

Free movement of the capital



Policy paper

Free Movement of Capital

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1. Introduction

The principle of free movement of capital is in the focus of this policy paper. Capital flows are especially important because they are means for allocation of savings, promotion of growth, and facilitation of balance of payment adjustments. Free movement of capital is essential for integrated, open, and efficient European financial markets that benefit both people and businesses.

Free movement of capital is one of the four fundamental freedoms of the EU single market. It is not only the most recent freedom, because of its unique third-country dimension, but also the broadest one, enabling growth of economic subjects and operation of an integrated, open and efficient internal market.



2. Concept of free movement of capital

The “four freedoms” of the single market are¹:

- Free movement of goods;
- Free movement of capital;
- Free establishment and provision of services;
- Free movement of workers.

Free movement of capital is one of the key components of the single market. The general principle of free movement of capital is defined in Article 63 of the Treaty on the Functioning of the EU². Article 63 of the Treaty on the Functioning of EU prohibits all restrictions on the movement of capital between Member-States, as well as between Member-States and third countries, except when necessary to achieve legitimate public interests. Free movement of capital aims at enabling efficient cross-border allocation of physical and financial capital for investments and financing.

For individuals this means to be able to do many transactions including:

- open bank accounts abroad;
- buy shares in domestic companies;
- invest where rate of return is best;
- buy property in another country.

For businesses it means to be able to invest and establish businesses in other countries.



1. CECE: <https://www.cece.eu/industry-and-market/european-single-market>
2. Consolidated version of the Treaty on the Functioning of the European Union: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:12016E063>

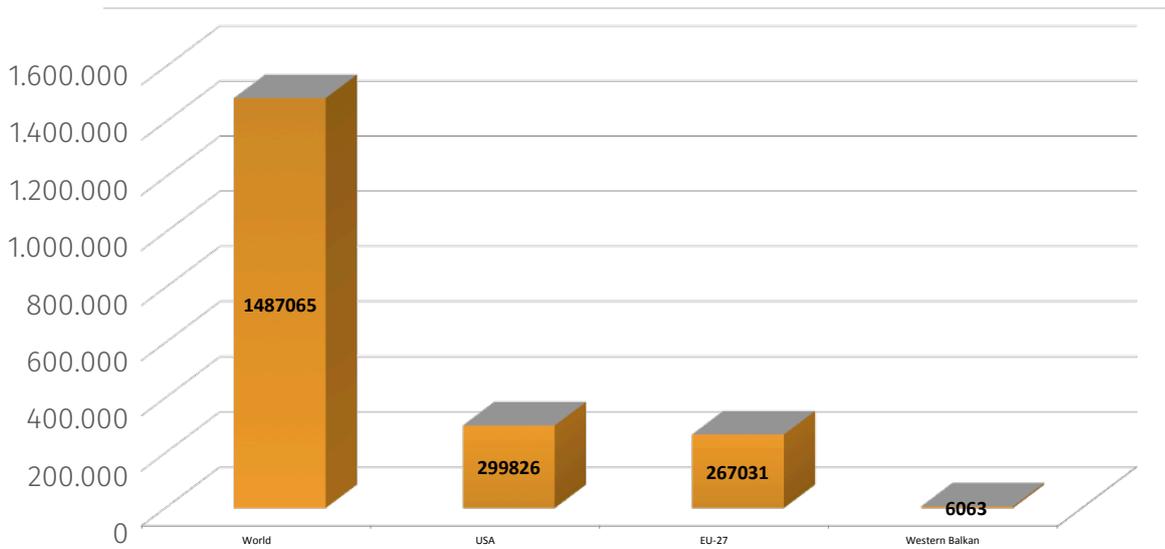
2.1 Free movement of capital within EU

Movement of capital and payments

Free movement of capital within EU is one of the most important principles on which the internal market is based on. In the field of movement of capital, capital is defined as financial operation aiming at investments and making profit. Directive 88/361/EEC³ Annex I sets out the definition of different types of movement of capital. The following are operations defined as movement of capital:

- Direct investments;
- Investments in property;
- Operations in securities normally dealt in on the capital market;
- Operations in securities and other instruments normally dealt in on the money market;
- Operations in current and deposit accounts with financial institutions;
- Credits related to commercial transactions or to the provision of services in which a resident is participating;
- Financial loans and credits;
- Pledges, other guarantees and collateral rights;
- Transfers for performance of insurance contracts;
- Personal capital movements;
- Physical import and export of financial assets; and
- Other capital movements.

Graph 1: Net inflow from FDI (in millions EUR)



Source: data.worldbank.org

³ Council Directive 88/361/EEC of 24 June 1988 for the implementation of Article 67 of the Treaty: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A31988L0361>

Foreign Direct Investments are one of the most important forms of movement of capital for economic growth and prosperity of the countries. Data in Graph 1 shows net inflow from FDI in EU in 2019 in the amount of 267,031 million Euro, which constitutes 18% of total net inflow of FDI in the World. The low level of Foreign Direct Investments in the Western Balkan shows that there are large unutilized investment opportunities in the region.

Payment systems

In regard to payment systems, EU legal framework covers payment systems and settlement of securities, payment services and electronic money institutions.

- Regulation (EC) No. 924/2009 on compensations for cross-border payments⁴.
- Member-States that are not part of the Eurozone, although included in the Regulation, do not benefit from the effects thereof. In the Member-States outside the Eurozone, domestic payments in Euro are either very expensive or do not exist at all. Hence, people and business entities in the EU Member-States outside the Eurozone pay high fees every time the payment crosses their border or when people travel and pay abroad. These high costs are one of the obstacles for completion of the single market thus creating two categories of users of payment services in the EU.
- Regulation (EU) No. 260/2012 establishing technical and business requirements for credit transfers and direct debits in Euro^{5,6,7,8}.
- New Directive (EU) 2015/2366 on payment services in the internal market⁹. According to the new regulations, banks and other providers of payment services servicing the accounts shall use stricter safeguards for their payments.

4. Regulation (EC) No 924/2009 of the European Parliament and of the Council of 16 September 2009 on cross-border payments in the Community: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32009R092>

5. Regulation (EU) No.: 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in Euro: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex%3A32012R0260>

Prevention of money-laundering

Fighting money-laundering and including provisions against financing terrorism aims at preventing criminals to use the financial system for money-laundering and financing terrorism. Therefore, financial institutions, banks, and especially nonfinancial institutions, are subject to obligations such as due diligence requirements of clients, risk assessment and reporting suspicious transactions to financial intelligence units.

In 2015 EU adopted modernized regulatory framework encompassing:

- Directive (EU) 2015/849 on the prevention of the use of the financial system for money-laundering or terrorist financing (the so-called 4th Directive on prevention of money-laundering)¹⁰;
- Regulation (EU) 2015/847 on information accompanying transfers of funds¹¹ - makes transfers of funds more transparent, thus helping prosecution authorities to find terrorists and criminals.

20th July 2021, European Commission presented an ambitious package of legislative proposals to strengthen EU's anti-money laundering and countering the financing of terrorism¹². The package also proposes the creation of a new EU authority to fight money-laundering. This is part of the Commission's commitment to protect EU citizens and EU financial system against money-laundering and financing terrorism. The aim is to improve the detection of suspicious transactions and activities and close the gaps used by criminals for laundering illegal income or financing terrorist activities through the financial system.

6. More on SEPA: <https://www.ecb.europa.eu/paym/integration/retail/sepa/html/index.en.html>

7. IBAN - International Bank Account Number

8. Commission staff working document on the movement of capital and the freedom of payment, Council of the European Union, February 2020, https://www.eumonitor.nl/9353000/1/j4nvg55kjg27kof_j9vwik7m1c3gyxp/vl6c8k1m2wve/f=/6225_20.pdf

9. Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32015L2366>

10. Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money-laundering or terrorist financing: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32015L0849>

11. Regulation (EU) 2015/847 of the European Parliament and of the Council of 20 May 2015 on information accompanying transfers of funds: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015R0847>

12. https://ec.europa.eu/info/publications/210720-anti-money-laundering-countering-financing-terrorism_en

3. Free movement of capital within the Western Balkans

Regional integration and multilateral agreements aiming to enable greater and more stable economic growth of their members are more frequent and more common globally in the recent decades. Although still faced with the test of reaching its final integration stadium by becoming political union, EU proved to be a successful model of economic integration.

European integration and regional cooperation are closely intertwined. Regional cooperation is considered by EU as one of the key benchmarks for the Western Balkan counties and their EU integration process.

Therefore, active involvement of Western Balkan countries and their active support of regional organisations and initiatives creates an additional benefit for them.

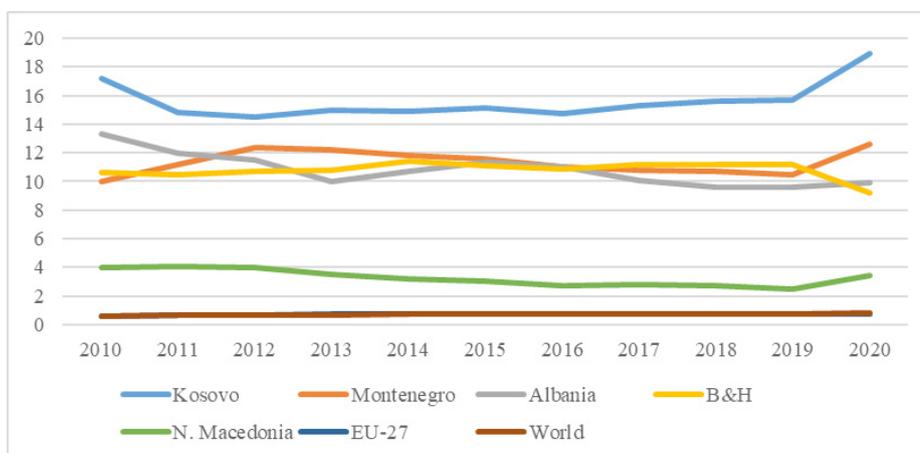
Several integration processes are taking place in the Western Balkans, which in addition to aiming at regional economic growth and development, may serve as a forum for overcoming long-term conflicts in the region and closing open political and historical issues. For most of the countries, the EU integration process proved long, followed by political conflicts that unfortunately prevent economic benefit. EU Member-States on the territory of the Balkan Peninsula (except for Greece which is EU Member-State since 1981) are Bulgaria, Romania (since 2007 within the Sixth Enlargement Wave) and Croatia (since 2013 in the Seventh and last Enlargement Wave). The remaining countries started their processes to join the EU, but are in different stages of integration.



13. The Western Balkans | Fact Sheets on the European Union | European Parliament (europa.eu)
14. The Western Balkans | Fact Sheets on the European Union | European Parliament (europa.eu)
15. https://ec.europa.eu/regional_policy/en/funding/ipa/

3.1. Inflow from personal remittances in Western Balkan countries

Graph 2: Inflow from personal remittances (% from GDP)



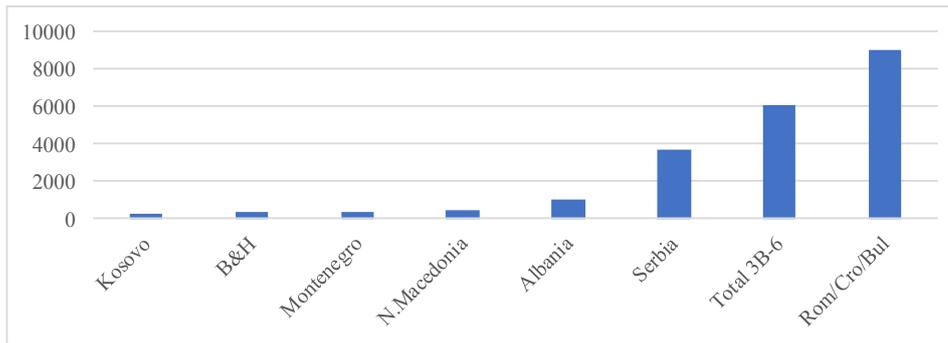
Source: data.worldbank.org

Personal remittances are a very important component of movement of capital in the Western Balkan countries. Their share in the GDP is of biggest significance for Kosovo where personal remittances constitute 18,9% of GDP (Graph 2). Unlike EU countries and the World average where personal remittances are only 0,76% and 0,83 of the GDP respectively, personal remittances in the Western Balkan countries are still one of the main sources of funding significantly contributing to their growth.

3.2. Foreign Direct Investments in Western Balkan countries

Due to their contribution in creating jobs and economic growth, FDIs are the most important form of movement of capital, and Western Balkan countries are still not attractive investment destination. Numbers show that FDI inflow in Western Balkan countries in 2019 was around 6,070 million Euros (out of which 3,643 million Euros or 60% are in Serbia). On the other hand, the countries from the region who became EU Member-States last (Bulgaria, Romania and Croatia) had FDIs inflow in the amount of 9,055 million euros. Consequently, EU integration of Western Balkan countries will bring additional inflow from FDI undoubtedly. The integration of Western Balkan countries with the adoption of Multiannual action plan for regional economic cooperation of Western Balkans (MAP REA) didn't increase FDI in the region. Still, this is a short time period for making conclusions, especially because the COVID-19 crisis had major impact.

Graph 3: FDI – net inflow (in million Euro)



Source: data.worldbank.org

3.3 Stabilisation and Association Agreement (SAA) as preparatory step for EU accession

The Stabilisation and Association process is a strategic framework which supports gradual rapprochement of Western Balkan countries to the EU. It is based on bilateral contractual relations, financial support, political dialogue, trade relations and regional cooperation.¹³ In April 2016, the SAA with Kosovo entered into force and now all SAAs with candidate-countries and potential candidates from Western Balkans are in force. In the case of Kosovo, SAA is an agreement only for the EU, therefore the Member-States do not have to ratify it (five Member-States do not recognize Kosovo as an independent State). SAA trading aspects are included in the Interim Agreements. Usually, they enter into force immediately after signing because trade is exclusive competence of the EU.

EU candidate-countries have an obligation to harmonise national legislation with the EU-acquis (acquis communautaire). European Commission reports on the progress of the countries in the annual reports. Every important decision is made by the Council acting unanimously, from opening the negotiations until closing them. The Accession Agreement needs to be approved by the Parliament and the Council before being ratified by all parties of the Agreement.¹⁴

Candidate countries and potential candidate countries receive financial support for implementation of the required reforms. Since 2007, preaccession support is channeled via a single unified instrument: Instrument for Preaccession Assistance (IPA).¹⁵

The criteria that need to be met regarding the principle of free movement of capital are set out in Chapter 4. Free movement of capital. This chapter, more specifically, covers: movement of capital and payments, payments systems and prevention of money-laundering.

Annual country reports of the European Commission reflect the progress made in all 33 chapters of the *EU acquis*, including the principle of free movement of capital. In the last 2020 progress report, EU notes that every Western Balkan country has achieved limited progress in the area of free movement of capital. Therefore, specific recommendations for harmonization with EU directives and strengthening implementation of the laws remain.

3.4 Other regional integration processes

In addition to the obligations stemming from the SAA, Western Balkan countries manifest their commitment of becoming EU Member-States by active participation in several regional integration processes and ideas for economic cooperation. These integration processes - to a great extent - are intertwined, interrelated and in a way every next initiative is a transformation of the previous one with certain modification. The most important processes regarding the freedom of providing services are the Berlin Process, the initiative for establishing Regional Economic Area (REA), Common Regional Market and the most recent one Open Balkan Initiative.

4. Free movement of capital in the Republic of North Macedonia

4.1. Legal and institutional framework

4.1.1. Movement of capital and payments

The legal framework in the field of movement of capital is the Law on Foreign Exchange Operations¹⁶ which regulates the dynamics of liberalisation of financial capital transactions. The Law on Foreign Exchange Operations regulates current and capital transactions and their realization in the form of payments and transfers between residents and nonresidents, between residents if they work with foreign currencies or if subject to operation are foreign currencies and one-sided transfer of funds from and to the Republic of North Macedonia, which do not represent transactions between residents and nonresidents.

16. Law on Foreign Exchange Operations: https://finance.gov.mk/wp-content/uploads/2009/02/Zakon_za_devizno_rabotenje.pdf

First phase of Stabilisation and Association Agreement (SAA) – In 2008 the Republic of North Macedonia met the SAA requirements of the first phase and the citizens from EU Member-States were given the right to own flats and residential buildings in the RN Macedonia. As for the right to ownership to construction land, previous approval was required. Limitations on movement of capital for the following capital transactions remained: residents' investment in property abroad; issuing and introducing securities abroad and documents to participate in residential investment funds abroad; issuing foreign debt securities with maturity exceeding three years in the Republic of Macedonia and investments in securities abroad by residents.

The second phase of the Stabilisation and Association Agreement (SAA) – Decision for transitioning into the second phase of Stabilisation and Association Agreement was adopted in 2019¹⁷, whereby a higher degree of liberalization of capital financial transactions was provided. According to the Law on Foreign Exchange Operations, the above-mentioned capital transactions are fully liberalized with the transition into the second phase of Stabilisation and Association Agreement.

The following are remaining limitations after the transition into the second phase of SAA:

Prohibition for legal and natural persons to open accounts in foreign banks, except in cases foreseen by the Decision on the manner and conditions under which residents who are not authorized banks, may open and own accounts abroad. Macedonian citizens with regulated stay abroad are allowed to open accounts, including those who have obtained personal pension, welfare, or other rights abroad, and property and securities for the purpose of transfer. In addition, residents may freely open and own user accounts with foreign electronic services for payment transactions only to buy/sell goods and services electronically.

Prohibition for nonresidents to obtain agricultural land in the RN Macedonia.

4.1.2. Payment systems

The legal framework in the field of payment system in the Republic of North Macedonia includes the Law on National Bank of the Republic of North Macedonia, the Law on Payment System¹⁸, and the regulations put in place the National Bank covering payment systems and their supervision¹⁹.

17. Official Gazette of the RNM No.17/19: <https://www.slvesnik.com.mk/Issuesf9316baf4617432f80cc3b6627e0de60.pdf>
18. Law on Payment Operations: <https://finance.gov.mk/wp-content/uploads/2020/12/Zakon-za-platniot-promet-precisten-tekst-31-20.pdf>
19. <https://www.nbrm.mk/propisnie84dd736.nspix>
20. Law on Prevention of Money-laundering and Financing Terrorism: https://ufr.gov.mk/?page_id=2374

4.1.3. Prevention of money-laundering

The legal framework in the field of fight against money-laundering and financing of terrorism is the Law on Prevention of Money-laundering and Financing Terrorism²⁰ which is fully harmonised with the Directive (EU) 2015/849 on prevention of use

5. What has been achieved in the Republic of North Macedonia up to date?

The Decision to transition into the second phase of SAA²¹ whereby providing a higher degree of liberalization of capital financial transactions was adopted.

Legal and natural persons may invest in property and securities abroad, which is of key importance with the transition of the country into the second phase of SAA.^{22,23}

Issuing and registering foreign securities in the country, as well as domestic securities abroad was made easier.²⁴

New Law on Payment Services and Payment Systems was developed.²⁵

Council on Fighting Money-laundering and Financing Terrorism was established.^{26,27}

Report on risk assessment on money-laundering and financing terrorism was developed.^{28,29}

21. Official Gazette of the RNM No.17/19: <https://www.slvesnik.com.mk/Issues/f9316baf4617432f80cc3b6627e0de60.pdf>

22. Ministry of Finance of the RNM - <https://finance.gov.mk>

23. European Commission – 2020 Progress Report on Republic of North Macedonia

24. National Bank of the RNM: <https://www.nbrm.mk/ns-newsarticle-odluka-za-nacinot-i-uslovite-pod-koi-rezidentite-koisto-ne-se-ovlasteni-banki-mozat-da-otvoraat-i-da-imaat-smetki-vo-stranstvo.nsp>

25. Single national electronic register of regulations (ENER) - https://ener.gov.mk/Default.aspx?item=pub_regulation&subitem=view_reg_detail&itemid=57347

26. Government of the RNM: Minutes of the one hundred and thirty-fifth session of the Government of the RNM from 14th May 2019

27. Official Gazette of the RNM No. 97/19, pg.5.

28. Office for Prevention of Money Laundering and Financing Terrorism: <https://ufr.gov.mk/?p=2187>

29. Report on the risk assessment of money-laundering and financing terrorism, April 2020: <https://ufr.gov.mk/wp-content/uploads/2020/05/NRA-Izvestaj-za-web-19-05.pdf>

Register of real owners was established³⁰ - Introduction of the register aims to increase transparency of the ownership structure of legal persons in the country thereby meeting international and EU standards in the fight against money-laundering and financing terrorism. With an open and actively running Register of real owners one of the remarks of the European Commission noted in past progress reports for the Republic of North Macedonia in Chapter 4 Free movement of capital was removed.

New Law on Prevention of Money-laundering and Financing Terrorism was developed^{31,32,33}.

New Strategy on fighting money-laundering and financing terrorism (2021-2024) was adopted³⁴

6. Future activities in the field of free movement of capital in the Republic of North Macedonia

6.1. Payment systems

The new Law on Payment Services and Payment Systems is expected to be adopted by the end of the first half of 2022, the latest. Large number of EU directives and regulations from the field of payments have been transposed in the new Law on Payment Services and Payment Systems, bringing significant changes in broadening the list of providers of payment services and the set of payment services, as well as more detailed regulation of relations between payment services providers and beneficiaries. With the adoption of the law, the market will be open to new players, especially those from the fintech sector, who are expected to offer innovative, faster, cheaper and user-friendly solutions for conducting payments.^{35,36}

6.2. Prevention of money-laundering

Adoption of new Law on Prevention of Money-laundering and Financing Terrorism,

Option for regulating cryptocurrencies will be considered^{37,38}

35. Secretariat for European Affairs, www.sep.gov.mk

36. Ministry of Finance: www.finance.gov.mk

37. Office for Prevention of Money-laundering and Financing Terrorism: <https://ufr.gov.mk/?p=2273>

38. Ministry of Finance: www.finance.gov.mk

39. Law on Foreign Exchange Operations.

40. National Bank

7. Foreign Direct Investments

Direct investments are investments where the investor establishes a permanent economic connection and/or exercises the management right of the company or other legal person they invest in.³⁹ Direct investments are establishing company or increasing the principal of the company, participation in newly established or existing company if the investor owns or acquires more than 10% share in company's fixed capital, i.e. more than 10% in the decision-making right, approval of long-term loan with maturity of five or more years intended for the company they fully own and approval of long-term loan with maturity of five or more years for establishing permanent economic connection and if granted to economically connected entities.

Transfer of profit and invested capital is free for Foreign Direct Investments if they are registered in accordance with the Law on Foreign Exchange Operations and all legal obligations of taxes and contributions have been paid. As with other capital flows, this type of investments is not only due to the formal degree of liberalization, but also factors specific for the country itself (for example, stability of economic environment, macroeconomic achievements, tax regulations, relative costs of labour, administrative barriers, investors identify economic potential etc.).

7.1. Inflow of Foreign Direct Investments (FDI) in the Republic of North Macedonia since SAA

Analysis shows that the highest inflow of FDIs in the Republic of North Macedonia, since the application of SAA from 2004 was noticed in recent years (Table 1). The investment boom happened in 2018, when the FDI level in the RN Macedonia was 624.49 million Euros, which is 276% higher compared to the average in the previous 8 years. If we exclude 2018, when the investment boom happened, from the analysed period, 2007 stands out as a year with 506.9 million Euros FDIs, as well as 2011 with 344.6 million Euros FDIs. In 2019 and 2020 FDIs dropped, which is an expected result as the crisis caused by Covid-19 deepened, and in 2019 they amounted to 326.3 million Euros, whereas the RN Macedonia ended 2020 with total foreign investments of 240 million Euros.

Table 1: Foreign Direct Investments, in million Euros⁴⁰

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
74.9	344.7	506.9	409.4	136.9	156.9	344.6	131.1	229.4	197.4	202.8	316.9	229.1	624.4	326.3	240

Source: Author's calculation

Despite the fall of FDI in the period of crisis, the activities to improve the business climate and attract foreign investors which were increased before the crisis, contributed to the continuity and satisfactory level of FDI in the crisis period. Inflows towards the Republic of North Macedonia indicated two things: first, favourable international demand for foreign companies located in the zones (export oriented) and second, positive political occurrences after signing the Prespa Agreement. This facilitates the cooperation of the Republic of North Macedonia with EU, the main export partner in the country. At the same time, it provides clear signal that the RN Macedonia is open for cooperation with all countries including Western Balkan countries, and this is one of the key areas to focus efforts on strengthening economic cooperation in Western Balkans. Promotion of investments between the Western Balkan countries is especially needed.

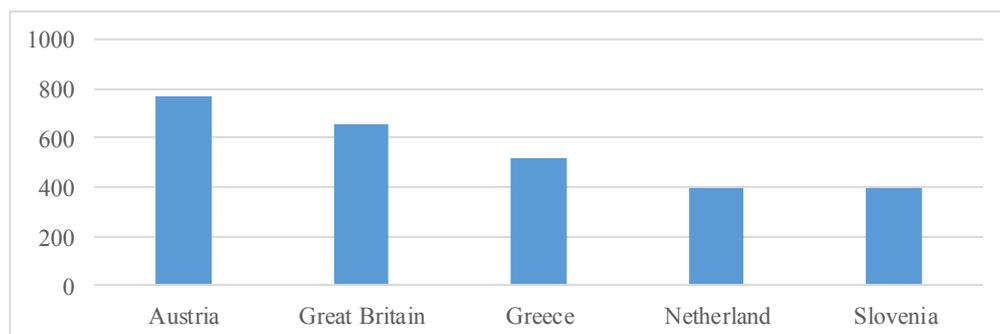
7.2. Total FDIs in the Republic of North Macedonia

Macedonia up to 31.12.2019 is 5,704 million Euros (or 50.9% of GDP)⁴¹ out of which 4,405 million Euros are investments in ownership capital, whereas 1,299 million Euros are investments in debt instruments⁴².

Analysed per country (Graph 4), the highest direct investments up to the amount of 772 million Euros are registered from Austria, followed by the United Kingdom with direct investments in the amount of 660 million Euros. Greece (with 518 million Euros), Netherlands (with 398 million Euros) and Slovenia (with 397 million Euros) are also in the group of the five biggest foreign investors in the country. These five countries have 48.1% of the total direct investments in the analyzed period. It can be concluded that the biggest inflow of FDI comes from the EU Member-States, whereas Western Balkan countries have an insignificant scope of direct investments in the RN Macedonia.

Since independence of the country, EU membership has been a strategic interest of the country. The Republic of North Macedonia was the first country from the region to conclude SAA with the EU⁴⁴. The Agreement signed in 2001, which entered into force 2004, is the basic legal framework of bilateral cooperation until the EU accession of the country. In 2005 the Republic of North

Graph 4: Country of origin of FDIs⁴³



Source: NBRM

8. Benefits analysis from free movement of capital for the RN Macedonia in context of EU and regional integration

Macedonia became candidate-country and started the key phase in the European integration process.

The Republic of North Macedonia as EU candidate-country has an obligation to harmonize national legislation with the *EU-acquis*. This obligation is incorporated in Article 68 of the Law on Ratification of the SAA.⁴⁵⁴⁶⁴⁷

The agenda for harmonization of national legislation with the *EU-acquis* is reflected in the National Programme for the Adoption of the *EU-acquis* – NPAA. NPAA is a comprehensive long-term document defining the timetable of adoption of *EU-acquis*, strategic guidelines, reforms, structures, resources and deadlines to be implemented so that the Republic of North Macedonia can fulfil the requirements for EU membership.⁴⁸ One of the key chapters in NPAA is Chapter 4 – Free movement of capital.

The process of capital-financial liberalization is another requirement for EU membership, apart from full harmonization with the *EU-acquis*. SAA is the basis to regulate the movement of capital and current payments between the Republic of North Macedonia and EU. Through gradual liberalization in this part, the RN Macedonia will become part of the single market whose basic goal is free flow of workers, goods, capital, establishment, and provision of services.

European integration and regional cooperation are closely intertwined. Regional cooperation is considered by the EU as one of the key benchmarks for the Western Balkans and their EU integration process. Therefore, active involvement of the Republic of North Macedonia and its active support to regional organisations and initiatives creates additional benefit for the Republic of North Macedonia. Regional

41 Data on direct investments up to 31.12.2019 are the last available data published by the National Bank.

42 National Bank of the RNM: https://www.nbrm.mk/direktni_investicij_sostojbi.nspix

43 National Bank.

44 Decree for promulgation of the Law on Ratification of the SAA between the RNM and the European Communities and their Member-States: https://finance.gov.mk/wp-content/uploads/2009/02/ROPSKATA_ZAEDNICA_I_NEJZINITE_ZEMJI__5ELENKI.pdf

45 Article 68: "...RNM shall try to provide compatibility of its laws with the Community acquis"

46 <https://www.sobranie.mk/delovnik-na-sobranieto-na-republika-makedonija-precisten-tekst.nspix>

47 Parliament of the RNM: <https://www.sobranie.mk/usoglasuvanje-na-zakonodavstvoto.nspix>

48 Secretariat for European Affairs: <https://www.sep.gov.mk/post/?id=13#YUbkTVUzbiU>

49 Oleg Levitin and Peter Sanfey: Regional cooperation in the Western Balkans, EBRD, 2018

Economic Area and Multiannual Action Plan for Regional Economic Area (MAP REA) are important regional initiatives which will benefit the RN Macedonia in the movement of capital, and especially the most recent regional initiative known under the name of “Open Balkan” that will provide for the participating countries, including the Republic of North Macedonia, free movement of workers, goods, services, and capital in Western Balkans.

Intensive regional cooperation is the best way towards progress for the Western Balkans. One of the burning issues faced by all Western Balkan countries is how to develop a sustainable growth model which will enable employment and prosperity on the long run⁴⁹.

Seen from the viewpoint of growth of Gross Domestic Product (GDP), the economies of the Western Balkan countries achieve growth (3%-4% per annum in average in the period 2016-2019 - Table 2). 2020 is an exception because of the crisis caused by the Covid-19 pandemic, subsequently, all six economies had negative growth.

Table 2: Annual growth of GDP (in %)

	2016	2017	2018	2019	2020
Albania	3,4	3,8	4,0	2,1	-3,3
Bosnia and Hercegovina	3,2	3,1	3,7	2,8	-4,3
Republic of North Macedonia	2,8	1,0	2,9	3,2	-4,5
Kosovo	4,1	4,2	3,8	4,9	-6,9
Montenegro	3,0	4,7	5,0	4,0	-15,2
Serbia	3,3	2,1	4,5	4,2	-1,0

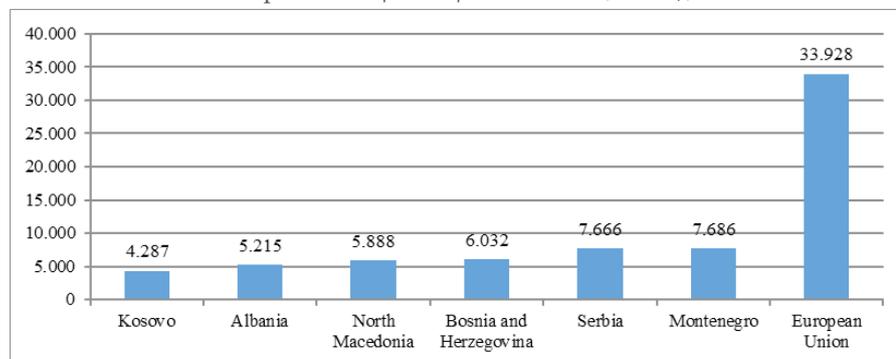
Except for 2020, GDP growth is far below the level noted before the global crisis in 2008-2009, and insufficient to make the living standard of relatively low levels of GDP per capita compared to the EU average are presented in this context (Graph 5)⁵⁰.



EU policies in Chapter 3.04 - Free movement of capital - demand removal of all restrictions to the movement of capital within the EU and between the Member-States and third countries.

The benefits from free movement of capital are multiple for both

Graph 5: GDP per capita in 2020 (in US\$)



Source: <https://data.worldbank.org/>

9. Concluding remarks and recommendations

citizens and companies. Free movement of capital of companies providing financial services enables them to successfully perform cross-border activities. Efficiency of the financial services sector would be disrupted in case of permanent restrictions of the movement of capital.

Opening negotiations for EU membership would significantly facilitate the free movement of capital in the RN Macedonia, leading to multiple benefits from future membership in the Union. Hence the importance the RN Macedonia gives to this Chapter, as well as all measures and activities undertaken towards liberalization of financial capital transactions. As a candidate-country for EU membership, EU reports on North Macedonia note continuous progress in Chapter 4. Free movement of capital.

Decision to transition to the second phase of the SAA concluded between the RN Macedonia and the EU, adopted in 2019 proved key in the process of liberalization of financial capital transactions in the RN Macedonia. Transitioning to the second phase of SAA achieved full liberalization of the following capital transactions:

49 Oleg Levitin and Peter Sanfey: Regional cooperation in the Western Balkans, EBRD, 2018
50 World Bank

- Investments of residents into real estate abroad;
- Issuing and introducing securities abroad and documents for participation in resident investment funds abroad;
- Issuing foreign debt securities with maturity exceeding three years in the RN Macedonia and
- Investment of residents in securities abroad.

However, liberalization of capital financial flows in the RN Macedonia may lead to certain outflow of capital based on portfolio investments and property (through the possibility to buy securities and property abroad). Still, data on FDI inflow, especially before the COVID-19 crisis when historic high FDIs were noticed, show that this outflow can be compensated, and will result with higher total net capital inflow.

In addition, in the past period the RN Macedonia took steps in the real direction to detect suspicious sources of money and achieved progress in strategy implementation and fighting money-laundering and terrorist financing performance. Based on the finding in the Report on national assessment of risks of money-laundering and financing terrorism, the Council on Fighting Money-laundering and Financing Terrorism developed a Strategy against money-laundering and financing terrorism (2021-2024) and a new Law on Prevention of Money-laundering and Financing Terrorism.

Among the more important activities in the forthcoming period will be the adoption of new legislation in the field of payment system that will enable liberalization of the market and entering of new payment service providers. The part on types of payment services foresees the introduction of new payment services such as initiating payment and providing information on payment accounts services. Fintech companies are expected and should play a significant role, as they have knowledge, experience and technology to establish fast, efficient and secure electronic access to service providers, which in the specific case means realization of payment transactions.

This shows how dedicated the RN Macedonia is in taking measures and activities to remove restrictions on free movement of capital. The benefits of this process are priceless. In addition to peace and stability, the creation of a single market will generate significant benefits for both citizens and companies allowing them to operate more efficiently, will increase the market competition and offer consumers a variety of goods and services to choose from at lower prices.

Key recommendations for strengthening regional economic cooperation between Western Balkan countries are:

- Gather all parallel regional initiatives aiming to strengthen economic cooperation in the region under one regional agenda

supported by all relevant international actors. Numerous regional initiatives are launched as a result of a certain political momentum, announced with great ceremony only to be forgotten very soon after that. The goals of many initiatives are intertwined, meaning their rethinking would yield greater results.

- Make Chapter 4. Free movement of capital a more current issue and set the issue as important sphere within the regional initiatives and agendas of Western Balkan countries. Continue with the process of eliminating restrictions to capital movement. For example, one of North Macedonia's competitive advantages compared to other Balkan countries are favourable conditions for developing the agricultural industry, therefore it is also important to eliminate the prohibition to buy agricultural land for foreign investors.
- Promote companies in each of the Western Balkan countries aiming at increasing investments from one country to another. Investments are of great importance in encouraging long-term recovery of the region and support necessary reforms for its further progress on their European track and overcoming differences by bringing benefits to the region sooner. Therefore, it is necessary to enable easier interconnection of companies from different Western Balkan countries. This is the context for the recommendation to eliminate restrictions to opening bank accounts by resident natural and legal persons in other countries.
- Promote investments in rural areas and agriculture. To enable investments in sustainable agricultural production and support equal rural development and strengthening competitiveness and sustainability of agricultural and food sector. Agricultural sector is very important for Macedonian economy as can be seen from the fact that 48% of the total land in the RN Macedonia is in the category of arable land, and this land is the basis for agricultural production. State Statistical Office data shows that almost half of the arable land and gardens remain unused. This is exactly where the potential for agricultural development and food production rests, and the RN Macedonia spends millions of Euros every year on food import.
- Precisely define industries with competitive advantages for each Western Balkan country, thus identify industries in Western Balkan countries where they can mutually invest and cooperate.

Key recommendations for the Western Balkans region

Establishing common Free Economic Zone.

Activities and benefits within the free economic zone:

Each of the Western Balkan countries to define industries with competitive advantages for each country, for the purpose of establishing companies in these industries in the free economic zone,

Promote companies in each of the Western Balkan countries for the purpose of increasing investments of one country into another,

Tax reliefs for companies established in the Free Economic Zone,

Recognition of professional qualifications and education for the purpose of employment of people from all Western Balkan countries in any of the companies established in the Free Economic Zone.

Key recommendations for the RN Macedonia rapprochement to the EU and single internal market:

- Continuation of the process of harmonization of domestic regulations with the EU-acquis:
 - Adoption of the new Law on Payment Services and Payment Systems, which will enable liberalization of the market and entering of new providers of payment services.
 - Adoption of the new Law on Prevention of Money-laundering and Financing Terrorism harmonized with the 5th Directive of the European Parliament and the Council on the prevention of the use of the financial system for the purposes of money-laundering or financing terrorism.
- Upgrade the system for prevention of money-laundering and financing terrorism adequately to the risk of money-laundering and financing terrorism by means of implementation and monitoring of the measures in the Strategy on fighting money-laundering and financing terrorism (2021-2024).
- Provision of systemic implementation of financial investigations in criminal cases.
- Continuation of activities for legal regulation of virtual currencies in the RN Macedonia.
- Further liberalization of capital-financial flows in order for the RN Macedonia to become part of the single market of EU, whose basic goal is free flow of workers, goods, capital, establishment, and provision of services.



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