Business premises (administrative and commercial premises), under conditions of reciprocity by acquiring the property right and the right to a long-term lease;
- Waters by acquiring concession;
- Mineral raw materials by acquiring a concession;
- Carrying out public utilities by acquiring a concession;
- Activities in the field of energetics or production, transmission and distribution of electric power, international transport of crude oil through an oil pipe-line, production, transport and distribution of natural gas, and production, transmission and distribution of thermal and geothermal energy, on the basis of a licence (concession), and construction of objects for performance of particular activities in the field of energetics by way of investment of assets, may be done on the basis of agreement between the Government of the Republic of Macedonia and the investor, who, for that purpose, has established a trade company in the Republic of Macedonia;



- Construction, utilisation, maintenance and protection of navigation courses, ports, winter ports, anchorages, and ocean resorts on the proposal of the Ministry of transport and communications, the Government of the Republic of Macedonia may grant its consent (the concession), if the foreign legal or natural person owns the necessary capital and has the personnel and equipment capacity for successful execution of the works subject to the concession.

The Law on Concession (Official Gazette of of the Republic of Macedonia No. 25/02) regulates granting concession to foreign natural and legal persons; according to this Law, concessionaires may be foreign legal persons who have a subsidiary registered in the Trade Register of the Republic of Macedonia, if determined by special law (Article 7).

Concession is granted pursuant to the Law on Concession, and other laws which treat concession well.

Non-resident may not become the owner of real estate, which due to protection of the interests and safety of the Republic of Macedonia, is declared as an area which non-residents are not entitled to possess, unless otherwise provided by law.

It is important to emphasise that concerning non-resident natural and legal persons and the impossibility for direct acquisition of the property right to construction and agricultural land, there is a possibility, conditionally, of an indirect way to acquire the property right to this kind of real estate, if the founder of the trade company in the Republic of Macedonia is a non-resident (foreign person) and owns or has a share in the company, where the company is treated as a domestic legal person having all rights and obligations as trade companies in legal trade. This means that non-residents who own domestic trade companies, may acquire a property right as domestic persons, that is, there is no restriction of acquiring the property right to this kind of real estate.

**3.** In the legislation of the Republic of Macedonia pursuant to the Law on Ownership and Other Real Rights (Official Gazette of the Republic of Macedonia No. 18/01) and pursuant to other sector specific laws, there are immovables that are exclusively in state ownership, i.e. cannot be subject to a property right of domestic and foreign natural and legal persons.

Thus, pursuant to the Law on Ownership and Other Real Rights (Official Gazette of of the Republic of Macedonia No. 18/01), public goods (streets, roads, bridges, squares, parks) are property in state ownership utilised by all natural and legal persons (Article 16 paragraph 4).

Pursuant to the Law on Public Roads (Official Gazette of of the Republic of Macedonia Nos. 26/96, 40/99, 96/00, and 29/02), public roads are public goods and are in state ownership (Article 2 paragraphs 1 and 2).

Pursuant to the Law on Waters (Official Gazette of of the Republic of Macedonia Nos. 4/98 and 19/00), waters, watercourses, and lakes as public goods of the Republic of Macedonia enjoy special protection laid down in this Law and are in state ownership (Article 2).

Having regard to the above-mentioned real estate, foreign natural and legal persons have an equal legal status as domestic persons since both categories are excluded from the possibility to acquire the property right.

**4.** The Law on Privatisation and Rent of Construction Land in State Ownership is in drafting phase as regards liberalisation of the acquisition of the property right to construction land and investment in this kind of real estate.

This Law will contribute to the privatisation of construction land, which is largely in state ownership as yet, and which is subject to the right to utilisation by natural and legal persons (but not to property right); this Law will enable free trade of this kind of land and will stimulate the possibilities to invest in construction land.

5. Acquisition of a property right is in correlation with Article 56 paragraph 1 of the Constitution of the Republic of Macedonia, according to which: "All natural treasures of the Republic, flora and fauna, goods in general use as well as the items and objects of special cultural and historical importance, defined by law, are public goods of the state and they enjoy special protection."

According to that, acquisition of the property right for certain types of real estate is restricted and regulated by the State in cases when this real estate is public goods (public interest) and, in this regard, the State reserves the right to certain restrictions and to the regime of utilisation.

6. The Law on Surveying, Land Register and Entry of the Rights to Real Estate (Official Gazette of the Republic of Macedonia Nos. 27/86 and 17/91) is the basis for registration of land and other immovables thereof (buildings, subsidiary and other objects and the space in them – apartments, business and other premises).

Registration of land and other immovables is carried out systematically.

First a cadastral (and topographic) survey of the land and other immovables is performed and data on the purpose of the land and objects are collected, data on good standing – economic strength of the land and other data intended for the potential owners of the immovables. Upon carrying out expert and computer processing of the collected data on immovables, public presentation of the data is done with establishing and registration of the right to the immovables (first registration) in the course of a systemised procedure which lasts from several months to 2 or 3 years depending of the size of the territorial unit.

Upon the ending of this procedure separately a so-called "Land Register of Real Estate" is established for each cadastral community and its application is published in Official Gazette.

The Land Register of Real Estate as a public book of immovables and rights thereof is shared – unique and basic evidence of immovables and rights thereof, which has a constituent character regarding the rights to real estate. A Land registry certificate is an evidence of the ownership and other real rights.

Pilot projects were carried out within the period from the adoption of the Law in 1986 until 1991. An organized approach to registration of the rights to real estate was carried out on the basis of the "Medium-term Programme for surveying, land register, and entry of rights (first registration) of the real estate 1991-2002". An improvement of about 45 % has been achieved in the registration of the total area of the territory of the Republic of Macedonia, and in the field of surveying this percentage amounts to 95%. Complete digitalisation has been achieved in the attributive part of the land register data and partial digitalisation (20%) of the land register maps.

In line with the World Bank Project "Cadastre and Real Estate Registration", by the end of 2010 first registration of ownership and other real rights to the real estate on the territory of the Republic of Macedonia shall be carried out.

Organisational, legal and other measures have been undertaken to improve legislation as well as simplification and acceleration of the procedures regarding first registration and shorten the time limit necessary for transfer of the rights to real estate in the public book.

New legal decisions are in procedure providing for the introduction of individual registration of the rights to real estate, upon clients' request, and concerning areas where a public book on ownership of real estate is not established. In addition, private practice shall be introduced in the area of surveying and maintenance of the changed data of the real estate. It is predicted that the entry digitalisation of numerical data, cadastral maps and collection of legal documents of title will be entirely finished by 2010. An electronic land register i.e. establishing a fully automated Geodetic-Land Register-Information System (GeoKIS) on geospace and other data on real estate and its on-line access to users and citizens is being set up. The entire electronic transmission of real estate rights and electronic access to documents of title regarding facts contained in the land register as a public book is planned to be introduced, until 2010. Measures have been undertaken for the institutional strengthening of the registration offices and continuous vocational training and upgrading of human resources for the purpose of a contemporary full-servicing of the citizens' needs in this field.

7. In the Republic of Macedonia, pursuant to the Constitution and the special laws which regulate the rights regarding real estate, there are normative and legal presumptions enabling a high level of liberalisation concerning investments in real estate.

**14. Are there investment agreements with third countries which provide for pre-establishment access of investments? With which countries have investment agreements been concluded? Please provide relevant information on dates of ratification, initial terms of agreements, automatic renewal procedures, and periods for which acquired rights exist. Do such agreements include a regional economic integration organisation clause? Which sectors are normally excluded (e.g. aviation, maritime transport, fishing, audiovisual, etc.) from such agreements?**

Up till now the Republic of Macedonia has concluded 26 bilateral agreements for promotion and mutual protection of investments already in force, 3 agreements ratified by the Parliament of the Republic of Macedonia, but not in force yet, and 5 agreements initialled by expert teams, but not by the state officials.

A table including the 29 ratified agreements in force is below.

Considering time of validity of agreements, it varies from 10 to 20 years, leaving a possibility for automatic extension of the agreement validity for 10-20 years, unless one year, or in some cases 6 months, before the expiry period of the agreement, one of the signatory countries notifies the other party on its withdrawal from the agreement. The withdrawal notification enters into force and the agreement is considered cancelled after the expiry of a one-year period, in some cases within a six-month period, from the day when the other agreement party has received a diplomatic notification of agreement cancellation.

Pursuant to the agreements, each agreement country must provide **fair and equal** treatment of investments on its territory from the investors from another agreement country.

Bilateral agreements for promotion and mutual protection of investments in their content do not list the sectors in which a non-resident may not invest. Namely, agreements refer to national legislations, or respect legal restrictions that refer to particular sectors in the relevant countries. In Macedonian legislation there are particular sectors/activities excluded from these agreements such as the military industry, movement and trade in arms, movement and trafficking in drugs, protection of historical landmarks and cultural treasures, protection of human health, protection of forests and waters. The annex table enclosed to the answer to question 1, section I, Chapter 04 will be useful to detail the existing restrictions to non-resident investment. (for more details see [04 I 1](#))

Agreements do not contain a clause for regional economic integration in organizations.

## Concluded bilateral Agreements for promotion and mutual protection of investments

Country	Date of conclusion (signing)	Date of ratification	Date of entry into force	Time of validity automatically extended	Published in the Official Gazette No.
1. Republic of Croatia	06.07.1994	15.03.1995	04.11.1995	10 years	17/95
2. Republic of Turkey	14.07.1995	30.01.1997	27.10.1997	10 years	05/97
3. Republic of Slovenia	05.06.1996	26.09.1996	21.09.1999	10 years	55/96
4. Federal Republic of Yugoslavia	04.09.1996	18.12.1996	22.07.1997	10 years	69/96
5. FRG	10.09.1996	19.02.1997	17.09.2000	10 years	08/97
6. Switzerland	26.09.1996	19.02.1997	06.05.1997.	10 years	08/97
7. Republic of Poland	28.11.1996	02.04.1997	22.04.1997	10 years	17/97
8. Republic of Italy	26.02.1997	09.07.1997	28.05.1999	10 years	34/97
9. People's Republic of China	09.06.1997	18.09.1997	01.11.1997	10 years	49/97
10. Russian Federation	21.10.1997	03.02.1998	09.07.1998	10 years	07/98
11. Malaysia	11.11.1997	05.02.1999	17.03.1999	10 years	07/99
12. Republic of Albania	04.12.1997	18.03.1998	03.04.1998	10 years	15/98
13. Democratic People's Republic of Korea	15.12.1997	18.03.1998	30.04.1998	10 years	15/98
14. Republic of France	29.01.1998	25.03.1998	31.03.2000	10 years	16/98
15. Ukraine	02.03.1998	28.04.1998	25.03.2000	10 years	21/98
16. Kingdom of Sweden	07.05.1998	25.06.1998	01.10.1998	20 years	31/98
17. Kingdom of Holland	07.07.1998	25.08.1999	01.06.1999	15 years	13/99
18. Belgian- Luxembourg Economic Union	16.02.1999	15.04.1999	04.11.2002	10 years	23/99
19. Republic of Bulgaria	22.02.1999	15.04.1999	05.06.1999	10 years	23/99
20. Republic of China	09.06.1999	14.07.1999	09.06.1999	10 years	44/99
21. Romania	12.06.2000	23.01.2002	13.02.2002	10 years	07/02
22. Republic of Finland	25.01.2001	23.01.2003	22.03.2002	10 years	07/02
23. Bosnia and Herzegovina	15.02.2001	23.01.2002	25.10.2001	20 years	07/02
24. Republic of Austria	28.03.2001	23.01.2002	14.04.2002	10 years	07/02
25. Republic of Hungary	13.04.2001	24.01.2002	14.03.2002	10 years	12/02
26. Czech Republic	21.06.2001	23.01.2002	20.09.2002	10 years	07/02

## Concluded bilateral Agreements for promotion and mutual protection of investments that are not in force

Country	Date of conclusion (signing)	Time of validity, automatically extended	Date of ratification	Published in the Official Gazette No.
1. Republic of Egypt	22.11.1999.	10 years	27.01.2000	07/00
2. Islamic Republic of Iran	12.07.2000	10 years	23.01.2002	07/02
3. Republic of Belarus	20.06.2001	10 years	20.06.2002	47/02

## Initialled, but not signed bilateral Agreements for promotion and mutual protection of investments

Country	Date and place of initialling
1. Republic of Greece	18 March 1997, Athens
2. Great Britain and Northern Ireland	14 and 15 October 1999, London
3. Republic of Uzbekistan	27 and 28 October 1999, Tashkent
4. Kingdom of Denmark	13 July 2000, Skopje
5. Kuwait	12.06.2003, Skopje

## II. PAYMENT SYSTEMS

### **1. Are financial institutions required to inform their customers on the conditions for cross-border credit transfers? If yes, which?**

The NBRM prescribes terms and conditions regarding cross-border payment operations pursuant to the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia Nos. 34/01, 49/01, 103/01, 51/03). For that purpose, NBRM adopted a Decision on the method of cross-border payment operations (Official Gazette of the Republic of Macedonia No. 53/02) and a Manual on the method of cross-border payment operations (Official Gazette of the Republic of Macedonia Nos. 79/02 and 98/02), where time limits for international payments and the method of customer information are determined.

On the basis of this regulation and business ethics, financial institutions make internal decisions on the conditions for cross-border payment operations and the compensation rate. Particular elements of these decisions are a constituent part of the contract concluded with the customer who is not a natural person to perform cross-border payment operations and credit transfers. Natural persons are informed of the transfer services during the issue of the payment order or the cross-border credit transfer.

In the following period, the NBRM will amend the regulation in the area of cross-border payment operations with the purpose of entire incorporation of the provisions referred to in Directive 97/5/EC of the European Parliament and of the Council of the European Union of 27 January 1997.

### **2. Are financial institutions required to supply their customers with information subsequent to a cross-border transfer? If yes, which?**

The NBRM prescribes terms and conditions of cross-border payment operations pursuant to the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia Nos. 34/01, 49/01, 103/01, and 51/03). For that purpose, NBRM adopted a Decision on the method of cross-border payment operations (Official Gazette of the Republic of Macedonia No. 53/02) and a Manual on the method of cross-border payment operations (Official Gazette of the Republic of Macedonia Nos. 79/02 and 98/02).

Pursuant to item 5 of the Decision on the method of cross-border payment operations, financial institutions are obliged to inform their customers on the transferred inflow. In line with the recent bank practice, financial institutions provide customer with the statement of account regarding cross-border transactions, and if so agreed, an additional copy of SWIFT message.

Subsequent to a capital inflow, the customer is issued 743 Form by financial institution – Statement on cross-border payment, which in line with item 176 of the Manual on the method of the cross-border transactions (Official Gazette of the Republic of Macedonia Nos. 79/02 and 98/02), includes the following information:

1. Name, address, code number of the bank that receives – processes the payment;
2. Name, address, code number of the beneficiary;
3. The registry number of the payment order;
4. The name of the foreign bank;
5. The name of the non-resident – applicant;
6. The name of the foreign conto corrente account bank;
7. Description of the payment from the foreign bank order (the SWIFT message);
8. Currency amount and date when the inflow has been approved on the bank account abroad or non-resident's debit account in the bank;
9. Foreign currency amount of agency fee and bank costs deducted abroad, if it is stated in the foreign bank order;

10. The middle exchange rate the bank applies to the calculation and entry of the payment and the counter-value in denars;
11. The amount of the calculated service compensation charged to the payment user by the bank; and
12. Other statistical data.

Financial institutions inform their customers of the cross-border payment operation in line with the customer's instructions in the 1450 Form – order on foreign exchange remittance. Pursuant to item 176 of the Manual for foreign exchange operations, this form, *inter alia*, includes: information on the order number in the bank registry, the foreign exchange amount, the date of the payment and the exchange rate applied by the bank.

In the following period the NBRM will amend the regulation in the field of foreign exchange operations, completely incorporating the provisions from Directive 97/5/EC of the European Parliament and of the Council of the European Union of 27 January 1997.

**3. Is there a time limit for executing a cross-border credit transfer? If yes, how long? Is there compensation to the customer if the deadline limit or the deadline agreed is not complied with?**

Time limits for cross-border payment operations are determined by the NBRM in line with the Decision on the method of cross-border payment operations (Official Gazette of the Republic of Macedonia No. 53/02) and the Manual on the method of cross-border payment operations (Official Gazette of the Republic of Macedonia Nos. 79/02 and 98/02). In this act there is a time limit for cross-border payment, as cited below.

Pursuant to items 4 and 5 of the Decision, the bank that executes the transaction is obliged to inform the customer named in the order of the transferred inflow on the day of the transfer (if the conditions for fulfilling the obligation are met by 10 AM), or the next day (if the conditions are met after 10 AM). At the same time, the beneficiary is obliged to submit to the bank the necessary data for transfer approval on their account within three days.

In line with item 42 of the Manual, which is a constituent part of the Decision, the bank is obliged to execute the correctly filled in cross-border payment order the same day (if the conditions for fulfilling the obligation are met until 10 AM) or at least the following day from the acceptance of the coverage (if the conditions are met after 10 AM).

No special compensation to the customer is stipulated if the time limit agreed for execution of the cross-border payment order is not complied with. Customer may acquire compensation through regular judicial procedure for damages.

**4. Is there any compensation to the customer in the case of non-execution of a transfer contrary to the instructions given by the customer?**

In the case when the cross-border payment is not executed in accordance with the instructions given by the customer there are no special compensation provisions. The customer may acquire compensation through regular court procedure for damages.

The NBRM has a special foreign exchange control department whose task is to monitor, on regular basis, the on-site activities of banks in the field of foreign exchange operations, including cross-border payments. In the case of non-compliance with the NBRM Acts on cross-border payments, pursuant to Article 56, item 29 of the Law on Foreign Exchange Operations (Official Gazette of Republic of Macedonia Nos. 34/01, 49/01, 103/01, 51/03), fines are provided of 250.000 to 300.000 MKD for banks, and 40.000 to 50.000 MKD for the responsible person in the bank.

It can be mentioned, with regard to recent practice, that there have not been any complaints to the NBRM from the bank customers regarding remittances not carried out according to their instructions.

**5. Is an out of court redress system in place for the settlement of disputes between the customers and the institutions? If yes, explain the system.**

The Chambers of Commerce has a Court of Honour as an independent body whose competence, structure, organisation and financing are regulated by the Chamber Act. The Court of Honour promotes development, fulfilling and strengthening of business practices and business morals (Articles 30 and 31 of the Law on Chamber of Commerce, Official Gazette of the Republic of Macedonia No. 54/02). In practice, up till now this possibility has not been used by financial institutions and their customers.

The Law on Mediation is being drafted to regulate settling disputes out of courts between the parties in the Republic of Macedonia in order to close these matters in a quick and efficient way.

**6. When are transfer orders and netting concerning payments and securities legally enforceable? Are there special provisions in the case of insolvency proceedings or in the case of the existence of collateral security?**

Pursuant to Article 23 of the Law on Payment Operations (Official Gazette of the Republic of Macedonia Nos. 32/01, 50/01, 52/01, 103/01, 37/02, 41/02, 61/02 and 42/03) denar payment orders, or payment among the participants in the payment operations are considered final (legally transferred) when the institution responsible for conducting payment operations settles the result of established obligations arising from these payments with the NBRM settlement system. The NBRM real-time gross settlement system - MIPS (Macedonian Interbank Payment System) operates in real time from 7:30 to 17:00. Payments carried out in this system are final immediately upon settlement (carried out in real time). Payment settlement transfers by the KIBS low value payments clearing house are settled in MIPS between 14:30 and 15:30, thus rendered final. Securities netting settlement transfers are entered into MIPS in the period between 10:00 and 11:00 thus rendered final, whereas securities settlement is performed in the Central Securities Depository. Securities settlement is performed three days after the trading (T+3).

The Securities Law (Official Gazette of the Republic of Macedonia Nos. 63/00, 103/00, 34/01, 04/02, 37/02, 31/03, 85/03 and 96/04) defines the types of securities (share, bond, deposit certificate, treasury bills, commercial papers and government papers).

Pursuant to Article 2 of the Securities Law, securities are issued, negotiated and maintained as electronic records in the Central Securities Depository. Pursuant to Article 9 of this Law, "The rights and obligations regarding securities arise from the time of their entry in the Central Securities Depository". Pursuant to Article 137 of the Securities Law the rights of the securities holder come into effect upon entry of the security on the account of the holder at the Central Securities Depository and are transferred by the entry of the security on the account of the new holder at the Central Securities Depository, thus the rights of securities are legally acquired, restricted or transferred by adequate entry in the Central Securities Depository, unless otherwise determined by law.

The assets of the clients of the participants in the Central Securities Depository (stock broker houses and banks having a broker operation permit) pursuant to Article 114 of the Securities Law, are kept on a separate account (in NBRM) and may be used solely in accordance with the customer's contract, and pursuant to Article 138 of the Securities Law, obligations for securities negotiation, arising from transactions in securities, are settled by simultaneous securities delivery and payment in accordance with the DVP – "Delivery versus Payment" principle.

Within the bankruptcy procedure, pursuant to Article 80 from the Bankruptcy Law (Official Gazette of the Republic of Macedonia Nos. 55/97, 53/00, 37/02 and 17/04), a person, who on the basis of their proprietary or personal rights, can prove that an object (securities) does not belong to the bankruptcy estate, is not a bankruptcy creditor. Their right for separation of the object will be determined according to the rules valid for exercising these rights outside the bankruptcy procedure. However, pursuant to Article 141 of the Securities Law, if a bankruptcy procedure is opened against a participant in the Central Securities Depository, the provisions in the Bankruptcy Law regarding

“denial of past transactions” will not be in effect for settlement transactions done by the Central Securities Depository, pursuant to the prescribed acts and procedures.

Pursuant to Article 15 of the Law on Contractual Pledge (Official Gazette of the Republic of Macedonia No. 05/03), the right to non-possessor pledge (securities are maintained as electronic record in the Central Securities Depository, thus book-entry pledged securities can only be a non-possessor pledge) is acquired by conclusion of a pledge contract, and description and listing of the pledged securities and entry of the pledge in the Pledge Registry.



### III. MONEY LAUNDERING

1. Regarding alignment with Directive 91/308/EEC, as amended by Directive 2001/97/EC, on the prevention of the use of the financial system for the purpose of money laundering, please respond to the following:

- a) How has money laundering been criminalised, which criminal activities are covered by the law and how is money laundering defined?
- b) Which institutions and professions are covered by your legislation and with regard to which activities?
- c) How and by which competent authority is the integrity of the institutions and professions mentioned under b) checked?
- d) When do customers and beneficial owners have to be identified and verified and which means of identification are accepted? Specify any special measures for non face-to-face account opening or transactions.
- e) Specify if bearer passbooks or other bearer instruments are allowed in your country.
- f) When and what do the institutions and professions mentioned under b) precisely have to report to your FIU (Financial Intelligence Unit) with regard to money laundering? Do supervisory or other competent authorities also have to report to the FIU in this respect? Are the reporting institutions forbidden to tip-off clients that information has been or will be reported to the FIU?
- g) Are the institutions and professions mentioned under b) required to keep records? Specify the contents of that requirement.
- h) Are the institutions and professions mentioned under b) required to apply internal procedures and training of employees with regard to money laundering? Specify the measures.
- i) Specify if the institutions and professions mentioned under b) are supervised with regard to the requirements mentioned under c) to h) and to what extent?
- j) In what way do competent authorities have to give feedback to the institutions and professions mentioned under b)?
- k) What penalties exist with regard to infringements of your anti-money laundering regulation?

a)

Money laundering and other proceeds of crime are criminalised in the Macedonian legislation as special criminal acts referred to in Article 273 of the Law Amending the Criminal Code (Official Gazette of the Republic of Macedonia No. 19/04).

These modifications expand the legal description of the act such as money laundering and other proceeds of crime in accordance with the EU acquis, i.e. Directive 91/308/EC amended by Directive 2001/97/EC for the prevention of the use of the financial money laundering system and other international standards.

Namely, pursuant to Article 273 "Money laundering and other proceeds of crime in the Macedonian legislation as predicative acts are considered all criminal acts which generate profit ("all crimes" approach).

Money laundering and other proceeds of crime referred to in Article 273 of the Law Amending the Criminal Code (Official Gazette of the Republic of Macedonia No. 19/04) are defined as follows:

- "A person who will put into circulation, accept, take over, exchange or change high value of money, for which he is acquainted that it has been obtained by crime, or by conversion or transfer will cover up such source or its location, movement or ownership, will be imprisoned from one to 10 years.
- The punishment from paragraph 1 will also apply for a person who will sell, present or put into circulation other property or high value items obtained by crime, or will buy or accept as a pledge, or obtain, cover up or pass property or items for which he is acquainted that they have been obtained by crime or by forged documents, unreported facts or will cover up that they originate from such source, or will cover up their location, movement and ownership.

- If the criminal action referred to in paragraphs 1 and 2 is done in the banking, financial or other commercial operations or if in the transaction separation the participant avoids the duty to report the cases determined by law, the perpetrator will be imprisoned at least for three years.
- The person who commits the crimes referred to in paragraphs 1, 2 and 3, and was obliged and could know that the money, property or other property benefit or items are obtained by crime, will be fined or imprisoned for up to three years.
- The person who commits the crimes referred to in paragraphs 1, 2 and 3 as a member of a group or other association involved in money laundering, illegal acquisition of property or property benefit, or with the help of foreign banks, financial institutions and persons, will be imprisoned at least for five years.
- Official persons, responsible persons in banks, insurance companies, companies engaged in games of chance and entertainment games, exchange offices, exchange markets or other financial institutions, a lawyer, except when acting as a defence attorney, notary or other person engaged in public authorisations or activities of public interest, who will enable or will not report money laundering, property or property benefit, which they discovered during his/her engagement, will be imprisoned for at least three years.
- If the act referred to in paragraph (1) is committed by a legal person, it will be fined.
- Money, illegally obtained property, items or other proceeds of crime will be seized, but if seizure is not possible, other property of adequate value will be seized from the perpetrator.”

**b)**

Pursuant to Article 2 of the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04 – hereinafter: the Law), the following entities are obliged to undertake measures and actions to prevent money laundering:

- financial institutions i.e. legal or natural persons carrying out one or more activities regarding deposit acquisition, loan approval, money card issue, foreign exchange, economic and financial consulting, financial leasing, factoring, businesses connected with insurance, businesses connected with securities for their own account or for the account of the client, saving and managing money, securities and precious metal items, and other financial operations determined by law as well as their official and responsible persons;
- Legal and natural persons carrying out the following operations:
  - real estate trade;
  - revision, accounting and financial consulting;
  - notary, lawyer and other legal services regarding buying/selling of real estate or firms, money and securities management, opening and disposition of bank accounts, safe-deposit boxes, and other accounts, setting up or participation in the management and work of legal persons, representing customers in financial transactions and real estate trade;
  - trade of works of art, antiques and other high value consumer goods;
  - trade of excise goods;
  - work regarding issue of debit and credit cards;
  - processing and trade of precious metals and precious stones;
  - travel agencies; and
  - Other associate activities to obtain property and other kinds of possessions or management of money or property.
- A company engaged in games of chance and entertainment games (casinos and others);
- Foreign agencies, subsidiaries, branch offices and business entities registered abroad and operating in the Republic of Macedonia, as well as as agencies, subsidiaries, branch offices, or parts of entities registered in the Republic of Macedonia and operating in foreign countries; and
- Associations of citizens and foundations.

Pursuant to Article 34 of the Law, lawyers and notaries public are not obliged to take measures and actions arising from the Law in cases when they represent their clients in court or in another procedure.

**c)**

Pursuant to Article 38 of the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04 – hereinafter the Law), the following supervisory authorities carry out supervision of the application of the measures and actions:

- The National Bank of the Republic of Macedonia supervises banks, savings houses, exchange offices and fast money transfer services;
- The Ministry of Finance supervises insurance companies;
- The Securities and Exchange Commission supervises the exchange market, stock broker companies and investment funds;
- The Public Revenue Office supervises other financial institutions, companies engaged in games of chance and entertainment games and other legal and natural persons, subject to such measures and actions; and
- Commissions set up by members of the Bar Association and Notary Association, i.e. other professional associations of auditors, accountants and other persons who autonomously perform legal and financial operations supervise lawyers, notaries, auditors, accountants and other persons who autonomously perform legal and financial operations.

The bodies and institutions which carry out supervision pursuant to Article 40, paragraph 1 of the Law are obliged to inform the Money Laundering Prevention Directorate of the submitted request for initiating a misdemeanour procedure for violation of the provisions of the Law by the entities supervised.

On the other hand, pursuant to Article 40, paragraph 2 from the Law, the Money Laundering Prevention Directorate may submit an argued request to the supervisory authorities and institutions to carry out supervision of particular entities, upon which they are obliged to proceed and inform the Directorate of the results.

**d)**

The customer and beneficial owners identity is determined in the following cases:

- Regarding financial institutions:
  - before they open an account or savings book;
  - acceptance for keeping shares, bonds or other securities;
  - allowing use of safe-deposit boxes;
  - asset management or effecting or acceptance of payment on behalf of a third party.
- Regarding insurance companies:
  - when the amount of a separate or several premium instalments to be paid within a one year-period is in excess of 1.000 EUR; or
  - When the payment of the sole premium is in excess of 2.500 EUR.
- Regarding exchange companies and swift money transfer service companies:
  - Before transactions higher than 2.500 EUR.
- Regarding companies engaged in games of chance and entertainment games (casino):
  - Immediately upon the customer 's entering the casino.

In addition to these cases, entities are obliged to determine the identification of the customer and beneficial owner:

- always when there are grounds for money laundering suspicion;
- upon every transaction of 15.000 EUR or more regardless the currency it is expressed in;
- In case of several linked transactions of 15.000 EUR or more in denar counter-value on the day of the transaction.

The identity of a natural person is determined on the basis of a submitted original, official and valid document (ID card or travel document) or a verified copy with a notary, containing the person's

photograph. The document contains the name, surname, date of birth, place and address of residence, personal identification number, and the number of the ID document and the body it was issued by.

The identity of a foreign natural person is determined on the basis of the data included in his/her travel document, original or a verified copy with a notary.

The identity of a legal person is determined on the basis of submitted court registration, original or a verified copy with a notary. The document contains the main office and the tax number of the legal person. In case when the customer is a person who is not subject to court registration, the identity is determined by a document for its establishment or name entry, address or main office and trade in original or a verified copy by a notary public.

In the case when the natural person with whom business or particular transaction is carried out is not present for the purpose of identification, the entities are obliged to request additional documents to prove, or additional measures to verify or confirm the obtained documentation. Unless these documents are provided, the entities are obliged to request that the first payment is carried out through an account opened in the financial institution by the customer.

**e)**

In the Republic of Macedonia, pursuant to the Banking Law (Official Gazette of the Republic of Macedonia Nos. 63/00, 103/00, 37/02, 51/03, and 85/03), there are foreign exchange and denar term deposit or sight deposit savings books. Regarding natural persons' denar and foreign exchange savings deposits, the bank, at the time of payment issues a special document – a savings-book. Legal persons and charity organisations may not open savings-books. In all cases regarding opening savings-books, pursuant to the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04) and the Banking Law (Official Gazette of the Republic of Macedonia Nos. 63/00, 103/00, 37/02, 51/03, and 85/03), the customer as well as the beneficial owner must identify themselves. Numerated savings-books or number-coded savings-books (anonymous savings-books) do not exist.

Bearer securities pursuant to the Securities Law (Official Gazette of the Republic of Macedonia Nos. 63/00, 103/00, 34/01, 04/02, 37/02, 31/03, 85/03, 96/04) are not permitted. Pursuant to this Law, the securities are registered securities.

**f)**

The entities referred to in item b), pursuant to Article 22 of the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04 – hereinafter the Law), are obliged to submit a report to the Money Laundering Prevention Directorate concerning:

- Transactions under money laundering suspicion (within 24 hours pursuant to Article 15 of the Law);
- Transactions under suspicion of terrorism financing; (within 24 hours);
- In the case of a cash transaction of 15.000 EUR or more (within 3 work days); and
- In the case of several linked cash transactions of 15.000 EUR or more (within 3 work days).

The Customs Administration, pursuant to Article 16 of the Law, is obliged to report in writing to the Money Laundering Prevention Directorate on inflow or outflow of cash or securities:

- always in the case of suspicion of money laundering or terrorism financing (within 24 hours); and
- when it exceeds 10.000 EUR in denar equivalent value (within three work days).

In addition to the entities referred to in item b) and the Customs Administration, pursuant to Article 23 of the Law, in the case of money laundering and terrorism financing suspicion, the following bodies communicate reports in writing to the Money Laundering Prevention Directorate: supervisory authorities, the Ministry of Interior, the Financial Police, the Public Prosecutor's Office, the National Bank of the Republic of Macedonia, the State Commission of Corruption Prevention, and inspection bodies and other bodies within the state administration.

Article 21, paragraph 4 of the Law prohibits that entities and employees inform the customer or a third party on submitted data to the Directorate or on other measures and actions taken or to be taken.

**g)**

The entities referred to in point b), pursuant to Article 20 from the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04), are obliged to keep for at least ten years the following data:

- Customer's identity and transactions obtained according to the Law;

Companies carrying out exchange operations, swift money transfer service companies and casinos are obliged to keep the data in chronological order in a numbered register, signed by an authorized company person for at least 10 years from the latest registered data.

The Money Laundering Prevention Directorate is obliged to keep the data and the reports regarding transactions and customers for at least 10 years from their acceptance.

**h)**

Entities referred to in point b) are obliged to, pursuant to Article 33 of the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04) prepare programmes to implement the measures and actions for money laundering prevention thus providing:

- Centralisation of customers' identity data, holders of rights, beneficial owners, authorised agents as well as data of suspicious transactions;
- Appointing responsible persons for taking care of the implementation of the programme as well as in each organisational part informing the Directorate in writing;
- Plan on continuous training of the responsible persons and other employees;
- Instruments for internal check of the implementation of the measures and actions; and
- Cooperation with the Directorate.

The Money Laundering Prevention Directorate in collaboration with the Council of Europe, the German Agency for Technical Cooperation (GTZ) and USAID organise training for the entities for their responsible persons. The responsible persons transfer the acquired experience from the seminars to the rest of the employed in their institutions. The outline of the revised programmes for implementation of the measures and actions for prevention of money laundering, which the entities have submitted to the Money Laundering Prevention Directorate, provides internal trainings for the employees in the field of prevention of money laundering and terrorism financing. The entities on regular basis and at least twice per year inform the Directorate of the trainings carried out, subjects, contents, and the structure of the employees covered by the trainings as well as of the problems they encountered in the course of their regular operation.

**i)**

Pursuant to the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04 – hereinafter the Law), the Banking Law (Official Gazette of the Republic of Macedonia Nos. 63/00, 103/00, 37/02, 51/03, and 85/03), and the Law on the National Bank of the Republic of Macedonia (Official Gazette of the Republic of Macedonia Nos. 03/02, 51/03, 85/03, and 40/04) supervision of banks, savings houses, exchange offices and service companies- swift money transfer regarding application of regulations on prevention of money laundering is carried out by the National Bank of the Republic of Macedonia. This type of supervision of banks and savings banks is an integral part of the overall direct supervision of their operation carried out once per 18 months. In cases of established non-conformity or need for verification of the on-site findings, a special partial supervision is carried out of this segment of banks and savings banks operations. This type of supervision is carried out when the need arises and it may be within less than 18 months. The control of the process of prevention of money laundering, beside the control of measures and actions implementation in the Law, covers analysis of the policies, procedures and practices of banks and savings banks for prevention of money laundering i.e. the purpose is to determine the adequacy of the established system for

prevention of money laundering. Besides this supervision of banks and savings houses, foreign exchange supervision of each bank and savings bank is carried out once per year. Supervision of exchange offices and entities which perform fast money transfer services is also carried out once per 18 months.

The National Bank informs the Money Laundering Prevention Directorate of all discovered irregularities or unregistered transactions within this supervision.

Pursuant to Article 38 of the Law, competent institutions referred to in item c) carry out the supervision in the field determined by the Law.

j)

Pursuant to Article 25 of the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04), the Money Laundering Prevention Directorate on regular basis, once per year, informs the entities which deliver data on the performed checks. In its reports, the Money Laundering Prevention Directorate mainly provides statistical data on the number of received transaction reports, on how many of the reported transaction a detailed analysis was carried out (open case), and how many reports have been delivered to investigating bodies to further proceedings etc.

Such feedback is delivered by the Money Laundering Prevention Directorate to all entities referred to in item b) and all institutions which have communicated a report.

k)

Regarding breaking the rules of the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04), in Articles 41, 42, and 43 a fine of 250.000 to 300.000 MKD for legal persons, or 40.000 to 50.000 MKD for natural persons and for the responsible person within the legal person is imposed.

The Law Amending the Criminal Code (Official Gazette of the Republic of Macedonia No. 19/04), in Article 273 prescribes criminal liability (penalty of imprisonment of three years at least) for an official person, a responsible person in the entity who will enable or will not report money laundering or other proceeds of a crime he/she has found out about in the course of his/her work (in this case the legal person is fined).

**2. Please elaborate on the functioning of the FIU, the supervisory authorities and the law enforcement authorities with regard to, inter alia, available resources (staff and budget), operational powers, (inter-)national co-operation between competent authorities and the results achieved in terms of suspicious transactions reports received, supervisory investigations, confiscations and convictions/settlements.**

The Money Laundering Prevention Directorate is a body within the Ministry of Finance. It was established in September 2001 pursuant to Article 5 of the Law on Money Laundering Prevention (Official Gazette of the Republic of Macedonia No. 70/01) and started its operation in 1 March 2002 as intermediary for the exchange of information between the private sector and public bodies competent for criminal prosecution of money laundering.

Within the Directorate as an administrative model of the Financial Intelligence Unit (FIU) there are 8 employees (according to the systematization of posts), organised in three units: Analytics Department, Department for Suspicious Transactions, and Department for System Development and International Cooperation.

- The Analytics Department: consists of three employees who collect information delivered to the Directorate by the entities (from question 04\_III\_1, item b)) pursuant to the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04 – hereinafter the Law). Beside these entities, the Department, for the need of data provision, compulsorily cooperates with the competent state bodies involved in the money laundering prevention system. Regardless of the source all data are processed and analysed and stored in the Department database afterwards. If in the course of the analysis of a particular transaction a suspicion appears, the

transaction report from this unit is transferred to the Department for Suspicious Transactions for detailed processing. The database, which is continuously extended, is a basic source of data for the operation of other two Departments. With purpose to design a simple and safe database with graphic description of the analysis of particular transaction, the Directorate in cooperation with the IT Sector of the Ministry of Finance designed an electronic database thus facilitating the banks to provide electronically the cash transactions over 15.000 EUR from 1 October 2004.

- Department: for Suspicious Transactions consists of two employees who act upon the reports on suspicious transactions submitted by entities (referred to in question 04\_III\_1, item b), by competent state bodies and competent bodies from other countries received through the Department for International Cooperation. After receiving suspicious reports, this Department opens case and handles analysis consisting of, first of all, a check of data existence in the Directorate base, and then a check of the financial operations by a circular letter to all banks. In the Central Registry database and at the registration court it checks whether the person owns or manages a trade company. From the Central Securities Depository data base it obtains data on the ownership structure of the trade company, directly from the Public Revenue Office database it checks the person's business operations, from the Customs Administration it receives data on inflow or outflow of cash or securities to or from the Republic of Macedonia, and it checks the person's criminal history in the Ministry of Interior database. This method of case to case analysis, inevitably requires intensive cooperation of the Department with other state bodies, and in cases regarding foreign persons the necessary data are obtained from the Department for International Cooperation. Upon the notification of the entities in the frame of the previously performed analysis, if necessary, this Department, by decision, submits an initiative to the competent public prosecutor to submit a proposal for taking interim measures. Upon conducted analysis, elaborated in an internal report on the suspicious transaction, if grounds for suspicion are established for the criminal action money laundering or terrorism financing, it prepares and submits a report including its opinion to the competent authorities: the Ministry of Interior, the Financial Police or the Public Prosecutor's Office.
- The Department for System Development and International Cooperation which consists of two employees, follows and studies the laws and secondary legislation at the national and international level that regulate the prevention of money laundering and terrorism financing. On the basis of the positive international experience, as well as on the basis of the comprehensive analyses, it proposes laws and secondary legislation, provides initiatives for building up the money laundering prevention system, and gives opinions on proposals and laws important for the prevention of money laundering and terrorism financing. In cooperation with the Analytics Department, it defines types of money laundering and terrorism financing and studies the trends in preventing money laundering and terrorism financing. In cooperation with the entities (from question 04\_III\_1, item b)), and the supervisory authorities (from question 04\_III\_1, item c)), upon the results of the overall work, the Department prepares lists of indicators for recognition of suspicious transactions. The second segment part of the activities of the Department refers to exchange of data with international bodies and bodies of the relevant countries connected with the discovery and prosecution of money laundering and terrorism financing cases. Data and information are exchanged with the competent bodies of other countries on the basis of concluded agreements, as well as on the basis of EGMONT Group membership. Pursuant to Article 27, paragraph 2 of the Law, the Money Laundering Prevention Directorate may, if required exchange information obtained from the competent bodies involved in the prevention of money laundering and terrorism financing in other states, upon their consent, with the bodies competent for conducting the investigation regarding money laundering and terrorism financing. In order to establish bilateral cooperation, this Department is obliged to prepare agreements that are concluded by the Money Laundering Prevention Directorate with the competent institutions from other countries. This Department is liable to realise the obligations of the Money Laundering Prevention Directorate arising from the membership of international commissions and bodies.

From the beginning of its functioning, the Money Laundering Prevention Directorate started with its international activities, mainly, through taking part in the operation of international money laundering

prevention bodies such as the Committee of Experts on the Evaluation of Anti-Money Laundering Measures for evaluation of the measures regarding money laundering prevention (MONEYVAL) within the Council of Europe, in whose work it participates and contributes on regular basis.

Regarding the international exchange of confidential data and information on a bilateral level, so far, the Money Laundering Prevention Directorate has signed letters on exchange of information and memoranda of cooperation with the money laundering prevention department of Slovenia, Croatia, Bulgaria, Serbia and Montenegro, and Albania.

The fact that such memoranda are first signed with those countries arises from the need to establish and strengthen, above all, regional cooperation, which we consider is of exceptional importance and which presents a basis for development of wider cooperation. On the basis of memoranda as well as on the basis of the principle of reciprocity, this Directorate cooperates and exchanges information with the above-mentioned money laundering prevention departments in cases where there is well-founded suspicion of committed criminal action money laundering and terrorism financing.

The Money Laundering Prevention Directorate is a member of the EGMONT Group from June 2004.

Of special importance for the international cooperation of the Money Laundering Prevention Directorate is its membership of the EGMONT Group (on the 12<sup>th</sup> Plenary Assembly, taking place in the period from 23 – 25 June 2004).

In its previous operation the Money Laundering Prevention Directorate has established cooperation with all competent bodies exchanging data and information regarding money laundering and other proceeds of crime and terrorism financing. Pursuant to the Law, to carry out its responsibilities, the Money Laundering Prevention Directorate may request data and documentation from the state bodies, which, on the other hand, in case of suspicion of money laundering and terrorism financing may submit to the Money Laundering Prevention Directorate a written report pursuant to Article 23 of the Law. Also pursuant to Article 28 of the Law, the Money Laundering Prevention Directorate is authorised to prepare and submit a report to the competent state bodies, including its opinion, always when there is a well-founded suspicion of committed criminal action of money laundering or terrorism financing, and on the basis of analysis carried out of the suspicious cases, upon which those bodies decide to institute criminal proceedings.

Regulatory, supervisory, and audit bodies track and recognise possible cases of money laundering and terrorism financing and take necessary measures and actions pursuant to the Law, and inform the Money Laundering Prevention Directorate in time.

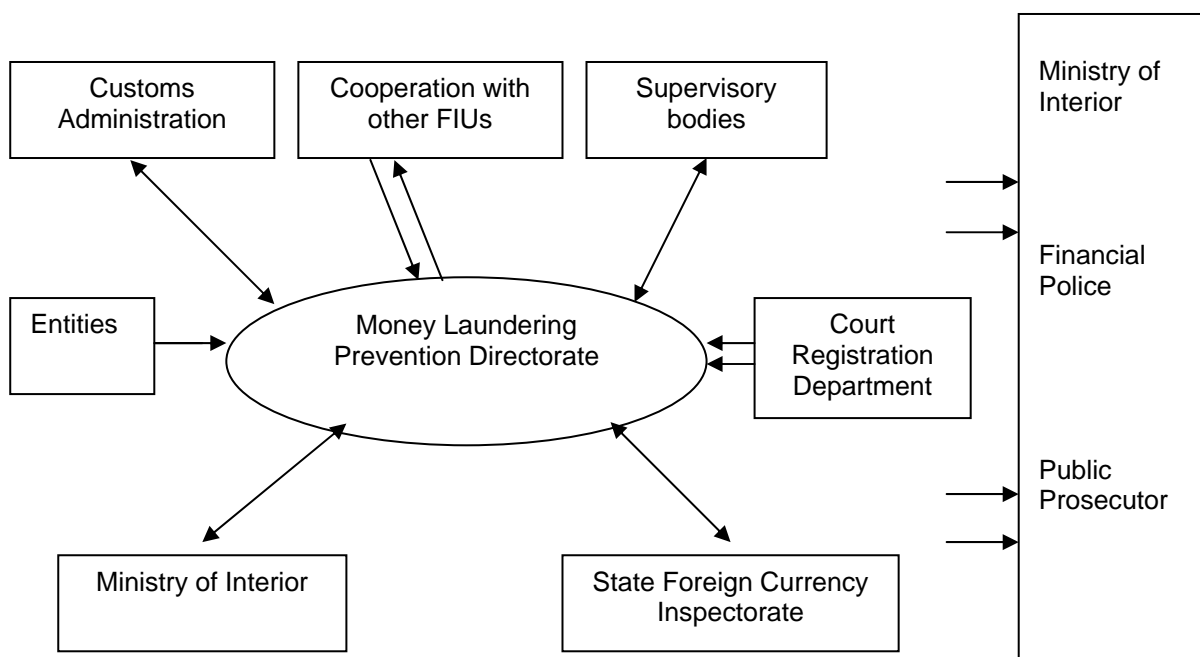
Articles 29, 30, 31 and 32 of the Law, provide provisional measures regarding halting the suspicious transaction of money laundering or terrorism financing and temporary confiscation of money or property. In case of well-founded suspicion of criminal action or terrorism financing, the Money Laundering Prevention Directorate, at latest within 24 hours from the finding that the transaction is in its course, is entitled to submit an initiative to submit a proposal on summary order to the competent public prosecutor. The competent public prosecutor processes the initiative on summary order submitted by the Money Laundering Prevention Directorate, and if he/she estimates it as well-founded, within 24 hours from the acceptance of the initiative he/she submits to the investigating judge a proposal on summary order. The investigating judge of the competent court of first instance also within 24 hours from the acceptance of the proposal submitted by the public prosecutor is obliged to make a decision and to submit it to the competent public prosecutor. The competent public prosecutor is obliged to inform the Money Laundering Prevention Directorate of the decision made by the investigating judge from the competent court of first instance.

Within the cooperation between the Money Laundering Prevention Directorate and other competent bodies the signing of Protocols of cooperation and shared data between the Money Laundering Prevention Directorate and the Ministry of Interior (Criminal Policy Department), Customs Administration and the Public Revenue Office is underway. The cooperation and exchange of the data will be handled through contact officers (responsible persons employed in those institutions),



thus providing a higher level of data security and confidentiality. These Protocols will also allow accelerating exchange of data and information among institutions that very often, as a result of the complexity of the cases, may be of crucial importance. These Protocols will also precisely determine which data and information may be exchanged between the institutions, and they will coordinate their activities and competences. In order to perform activities efficiently, the Money Laundering Prevention Directorate needs the electronic access to the databases of the institutions so it is planning to sign Protocols on cooperation, thus accelerating the exchange of data in the scope of report analysis and processing and their follow-up to the investigating authorities (MOI, PP, FP). The access to these databases will enable the Money Laundering Prevention Directorate to establish immediately the identity of the person it suspects of being included in some suspicious transaction, whether that person appears in the records of the Customs Administration as an exporter or importer of particular goods or has carried cash through Macedonia's customs lines, whether that person fulfils his tax liabilities on time and whether a criminal charge against him is brought.

The Money Laundering Prevention Directorate in cooperation with the competent bodies prepared National Strategy on Prevention of Money Laundering and Terrorism Financing in order to prepare, develop and improve the common standards for collection and processing of information regarding the discovery and prevention of money laundering and terrorism financing. The existing structures for stamping out money laundering are discussed in question 18, section I, Chapter 24. ( for more details see [24 I 18](#))



The Law on Money Laundering Prevention from 2001 began its implementation from March 1, 2002, and at the same time the Directorate began its operation. In the period between March 1, 2002 and October 1 2004, a total of 54.216 reports have been delivered to the Directorate, as follows:

- 52.054 reports on cash transactions over 20.000 EUR or 15.000 EUR (8.588 of them on cash transaction over 15.000 EUR);
- 2.122 reports from the Customs Administration on cash inflows through the customs line of the Republic of Macedonia amounting to 10.000 EUR; and
- 40 reports on suspicious transactions.

Regarding the analysed reports, the Directorate has established the existence of grounds for suspicion for a possible case of money laundering in 12 cases, 11 of which are completed and delivered to the Ministry of Interior and one to the Financial Police for further investigation and procedure.

Money laundering prevention in the scope of the Ministry of Interior is in the competence of the Organised Crime Sector, i.e. the Department of prevention and control of economic and financial

crime, corruption and trafficking. Operational tasks within this scope are carried out by two inspectors who have intensive cooperation with the Money Laundering Prevention Directorate and share the coordination of the activities, exchange of information and findings on suspicious transactions and money laundering.

In the scope of the Public Prosecutor's Office in line with the Law on the Public Prosecutor's Office (Official Gazette of the Republic of Macedonia No. 38/04) a Department of Pursuit of Crime Perpetrators in the field of organised crime and corruption is established. The competencies of this Department on the territory of the Republic of Macedonia will be carried out by 10 prosecutors. This Department handles criminal acts committed by organised groups of at least three persons with a purpose to obtain indirect or direct financial benefit or another type of material benefit and who have committed one or more criminal acts as well as other criminal acts subject to penalty of imprisonment of at least four years, including money laundering.

In courts there is specialisation and training of elected judges in the field of the fighting against organised crime.

The table below shows statistical data on the number of criminal charges, investigations, prosecution acts and verdicts regarding money laundering.

year	criminal charges	investigations	prosecution acts	verdicts
1997	1	1	0	0
1998	0	0	0	0
1999	1	1	0	0
2000	0	0	0	0
2001	0	0	0	0
2002	0	0	0	0
2003	0	0	0	0
2004	1	1	0	0
Total	3	3	0	0

### **3. Specify to what extent you have implemented the FATF (Financial Action Task Force) 40 recommendations on money laundering and the FATF 8 special recommendations on terrorist financing.**

The forty recommendations on money laundering and the eight special recommendations on terrorism financing provided by FATF are entirely implemented in the following laws: the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04), Criminal Code of the Republic of Macedonia (Official Gazette of the Republic of Macedonia Nos. 37/96, 80/99, 04/02, 43/03, and 19/04), the Law on Criminal Procedure (Official Gazette of the Republic of Macedonia Nos. 15/97, 44/02, 74/04), the Banking Law (Official Gazette of the Republic of Macedonia Nos. 63/00, 103/00, 37/02, 51/03, and 85/03), the Law on Swift Money Transfers (Official Gazette of the Republic of Macedonia Nos. 77/03, 02/04), the Law on Foreign Exchange Operations (Official Gazette of the Republic of Macedonia Nos. 34/01, 49/01, 103/01, 51/03).

Up till now the Republic of Macedonia has implemented a number of evaluations to approximate the relevant legislation with the forty FATF recommendations, the eight FATF special recommendations and other international standards. The latest evaluation was carried out by the FSAP experts – World Bank and IMF mission in April 2003. General mission assessment was that the Republic of Macedonia had undertaken significant steps towards building up legal framework for fighting against money laundering and terrorism financing. The Republic of Macedonia signed and ratified: in 1988 UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances- the Vienna Convention (Republic of Macedonia is a member by the succession from 1991, Law on Ratification – Official Gazette of the Republic of Macedonia No. 14/90), in 1990 Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from crime- Strasbourg Convention CETS 141 (Official Gazette of the Republic of Macedonia No. 58/99), in 1999 UN International Convention for the Suppression of the Financing of terrorism (Official Gazette of the Republic of Macedonia No.

30/04), and in 2000 UN Convention against Trans-national Organised Crime- Palermo Convention (Official Gazette of the Republic of Macedonia No. 70/04). The Republic of Macedonia is in the process of implementation of the UN Resolution on Prevention and Suppression of the Financing of Terrorist Acts.

The action has been taken on the majority of FSAP mission recommendation:

- adopted Modifications of the Law on Criminal Procedure (Official Gazette of the Republic of Macedonia No. 74/04) permitting the use of special investigation measures referred to in Article 142-b as well as temporal property freezing/confiscation, Article 203-a;
- the Law on Prevention of Money Laundering and Other Financial Proceeds from Criminal Offences (Official Gazette of the Republic of Macedonia No. 46/04) in Article 38 precisely determines the supervisory authority carrying out supervision of the relevant entities, in Article 2 it defines the entities, in Article 5 it precisely determines measures and activities to be taken to prevent money laundering, in Article 15 it prescribes the obligation to inform of transactions suspected to be connected with terrorism financing, Articles 29, 30, 31, and 32 establish the Department competence to delay the transaction within 72 hours and to take necessary actions;
- set up a list of indicators for recognising suspicious transactions and the National Strategy on the Fight Against Money Laundering and terrorism financing;
- the modifications of the Criminal Code (Official Gazette of the Republic of Macedonia Nos. 37/96, 80/99, 04/02, 43/03, and 19/04), Article 273 aligns money laundering as a crime with the general elements of the international conventions establishing legal persons' criminal liability, and Article 394-a, paragraph 2 criminalizes terrorism financing.