

Collection of papers
International scientific conference

**“THE INFLUENCE OF EUROPEAN INTEGRATION
ON THE DEVELOPMENT OF MONETARY LAW”**



With the support of the
Erasmus+ Programme
of the European Union

Jean Monnet Module for European Monetary Law

Srđan Golubović
Marko Dimitrijević
Editors

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Niš, 2023

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OF MONETARY LAW”

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THE DEVELOPMENT OF MONETARY LAW”

Faculty of Law, University of Niš, 2023

Editors' Note

Three years of successful project implementation of the Jean Monnet module for European monetary law at the Faculty of Law, the University of Niš, which was approved by the Executive Agency of the European Commission for Education, Audiovisual Activity and Culture (EACEA) at the Erasmus+ Program Calls for Proposal 2020 - Jean Monnet Activities, were ceremoniously marked by organizing the Jean Monnet International Scientific Conference titled “The Influence of European Integration on the Development of Monetary Law” at the Faculty of Law, the University of Niš, on 30-31 May 2023.

If we carefully examine the events in international monetary relations in the last decade, we can notice a new wave of European monetary law, which is more intense, richer, and more complex than all the other events on the previous global monetary scene. New tendencies are not only embodied in prioritizing soft legislation in times of crises over primary monetary solutions, new jurisdictions of international judicial instances for resolving monetary and fiscal disputes, new central bank powers, and the evolution of the concept of monetary sovereignty but also in generating more “human” approaches in implementing monetary law. In the circumstances of ongoing technological revolutions, environmental crises, and pandemic shocks, EU monetary legislation requires some modification of the central bank mandate and monetary-fiscal policy coordination mechanism. This professional belief was the starting point for addressing these monetary law issues by the Conference organization and program committee of distinguished scholars.

In this context, the papers presented at the JM Conference covered a wide range of monetary law topics and various aspects of contemporary monetary legislation dedicated to the challenges of European monetary and economic integration: a new model of economic governance in a time of crisis, implementation of the Banking and Fiscal Union concept in the EMU, monetary conduct and human rights protection, green central banking, new competencies of central banks, monetary sovereignty and sovereign debt crises, central bank digital currency issues, changes in the central bank management and legislation, monetary disputes and the role of courts, fiscal rules and

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THE CHALLENGES OF THE MACEDONIAN TAX SYSTEM ACCORDING TO THE EU RECOMMENDATIONS AND EU TAX RULES

Abstract: *The EU integration process of the Republic of North Macedonia requests certain tax reforms according to EU tax rules and priorities. North Macedonia is one of the remaining six Western Balkan countries that are EU candidate countries. The Republic of Macedonia was the first country to sign the Stabilization and Association Agreement (SAA) in April 2001, and the first country in which the SAA has entered into force. In May 2019, the European Commission (EC) recommended the opening of accession negotiations with North Macedonia. The first Intergovernmental Conference on accession negotiations with North Macedonia was held in July 2022, and the country started with the screening process. The last EC staff working document, the North Macedonia 2022 Report, covers the period from June 2021 to June 2022. According to the EC staff working documents for North Macedonia, the country has been “moderately prepared in the area of taxation” in the last several years. The COVID-19 pandemic had a severe impact on the national tax and fiscal system. Thus, the 2021–2025 Tax System Reform Strategy mainly introduces the recommendations from the last several EU reports for North Macedonia, but some of the reforms are still pending. Therefore, this research will examine and give an overview of the national tax reforms that were established after the independence of the country in 1991 (after the breakup of Yugoslavia). Focusing on the main tax policies and strategies, the crucial tax reforms emphasize the development of the tax reforms during and after the COVID-19 pandemic. The research will be mainly based on published international official reports and documents, EU tax policies and recommendations, national policies and strategies, tax laws, and published research papers.*

Keywords: *Macedonian tax reforms, COVID-19, Tax System Reform Strategy (2021-2025).*

Introduction

Since its independence as a unitary state, the country has been challenged with several main tax reforms. Some of these reforms have been crucial and inevitable parts of the developing process of modern society. Tax policy is mainly influenced by the socio-political environment and the economic condition of society.

The COVID-19 appearance caused adverse effects on the global economy. The European Economic Forecast for Spring 2020 marked this period as a period of “deep” and “uneven recession, and “uncertain recovery” (EC European Economic Forecast-Spring 2020, 2020: 9)¹. Thus, the monetary and fiscal policy response to the crisis, both globally and in the EU, has been challenged to impose and implement restrictive and unprecedented measures. Consequently, the EU economy developments in 2020 and in the next couple of years (2021, 2022) were largely determined by the set of restrictive and contaminated measures imposed and the duration of lockdowns (curfews) during the pandemic. Thus, the EU was forced into its deepest recession since the 1930s (EC European Economic Forecast-Spring 2020, 2020:9). On the other hand, the EC European Economic Forecast-Spring 2021 projects that “growth rates will continue to vary across the EU, but all Member States should see their economies return to pre-crisis levels by the end of 2022” (EC European Economic Forecast-Spring 2021, 2021)². The EU economy is forecast to grow by 4.2% in 2021 and to strengthen to around 4.4% in 2022 (4.3% and 4.4%, respectively, in the Euro area) (EC European Economic Forecast-Spring 2021). Yet, the projections on the EU economy growth were not fulfilled; after almost two years of unexpected impact of the Covid-19 pandemic, “Russia’s invasion of Ukraine has posed new challenges” (EC European Economic Forecast-Spring 2022, 2022)³. It was hard for the EU economy and the EU member countries to endure the repetition of various global challenges in a short period of time but they succeeded in avoiding recession.

¹ European Commission (2020). European Economic Forecast-Spring 2020; retrieved 01.05.2023 from https://ec.europa.eu/economy_finance/forecasts/2020/spring/ecfin_forecast_spring_2020_outlook_en.pdf

² European Commission (2021). European Economic Forecast-Spring 2021, EC, Directorate-General for Economic and Financial Affairs (2021). https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2021-economic-forecast-rolling-sleeves_en (accessed 01. 05. 2023).

³ European Commission (2022). European Economic Forecast-Spring 2022, EC/DG Economic and Financial Affairs (2022); https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2022-economic-forecast-russian-invasion-tests-eu-economic-resilience_en (2.5. 2023).

On the other hand, this global uncertainty was a severe shock for the small economies in the Western Balkans countries, especially for the Republic of North Macedonia.

During the health crises caused by COVID-19 pandemic, in order to mitigate unemployment and the forecast inflation, the North Macedonian government adopted several packages of economic and financial measures concerning direct and indirect taxation. Some of the provisions from the new Personal Income Tax Act⁴ were postponed or abolished. Amendments to the Corporate Income Tax Act⁵ referred to stimulation, tax reliefs and exemptions for companies that sustained losses due to the COVID-19 crises. The health crisis and subsequent energy crises triggered the adoption of some measures concerning indirect taxation (VAT⁶, custom, excise). Additionally, solidarity taxes were introduced in the country for the first time as a short-term and *ad hoc* funding solution. In accordance with Council Regulation (EU) 2022/1854 of October 2022 on an emergency intervention to address high energy prices⁷, in January 2023, the Macedonian government announced the preparation of the Draft Solidarity Tax Act,⁸ which will establish the obligation to collect a solidarity contribution from companies which in the 2022 had a total revenue greater than that EUR 10 million (MKD 615 million). The solidarity tax rate will be 30% and will be reported by submitting a separate tax return by 15 March 2023 (PwC, 2023)⁹. The idea behind this proposal is to mitigate

⁴The new Personal Income Tax Act (2018) stipulates a progressive type of taxation and promotes the scalable progressive policies according to personal income segments. (Personal Income Tax Act, Official Gazette of Republic of North Macedonia, No. 241/2018, 84/2019; 275/2019; 290/2020; 85/2021; 274/2022).

⁵Corporate Income Tax Act, Official Gazette of Republic of North Macedonia, No. 112/2014, 44/2015; 129/2015; 23/2016; 190/2016; 248/2018; 158/2019; 232/2019; 275/2019; 290/2020; 151/2021; 215/2021.

⁶Value Added Tax Act, *Official Gazette of NM*, No. 44/1999, 59/1999; 86/1999; 11/2000; 93/2000; 8/2001; 31/2001; 21/2003; 17/2004; 19/2004; 13/2006; 33/2006; 45/2006; 101/2006; 114/2007; 103/2008; 114/2009; 133/2009; 95/2010; 102/2010; 24/2011; 135/2011; 135/2011; 155/2012; 12/2014; 112/2014; 130/2014; 15/2015; 129/2015; 129/2015; 225/2015; 23/2016; 189/2016; 198/2018; 96/2019; 98/2019; 124/2019; 275/2019; 267/2020; 163/2021; 288/2021; 57/2022.

⁷Council Regulation (EU) 2022/1854 of October 6, 2022 on an emergency intervention to address high energy prices, *Official Journal of the European Union*, L1 261/1, 2022.

⁸Влада на Република Северна Македонија (2023). Предлог на закон за данокот на солидарност (Government of Republic of North Macedonia, Draft Solidarity Tax Act, 17 July 2023); retrieved 20.07.2023 from <https://www.sobranie.mk/detali-na-materijal.nspx?param=21a88903-6b72-467d-a399-62d7b0647b74>

⁹PwC (2023). Tax Alert-Draft Law on Solidarity Tax, 2023; <https://www.pwc.com/mk/>

the impact and negative effects on citizens and companies from high energy prices and to preserve the sustainability of public finances. The Draft Solidarity Tax Act was introduced as part of the anti-crisis measures; it is aligned with the EU legislation and it also envisages short-term funding solutions.

The World Bank experts point out that the share of tax revenues in GDP is significant for the economic growth and the poverty reduction because it is necessary for the countries to have the required funds at their disposal, so as to be able to invest in the future and achieve sustainable economic growth. This is also a significant signal for investors in terms of the country's capacity and its sustainability in servicing the liabilities. The data provided by the Ministry of Finance of North Macedonia (2022)¹⁰ show that developed countries usually have a higher share of tax revenues in GDP; thus, in 2019, the average in the OECD countries was 33.8%, which is twice the average amount in North Macedonia (16.1% in 2020). The data also show that tax collection as a percentage of GDP in North Macedonia is below the average percentage in the countries in the region; at the same time, it is far below the average of the 27 EU countries, as well as the developed countries. If we consider the historical data on the quantitative indicators of the tax system efficiency, the need for changes is evident. The gap between the share of revenues generated from taxes and contributions in GDP in the EU-27 and North Macedonia is significant; in 2008, total tax revenues and social contributions accounted for 38.4% of GDP on average in the EU-27, while accounting for 27.7% in North Macedonia (i.e. by 10.7 % less). During the analyzed 2008-2020 period, the gap deepened, reaching 13.9% in 2020. As for the Western Balkan countries, by analyzing only the tax revenues without the social contributions, the share of tax revenues in GDP is convincingly the lowest in North Macedonia accounting for 16.1% in 2020, 23% in Montenegro, 22.3% in Kosovo, 20.1% in Serbia, and 17.3% in Albania. If analyzed over a longer period of time, a negative gap is constantly recorded in North Macedonia as compared to the region. This is a result of several factors such as lower tax rates, higher tax exemptions, as well as coping with the informal economy, coupled by the respective efficient collection (Ministry of Finance of the Republic of North Macedonia, 2022).

[en/news/tax-alert-draft-law-on-solidarity-tax.html](#) (accessed 20.04.2023)

¹⁰ Ministry of Finance of North Macedonia (2022) .NM: Tax Reform: economic growth, eradication of informal economy and fair public duties), 7 August 2022; <https://finance.gov.mk/2022/08/07/tax-reform-economic-growth-eradication-of-informal-economy-and-fair-public-duties/?lang=en> (accessed 20.04.2023)

1. A brief overview of the development stages of the Macedonian tax system

The researchers agree that the development of the tax system can be observed through several major and significant tax reforms. In this context, the Republic of Macedonia has historically been through the following development stages (Пендовска, Максимовска Стојкова, Зафировски, Нешовска-Ќосева, 2021: 230):

- The first great tax reform in 1993;
- Introducing the value added tax in 2002;
- Adopting the Tax Procedure Act in 2005;
- Introducing the flat taxation in 2006;
- Restitution to progressive taxation from 2018.

The last reforms (i.e. the sixth package of reforms) were challenged by the outbreak of the COVID-19 pandemic in 2020 and the consequences caused by the pandemic. The reform priorities were envisaged in the Tax System Reform Strategy 2021-2023¹¹.

The first big tax reform was made in 1993. After declaring independence from SR Yugoslavia, the country inherited the Yugoslavian tax system, which was hard to maintain and adapt to the market-oriented economies. This reform refers to significant changes in tax legislation on personal income and corporate revenue taxes. New laws on personal income tax were introduced, and a synthetic income tax for natural persons was implemented. The income tax for legal entities was implemented by the new legislative act on corporate tax.

The second crucial reform in the country was made in the area of indirect taxation by introducing the value-added tax (VAT) in 1999; the VAT Act entered into force in 2000. This reform was mainly influenced and strongly supported by the EU. The Republic of Macedonia signed the Stabilization and Association Agreement (SAA) in April 2001.¹² In line with the SAA agreement with EU, the market, the economic relationship with the other EU countries, and trade benefits with the EU, there was a need to harmonize national leg-

¹¹ Ministry of Finance of North Macedonia (2020). Tax System Reform Strategy 2020-2023, January 2020; https://finance.gov.mk/wp-content/uploads/2020/02/Tax-Strategy_2020_2023.pdf (Retrieved 20.04.2023).

¹² The SAA was signed on 9 April 2001 in Luxemburg. The Republic of Macedonia was the first country in the region that signed SAA and the first country in which SAA entered into force.

isolation with European VAT directives. After the adoption of Council Directive 2006/112/EC on the common system of value-added tax, this became an inevitable part of the integration and accession process for the country and its economy. In compliance with the EU VAT Directive and the condition of the national economy, the general VAT rate is 18% and the reduced rate is 5%, which again makes the country a favorable tax environment and promotes tax competition. The EU's average standard VAT rate is 21%; according to the list of VAT rates applied in EU member countries, North Macedonia has the same VAT rate as Malta. Luxembourg has the lowest standard VAT rate at 17%, and Hungary has the highest standard VAT rate at 27%. Croatia, Denmark, and Sweden have standard VAT rates at 25%. It should be noted that some EU member states had not had VAT in their tax systems before their accession (e.g., Spain introduced VAT into the national tax system at the time when it entered into EU membership). On the other hand, some of the amendments to the Macedonian VAT Act¹³ adopted in 2014 included novelties that extended the scope of taxpayers. It was the first time that a natural person in a position as a lessor should be a tax payer under the VAT Act, and under the Personal Income Tax Act (in particular cases). As stated in the amendments, this applied to craft workers, sole proprietors, and micro traders whose activities are regulated by the Company Act, and whose profits exceed the limits stipulated by the Company Act. When compared to some countries in the region (Croatia and Serbia) and the EU practice in VAT taxation, it should be noted that this legal solution was an exception. This legal solution was criticized by the academic community, which underscored that “despite the continuous tax reforms efforts, Macedonian taxpayers are put in a less favorable position than taxpayers from the region, which is inconsistent with the EU tax harmonization” (Pendovska, Maksimovska, Nesovska- Kjoseva, 2017: 129). The VAT Act has been amended 40 times until today.

The third reform of the tax system was marked by the adoption of the Tax Procedure Act¹⁴ in 2006. It was the first time that the tax legislation was enacted in one organic procedural tax law in order to constitute and improve tax regulation and procedural tax issues, and to ensure the protection of taxpayers' rights. This law was the cornerstone of the general tax law, aimed at establishing the basic legal concepts of tax administration and tax procedures, the rights and obligations of tax payers and tax administration, as well as improving the application of tax procedures and the general tax law.

¹³ The Act amending the VAT Act, *Official Gazette of the Republic of North Macedonia*, No. 130/2014

¹⁴ The Tax Procedure Act, *Official Gazette of the Republic of Macedonia*, No. 13/2006.

The fourth tax reform refers to introducing flat-rate taxation. It was one of the most extensive reforms in the country. After repealing progressive taxation, the legislator introduced and implemented flat-rate taxation, with a reduced tax rate of 12% in 2007 and 10% in 2008. The flat-rate taxation was imposed on personal and corporate taxes with a proportional tax rate. Thus, Macedonia joined other countries using the MMF taxation model (Estonia, Latvia, Lithuania, and Slovakia). Until 2006, the country had a progressive tax rate. The flat-rate taxation with a proportional tax rate was easily accepted by Macedonian tax payers. Moreover, this tax reform improved the business climate and the tax competitiveness of the country. Before this reform, the tax rates for personal income (of natural persons) were 15%, 18%, and 24%, while the tax rate for corporate income of legal entities/ was 15%. Thus, the tax burden for taxpayers was reduced for the first time, and the country was listed as one of the countries with the lowest tax rate in Europe. Additionally, with the amendments to the Personal Income Tax Act, the provisions on the taxation of reinvested profit became unenforceable: tax incentives for the companies that invest in the Free Economic Zones; tax holidays; a zero tax rate for personal release; postponing taxation on income from capital (e.g. interest on time savings and other deposits, which was postponed until 2023); and capital gain tax exemptions (for sales of securities and units/shares by an investment fund, tax is not payable on capital gains earned from the sale of securities that were issued within the initial public offer; capital gains from the sale of immovable property are exempt in specific cases).

The fifth tax reform brought back progressive taxation on stage. In 2018, a new Personal Income Tax Act was adopted, which was implemented in 2019. This reform refers only to the tax obligations for natural persons while legal entities are still taxed under the applicable law with a tax rate of 10%. As a matter of fact, progressive taxation has never been put into effect; *a contrario*, it was abolished. The new PIT Act was amended a couple of times; some of the provisions were abolished, some were amended. Consequently, after being previously postponed for a period of three years, the progressive taxation was supposed to be applied as of 1 January 2023. Additionally, with the amendments of this Act, the taxation of interest on savings was postponed until North Macedonia's accession to the EU. *Inter alia*, amendments also stipulate: taxation of capital gains generated from sale of securities and units issued by investments funds acquired from 1 January 2023, as regards the period of acquisition, taxation rate and the manner of calculating and paying the tax; additional clarification and regulation of the base for taxing the non-monetary benefits of taxpayers generating income thereupon; abolishment of

the tax exemption as regards the paid life insurance premium, paid premium for voluntary health insurance and paid contribution in a voluntary pension funds for the employed people; determining the treatment of unrecognized expenditure for the whole amount of the life insurance premium for persons performing independent activity; additional regulation of the procedure for tax exemption or reduction as per the international agreements on avoidance of double taxation on income generated by foreign natural person, etc. (Ministry of Finance of North Macedonia, 2022). Thus, the implementation of the new PIT Act as a part of the tax reform concept has partially justified the achievement of the main reason for adopting the new PIT Act. On the other hand, some novelties have not come into force, and some have been postponed a couple of times.

In January 2020, the Tax System Reform Strategy (2020-2023) was launched by the Ministry of Finance of the Republic of North Macedonia. The strategy is a basic framework for introducing the upcoming tax reforms. It outlines five priorities for tax policy and tax administration for the period 2020–2023: to increase the fairness of taxation; to improve revenue collection through increased efficiency and productivity of the tax system; to increase tax transparency; to improve the quality of services; and to introduce green taxation. (Ministry of Finance, 2020: 3)

2. The main reasons for challenges in the tax system seen through *ad hoc* decisions and preventive measures during and after the COVID-19

“What began as a supply shock in China has morphed into something much more serious that is pushing the global and the European economy into its deepest recession since the 1930s” (EC European Economic Forecast-Spring 2020, 2020: 1) The pandemic shock was even more severe for the small and transition economies in the Western Balkans. In the Republic of North Macedonia, a vast number of *ad hoc* policies, measures, and government decisions were introduced and implemented in 2020 and 2021 to mitigate the impact caused by the COVID 19 crisis. Moreover, the pandemic shock became a source for adopting unprecedented health, economic, fiscal, and legal measures. The standard approach and practice of initiating, adopting, and implementing recommendations and rules was on the decline, and unprecedentedness became the “new normal”. This discrepancy still exists in 2023. Additional burdens to the national economy were the political elections and political uncertainty in the country. On 18 March 2020, the Government declared a

state of emergency. According to national law and its legal nature, in a state of emergency, the Government decrees have the force of law. In the area of tax regulation, 10 decrees with the force of law were adopted, which provided financial support, certain tax exemptions, relief in settling tax obligations, and social benefits to the taxpayers affected by the crisis (Public Revenue Office NM, 2020: 11). In such circumstances, a specific tax regime was in force.

Consequently, economic growth was slowed down, and the labor market remained muted. In February 2020, the unemployment rate in the Euro area stood at 7.3%, its lowest level since May 2008 (6.5% in the EU). (EC European Economic Forecast/Spring 2020, 2020:10). According to theory and practice, GDP developments (production side) affect employment and the labor market with a certain time lag. On the other hand, according to the quarter report from the State Statistical Office of North Macedonia, in the first and second quarters of 2020 in North Macedonia, the unemployment rate fell to 16.4% in Q1 from 18.1% recorded a year before (2019). At the same time, the employment rate increased to 55.6%, i.e. by 1.7 % compared to the same quarter in 2019 (Macedonia 2025 Think-tank, 2023).¹⁵

In 2020, a new VAT tax rate of 10% was introduced, which applied to food and beverage delivery services for on-site consumption and catering services, with the exception of alcoholic beverages. Additionally, a preferential tax rate of 5% was introduced on craft services performed by craftsmen registered in the craft register according to the Crafts Act.¹⁶ With these tax amendments, which were part of the economic and social package measures during the COVID-19 pandemic, the VAT consisted of three tax rates (18% as a general rate), and two preferential rates (10 % and 5%).

A new challenge appeared along with the Russian-Ukrainian conflict, which turned into a war and had a significant impact on the imports and exports, followed by international bans and restrictions. It has changed the prices of food sources, the supply of energy and electricity, and other business trades and services. During the last 26 years, the exports of Ukraine to North Macedonia have increased at an annualized rate of 5.41%, from \$34.3 million in 1995 to \$135 million in 2021 (OEC, 2021).¹⁷ In 2021, Ukraine did not export

¹⁵ Source: State Statistical Office of North Macedonia (2020), <https://www.macedonia2025.com/analysis/economic-growth-and-employment-in-q1-2020> (accessed 1.6.2023).

¹⁶ Crafts Act, *Official Gazette of North Macedonia* No. 215/2015 and 215/2021.

¹⁷ OEC/Observatory of Economic Complexity (OEC, 2021). Bilateral Trade: Ukraine-North Macedonia, 2021; <https://oec.world/en/profile/bilateral-country/ukr/partner/mkd> (accessed 1.6.2023).

any services to Macedonia, and *vice versa*. In February 2021, the Government of North Macedonia, joined the latest EU's package of sanctions against Russia and all CFSP decisions regarding the territorial integrity of Ukraine (EWB, 2022).¹⁸ Consequently, it was expected that companies in the agricultural and food sectors would be immediately affected by these decisions. The business community agrees that the direct effects on Macedonia's foreign trade with Russia and Ukraine are low. In 2021, Russia participated with 0.7% of the country's total exports, and Ukraine with 0.2% of total exports. Russia accounted for 1.7% of imports and Ukraine for 1.5% of imports. However, the indirect effects of this conflict on the EU economy are likely to have a huge impact on the Macedonian economy, i.e. reduce exports and investments (to and from the EU) (Bankarstvo, 2021).¹⁹

To maintain prices and mitigate inflation, the North Macedonian Government imposed several packages of anti-crisis measures aimed at supporting citizens and companies, amended and supplemented tax regulations by adopting tax reductions and exemptions, stimulations, and subventions. Notably, it increased fiscal implications on the budget at the end of 2021 and in 2022. Since the beginning of the COVID-19 crisis, the Government has adopted packages of measures that account for about 11% of our GDP. For comparison, according to the IMF data, fiscal stimulus in the countries of the region ranges from 2.4% of GDP in Bulgaria to 3% in Bosnia and Herzegovina, 3.3% in Albania, 4% in Montenegro, 5% in Kosovo, 7% in Croatia, 13.6% in Serbia, and about 14% of GDP in Greece and Slovenia (Ministry of Finance NM, 2021).²⁰

According to the European Commission staff working documents (North Macedonia reports) issued in the last three years, the Republic of North Macedonia has been continuously designated as being "moderately prepared"

¹⁸ European Western Balkans/EWB (2022). *North Macedonia joins EU's package of sanctions against Russia*; 24. 02. 2022; <https://europeanwesternbalkans.com/>: <https://europeanwesternbalkans.com/2022/02/24/north-macedonia-joins-eus-package-of-sanctions-against-russia/>

¹⁹ Банкарство (2021). *Какви економски последици ќе претрпи Македонија по војната меѓу Украина и Русија!?* (What economic consequences will Macedonia suffer after the war between Ukraine and Russia!?) 24 February 2021; available at <https://bankarstvo.mk>.

²⁰ Ministry of Finance (2021). First joint scientific conference of the Ministry of Finance and the Macedonian Academy of Sciences and Arts: *"Fiscal Policy Challenges amid Covid-19 Induced Pandemic and the Outlook for the Post-Crisis Period"*, 20 May 2021, Skopje: Ministry of Finance of the Republic of North Macedonia; <https://finance.gov.mk/2021/05/19/first-scientific-conference-of-mof-and-masa-covering-covid-19-challenges-and-upcoming-economic-policies/?lang=en>

in the area of taxation, while the recommendations from the previous year report “have not been fully implemented” in this area and “remain valid” (EC North Macedonia 2020 Report, 2020:79; EC North Macedonia 2021 Report, 2021: 79; EC North Macedonia 2022 Report, 2022: 79).

The first Intergovernmental Conference on accession negotiations with North Macedonia took place in July 2022, and the country started with the screening process. Consequentially, the last EC staff working document, the EC North Macedonia 2022 Report, covers the period from June 2021 to June 2022. In the context of harmonizing its legislation with EU tax law, the North Macedonia has to fulfill the Copenhagen criteria, which include a functional market economy and acceptance of all EU legislation and proposals. All rules or conditions from the Treaty Establishing the European Community (Common rules on competition, taxation, and approximation of laws) apply to Member States and future member states. Thus, North Macedonia has been recommended to “improve the capacity of the tax administration by efficiently implementing the 2021-2025 Tax System Reform Strategy; ensure an effective automatic exchange of tax information with EU Member States (in line with the OECD Global Standard); develop a new integrated IT tax system for the Public Revenue Office, improve its compliance risk management and further extend e-services for tax payers” (EC North Macedonia 2022 Report, 2022: 79). In August 2022, the Government of the Republic of North Macedonia adopted the updated Macedonian Tax System Reform Strategy 2021-2025, particularly addressing prospective changes to the corporate tax, personal income tax and social contributions, and value added tax (VAT) legislation.

Summary

Despite the crises, the Republic of North Macedonia has made some progress in certain areas in line with the EC recommendations, but some tax laws in the area of direct and indirect taxation are still not in line with the EU acquis. There is a need to improve the capacity of the central and local tax administration by adopting and efficiently implementing the Tax System Reform Strategy 2021-2025, improving the capacity of the tax administration, and implementing the automatic exchange of tax information with EU Member States in line with the OECD Global Standard.

The goal of the last tax reforms has been to improve the efficiency of tax administration and the functionality of e-tax services, to reduce the administrative burden for taxpayers, to prevent tax evasion, to align with the EU acquis in the area of indirect taxation by emphasizing environmental taxa-