Former Yugoslav Republic of Macedonia Trade Brief

Trade Policy

In recent years, the Former Yugoslav Republic (FYR) of Macedonia's economic policies have emphasized liberalization, free trade, regional integration, regulatory reform, and reform of the business environment. Its trade liberalization was encouraged by the country's accession to the WTO in 2003. Based on its 7.8 percent simple average MFN applied tariff, FYR Macedonia's trade regime appears slightly more restrictive than that of an average Europe and Central Asia (ECA) country (6.8 percent), but more liberal than that of an average upper-middle-income country (9 percent). Based on the MFN applied tariff, it ranks 79th out of 181 countries (where 1st is least restrictive). Taking into account preferences, the simple average MFN applied tariff is 6.9 percent. Similar to the majority of other countries in its comparator groups, FYR Macedonia is more protective of its agricultural goods (13.9 percent tariff) than of its non-agricultural goods (6.8 percent tariff). The country's maximum MFN applied tariff, excluding alcohol and tobacco, is 64 percent, which is lower than the regional average of 159.7 percent. The trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), has decreased to 2.5 percent in 2008 from 3.2 percent the year before. In 2009, the government started cancelling duties for 286 tariff lines of raw materials and equipment not produced domestically, and reducing them for another 212.[1]

FYR Macedonia mostly trades with countries with which it has free trade agreements. It is party to the Central European Free Trade Agreement (CEFTA) with its regional neighbors, which includes Serbia and Montenegro who are among its top five trading partners. With the EU countries, which are the other top trading partners, FYR Macedonia has signed a Stabilization and Association Agreement, and has benefited from trade concessions since the implementation of the Interim Agreement in June 2001. Additionally, trade integration was advanced further through the introduction of diagonal accumulation of origin of goods for countries in the EU's Stabilization and Association Process, Turkey, and EU member states.[2]

External Environment

The simple average of the overall rest of the world tariff (including preferences) faced by the country's exports is 9.8 percent. When its trade flows are taken into consideration, it is apparent that FYR Macedonia's exports have very good access to international markets, especially when compared to the ECA and upper-middle-income countries. Its weighted average rest of the world tariff (including preferences) is 0.9 percent, lower than the regional and income group averages of 2.1 and 3.1 percent, respectively. Similar to the majority of other countries in the region, FYR Macedonia's agricultural products face a less favorable trading environment (4.3 percent tariff) than its non-agricultural products (0.8 percent tariff). The Macedonian denar appreciated by 4.6 percent in real, trade-weighted terms in 2008, making the country's exporters less competitive abroad. At the end of 2008, FYR Macedonia signed an economic cooperation agreement with Bulgaria, which is one of the top 10 foreign investors in the country.[3]

Behind the Border Constraints

FYR Macedonia implemented reforms in 7 out of the 10 categories of the Doing Business index, resulting in its rank as the third top reformer for 2008/09. Consequently its business environment has improved substantially and is now ranked 32nd out of 183 countries in the Ease of Doing Business index, improving from 69th in 2008. FYR Macedonia's Logistics Performance Index score, which reflects the extent of trade facilitation in the country, is below the regional and income group averages, suggesting that the country has a less conducive climate for trade. It scores 2.43 on a scale of 1 to 5, with 5 being the

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Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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highest score, while the regional and income group averages are 2.59 and 2.85, respectively. It ranked 90th out of 150 in the world and 15th in the ECA region (with Turkey leading the regional group). The logistics indicator in which it performed the best was domestic logistics cost, while its weakest performance was in the efficiency and effectiveness of customs and other border procedures. However, the authorities in FYR Macedonia have undertaken several measures to improve the trading environment (around 50 new measures were introduced in 2009, such as stronger control over customs and promotion of use of simpler procedures), and future rankings of the extent of trade facilitation in the country will likely register an improvement.

Trade Outcomes

The trade growth momentum of 11.6 percent over the 2005–07 period could not be maintained in 2008, and real growth (in constant 2000 U.S. dollars) of trade in goods and services slowed to 6.7 percent. Real trade growth is expected to turn negative in 2009, with trade falling by 4.5 percent. Export growth rate decelerated from 11.5 percent over the 2005–07 period to 9.6 percent in 2008, while import growth decelerated from 11.6 percent to 4.7 percent. Both exports and imports are expected to fall in 2009, with a marginally greater fall in imports.

In nominal U.S. dollar terms, trade growth decelerated to an estimated 18.1 percent in 2008 compared to 36.9 percent the year before, driven by a fall in both exports and imports. Exports in particular suffered due to the recent fall in metal prices, as nickel is the country's major export,[4] and the fall in demand because of the global recession, especially since the EU—one of the main export markets for Macedonian products—has been hard hit by the recent recession. As such, nominal growth of exports fell from 39 percent in 2007 to an estimated 10.1 percent in 2008, while the fall in imports was smaller, from 35.4 to an estimated 24 percent. In 2009, both prices and external demand have plummeted further, while domestic demand has decreased at a slower rate due to the expansionary fiscal policy that the government has implemented since late 2008.[5] As a result, while exports in the first quarter of 2009 fell by 43.3 percent in nominal U.S. dollar terms in comparison to the first quarter of 2008, imports fell by only 27.9 percent.[6] The fall in imports was also dampened by the declining price of petroleum, as crude petroleum is the country's main import, accounting for 12 percent of total imports. FDI inflows in 2008 accounted for 6.3 percent of the country's GDP.

Notes

1. Besimi, Fatmir. April 2009.
2. European Union Commission, March 17, 2009.
3. Kostadinov, December 15, 2008.
4. IMF, February 2009, p. 9.
5. World Bank, April 2009.
6. National Bank of the Republic of Macedonia, 2009a; 2009b.

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