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UTICAJ PANDEMIJE COVID-19 NA TRGOVINU ROBAMA I USLUGAMA U SJEVERNOJ MAKEDONIJI

Apstrakt: Svjetska ekonomija suočila se s teškim posljedicama pandemije COVID-19, uključujući poremećaje privredne aktivnosti, trgovine i lanaca snabdijevanja. Ovaj negativni šok se brzo odrazio na makedonsku ekonomiju. Ovaj rad daje pregled kretanja makedonske trgovine robom i uslugama od izbijanja COVID-19 početkom 2020. godine. Podaci za 2020. ukazuju na smanjenje trgovinske otvorenosti, usljed pada izvoza i uvoza, što je posljedica nekoliko kanala. Poremećaji u globalnom lancu snabdijevanja i ograničenja uvedena u međunarodnoj i domaćoj privredi uticali su na poslovanje izvozno orijentisanih preduzeća u automobilskoj industriji, što je dovelo do najvećeg pada izvoza robe u drugom kvartalu 2020. godine. Na istovremeni pad uvoza uticao je pad izvoza, smanjena domaća potražnja i pad cijena energije. Postepeno popuštanje globalnih ograničenja i ukidanje restriktivnih mjera doveli su do ponovnog uspostavljanja globalnog lanca snabdijevanja i oporavka izvoza, što je vidljivo u podacima iz prve polovine 2021. godine. Efekti pandemije bili su vidljivi i u trgovini uslugama, posebno putovanjima i telekomunikacijama, kompjuterskim i informatičkim uslugama. Nakon pada u 2020., podaci o trgovini uslugama ukazuju na povećanje suficita u prvoj polovini 2021. Iako se vjerovalo da su negativne posljedice pandemije na makedonsku trgovinu privremene, pandemija u svijetu je produžila svoje ishode. Ovo, kao i novi rast cijena osnovnih roba na međunarodnim tržištima, transportne insuficijencije kao najslabije karike globalnog lanca i rast troškova transporta, tjeraju privredne vlasti da preispitaju svoje prvobitne tvrdnje i nameću potrebu predlaganja dodatnih mjera za amortizacija novih, neizbježnih međunarodnih i nacionalnih šokova.

Ključne riječi: trgovina robom, trgovina uslugama, globalni lanac nabavke (GVC), COVID-19, JIE, makedonska privreda.

IMPACT OF COVID-19 PANDEMIC ON MACEDONIAN TRADE IN GOODS AND SERVICES

Abstract: Global economy faced severe repercussions from the COVID-19 pandemic, encompassing disruptions of economic activity, trade and supply chains. This adverse shock was quickly spilled over into the Macedonian economy. This paper reviews the developments in Macedonian trade in goods and services since the COVID-19 outbreak early in 2020. Data for 2020 point to a contraction in trade openness, amid drop in both exports and imports, which is due to several channels. Disruptions in GVC and restrictions imposed in international and domestic economy affected the outturn of export-oriented facilities in the automotive industry, leading to the steepest decline of exports of goods in the second quarter of 2020. The simultaneous drop of imports was impacted by exports decline, depressed domestic demand and fall in energy prices. The gradual easing in global conditions and the lifting of restrictive measures prompted re-establishment of GVC and rebound of exports, evident in the data for the first half of 2021. Effects of the pandemic were also visible in the services trade, particularly travel and telecommunications, computer and information services. After the decrease in 2020, data on services trade point to increase of its surplus in the first half of 2021. Albeit the negative repercussions of the pandemic on Macedonian trade were believed to be temporary, the pandemic worldwide has prolonged outturn. This, as well as new upward shifts of the prices of essential goods on international markets, transportation insufficiencies as the weakest link of the GVC and the rise of transportation costs, make economic authorities reconsider their initial claims and impose a need of proposing additional measures on amortization of new, unavoidable international and national shocks.

Keywords: trade in goods, trade in services, global supply chain (GVC), COVID-19, SEE, the Macedonian economy.

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1. INTRODUCTION

The global economy faced severe and wide-ranging negative repercussions from the COVID-19 pandemic, encompassing disruptions of economic activity, travel and supply chains. The contraction of activity in 2020 was unprecedented in living memory in its speed and synchronized nature (IMF, WEO April 2021). Policymakers have swiftly responded with immense stimulus plans, thus preventing steeper economic contraction, albeit with prevailing divergences in the speed of rebound and potential for persistent economic damage from the crisis.

The pandemic outbreak depressed global trade in goods and services. In 2020, trade in goods decreased by 4.7%, whereas trade in services, which comprises about one-fifth of global trade, contracted by 17.7%. This was due to both supply and demand factors. In particular, production, consumption, and trade suffered a direct and indirect adverse impact, as a result of the lockdowns and social distancing measures introduced to contain the virus. Factory closures in the early months of the pandemic led to a drop in the export supply of goods. Demand was affected as well, as consumers and firms adjusted their spending amid pronounced uncertainty. Participation in global value chains (GVC) and global supply chains (GSC) might further augment the negative trade effects of COVID-19 related shocks.

The subsequent recovery in trade in goods and services has been uneven. After the steep contraction, global trade in goods recovered to above pre-pandemic levels reflecting increased consumer demand and policy support. According to the available forecasts for 2021², the volume of trade in goods has been expected to grow by 9.9% in 2021, amid rapid manufacturing-based recovery, rising shipping rates, rising input prices and higher costs of oil and metals. At the same time, the recovery of trade in services (especially tourism) remained subdued reflecting the ongoing pandemic. By the end of 2021, overall trade in services has been expected to grow by only 5.8% implying a wide shortfall compared with the pre-pandemic trend³.

The global downturn in 2020, induced by the COVID-19 pandemic was reflected in the economic activity in Macedonia, as well. According to the State Statistical Office estimates, Macedonian real GDP registered a decline of 4.5% in 2020 following an increase of 3.2% in 2019. Health and economic crisis due to the pandemic resulted in a decline in external demand, temporary disruption of GSCs and pronounced deterioration of consumer sentiment, amid rising uncertainty and ongoing restrictive measures. The annual decline of the Macedonian output was widely dispersed across sectors being most pronounced in the industry and in “trade, transport and catering” sectors. The beginning of 2021 was marked by the spread of the third wave of COVID-19 which gradually stabilized by the end of the second quarter of 2021. The accelerated immunization and gradual easing of restrictive measures were expected to provide a solid basis for the recovery of the economic activity in the following period. Additional impetus to the economic recovery has been provided by the accommodative monetary policy and additional fiscal stimulus.

This paper investigates the dynamics and the structure of trade in goods and services of the Macedonian economy by using data from the Balance of Payments and Foreign Trade Statistics. A comprehensive econometric analysis is beyond the scope of this paper. In turn, the dynamic analysis aims to extract several stylized facts about the effects of the COVID-19 pandemic on Macedonian trade with a focus on the shifts in total trade and the trade balance. To compare certain similarities and differences, we add a brief overview of the developments of SEE countries to the analysis of the trade of Macedonia.

The paper starts with an introduction, followed by a brief review of relevant literature and an overview of trade developments in the SEE region. It proceeds with an analysis of the trade volume and structure of trade in goods and services of the Macedonian economy identifying improvements in the trade balance and the trade volume during the first half of 2021. In the end, we conclude by stating the main implications of the analysis and directions for further research.

² IMF (2021), World Economic Outlook July Update.

³ IMF (2021), External Sector Report.

2. LITERATURE REVIEW

There is a growing body of research on the macroeconomic and trade impact of the COVID-19 pandemic. We start by reviewing the studies that investigate the implications of pandemic and pandemic-induced measures on the economic growth, GSCs and trade in the European countries. Then, the paper proceeds with an overview of the relevant literature focused on the sample of countries from the SEE region.

The first strand of the research, focused solely on European economies, points to significant economic costs from the pandemic, with a considerable level of inter-country heterogeneity due to structural and policy-related factors. An early assessment of the economic effects of COVID-19 is made by Kohlscheen et al. (2020) who simulate the propagation of the pandemic-induced slowdown with a Bayesian Vector Autoregression (VAR) model of the global economy and find large economic spillovers and spillbacks of pandemic-type recessions. The analysis by Muggenthaler et al. (2021) sheds light on the heterogeneous performance across the euro area countries since the start of the pandemic pointing to differences in the degree of containment measures undertaken, economic structure and institutional quality. Similarly, Battistini et al. (2021) use the VAR model and argue that the economic costs of pandemic-related restrictions have been mitigated by targeted containment measures and behavioral responses of economic agents.

In related studies, trade in goods and transport and travel services stand out as important channels exacerbating the impact of the COVID-19 pandemic. For the four largest euro-area economies, Meinen et al. (2021) investigate how the interplay between stringency of governments' containment measures, sectoral structure and trade linkages explain the within-country regional heterogeneity of the labor market impact of the pandemic. Their results suggest that the region's economic structure is a significant driver of the observed heterogeneity and that region's trade relations represent an important indirect channel through which COVID-19 related disruptions affect regional economic activity. Similarly, Randelović (2021) considers the factors that influence the heterogeneity in the depth of the recession in European countries in 2020. The author suggests that the size of the tourism sector and the stringency of epidemiological measures are negatively related to the GDP growth, whereas the amount of direct fiscal stimuli relate positively to the GDP growth. Barkas et al. (2020) focus their research particularly on transport and travel services as one of the most vulnerable and hardest hit sectors during the COVID-19 pandemic. In the case of OECD countries, they show that policy responses have been generally independent of the relative economic contribution of tourism and are mainly consisted of economic stimulus measures and less of financial and social and employment measures.

Several empirical contributions confirm the valuable role of other trade-related aspects to the size and transmission of the adverse impacts of the pandemic such as participation in global supply chains and trade integration. Bonadio et al. (2021) quantify the role of global supply chains in the economic impact of the COVID-19 pandemic using a model of world production and trade covering 64 countries. They find that although one-quarter of the total model-implied real GDP decline is due to transmission through global supply chains, trade can insulate a country imposing a stringent lockdown from the pandemic shock as its foreign inputs are less disrupted than its domestic ones. Another interesting research question examined by the most recent literature is the potential of trade agreements to mitigate the negative effect of the COVID-19 pandemic on trade. The empirical study by Nicita et al. (2021) finds that trade within regional trade agreements (RTAs) declined significantly less than trade under the no agreement during the pandemic. Moreover, the authors show that the level of integration matters with deep RTAs providing relatively more resilience against the global shock.

The second strand of the literature shows that the adverse consequences of COVID-19 are also present in the Western Balkans' economy and trade. Römisch (2020) highlights COVID-19 effects on several relevant indicators for Central European countries such as economic outturn, digitalization, tourism, and transport, and makes practical recommendations to address the identified investment, social and territorial needs. Stojcic (2020) performs an empirical study on the impact of pandemics on the export competitiveness of manufacturing firms in Croatia based on World Bank survey data. The author concludes that the decline in export revenues can be prevented through capital financing, deferred payments and state liquidity aid.

Moreover, several papers argue that the underlying structural weaknesses of the economies in Western Balkans further exacerbate the adverse effects of the COVID-19 pandemic. This point is confirmed in the analysis by OECD (2020). With regards to trade, the analysis proposes several

activities to decrease the negative economic impact from COVID-19 such as preservation of the flow of goods and services, overcoming trade barriers and avoiding export restrictions. The comprehensive study by Jovanović et al. (2021) explores one particular aspect of relevance for the Western Balkans' economy and trade, which may emerge as a consequence of the pandemic – nearshoring. Authors conclude that Western Balkan countries can benefit from nearshoring trends in the post-pandemic world and point to several labor market and institutional challenges that should be addressed to fully grasp these benefits.

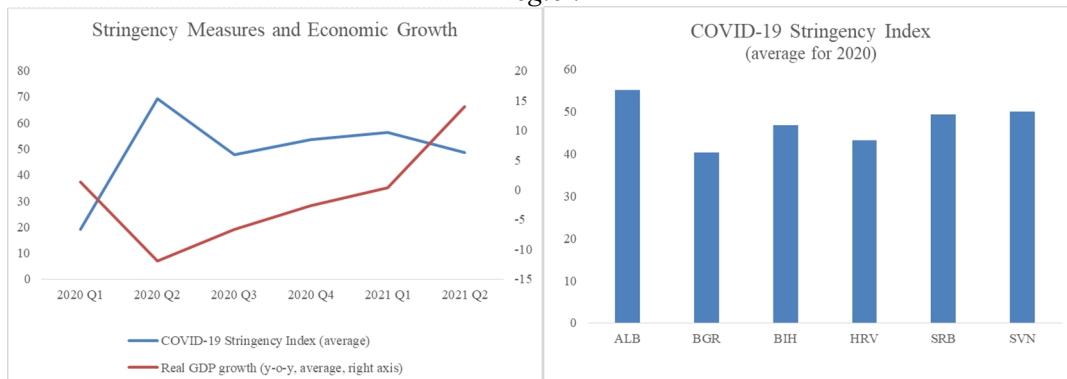
In summary, the COVID-19 pandemic resulted in wide-dispersed adverse effects for European and Western Balkan economies with the particular extent of their intensity often being related to the relative role of their trade in goods and services.

3. TRADE DEVELOPMENTS IN THE SEE REGION

The COVID-19 pandemic had a significant impact on economies in the SEE region in 2020. Within the Western Balkan countries, the regional GDP was estimated to decline by 3.3% in 2020 due to falling domestic demand and exports (European Commission, 2021a). The biggest impact was felt in the second quarter of 2020 when lockdown measures, disruptions to GSCs and travel restrictions strongly affected critical manufacturing and services sectors including retail and wholesale trade, transport as well as tourism and hospitality. Despite some recovery in the second half of 2020 as travel restrictions and lockdowns were lifted, it was relatively subdued as a result of the high uncertainty amid the recurrent waves of the pandemic.

To evaluate the impact of COVID-19 containment policies, we refer to the COVID-19 Government Response Stringency Index⁴. Data presented in Figure 1 show the average value of the Stringency Index in the SEE region and indicate moderate stringency with some variations across countries. The initial phase of the COVID-19 outbreak in the second quarter of 2020 was characterized by highly stringent policies, also reflected in the steepest drop in economic activity. In the following period, this inverse relationship slowly disappeared with economic activity gradually recovering despite the stringent regulation. This suggests that factors other than stringency such as accommodative monetary and fiscal policies might have supported economic outturn.

Figure 1: COVID-19 Government Response Stringency Index and the economic growth for the SEE region



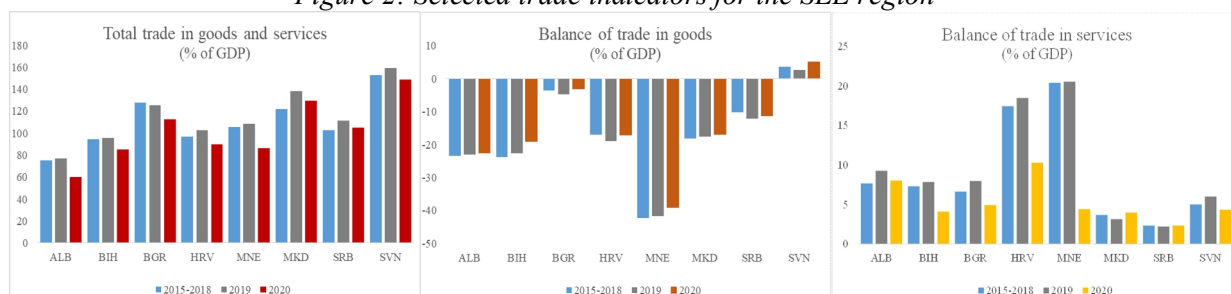
Source: Oxford COVID-19 Government Response Tracker (OxCGRT) and Eurostat.

The pandemic negative impact upon trade developments in the region varied according to each country's trade structure. In 2020, the trade openness of the countries in the SEE region has contracted, although unevenly. The decrease of the total trade in goods and services measured in relation to the nominal GDP was the steepest in Montenegro (a drop of 21.8 p.p.), whereas Serbian trade registered the smallest decline (6.6 p.p.) (Figure 2). The annual decline of exports and imports of goods in 2020 was widespread among the SEE countries due to disruptions to travel and international trade coupled with a drop in domestic demand. In the short term, the cost of the pandemic to trade was

⁴ COVID-19 Government Response Stringency Index is a composite measure of nine sub indicators: school closures, workplace closures, cancellations of public events, gathering restrictions, public transportation closures, stay-at-home requirements, restrictions on internal movement, controls on international traveling and public information campaigns. (<https://www.bsg.ox.ac.uk/research/research-projects/covid-19-government-response-tracker>)

greatest for the economies whose manufacturing sectors were comparatively more integrated into the global supply chains, but quickly recovered with the re-establishment of supply chains (such as in the case of Serbia and Macedonia). At the same time, the surplus of trade in services recorded a decrease in all countries in the sample, except in Macedonia and Serbia. The decline was particularly big in Montenegro where the collapse in tourism had a major negative impact on trade in services.

Figure 2: Selected trade indicators for the SEE region



Source: IMF Balance of Payments Statistics.

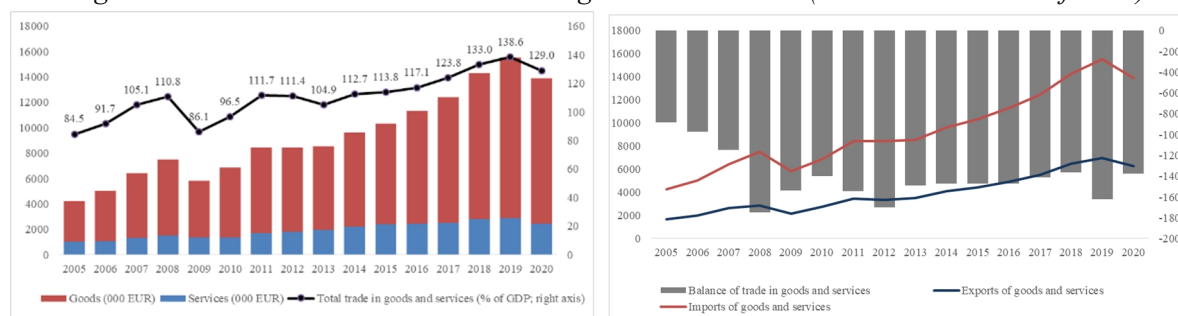
The latest data point to more favorable developments with the disruptive effects of the COVID-19 crisis gradually subsiding and economic activity rebounding in most Western Balkan countries. In the first quarter of 2021, the region’s GDP registered an annual growth of 1.7% (European Commission, 2021b). Moreover, external developments in the region point to a strong recovery in exports of goods, an increase in imports of goods but at a slower pace, and continued losses in exports of services.

4. DEVELOPMENTS IN TRADE FLOWS IN THE MACEDONIAN ECONOMY

The analyses of the developments of the Macedonian trade in goods and services in 2020 and the first half of 2021 aims to examine the adverse effects registered since the outbreak of the COVID-19 pandemic and the potential recovery in the subsequent period. Changes in the trade volume accompanied by shifts in trade composition and geographic breakdown of trade took place over the period under review. This section begins with outlining the evolution of Macedonian trade in goods and services as a whole and then moves the focus on the effects that the pandemic created upon different trade components.

Amid elevated volatility in economic activity and international trade due to the COVID-19 pandemic, the trade openness of the Macedonian economy recorded a significant drop in 2020 (Figure 2). This development represents a break in the steady uptrend of trade openness evident in the last seven years before the pandemic. The total trade in goods and services measured in relation to GDP decreased in 2020 compared to 2019 from 138.6% to 129% of GDP. Even more pronounced is the decline in the value of trade openness, from 15.5 billion euros in 2019 to 13.9 billion euros in 2020, taking into consideration the fall of the nominal GDP over this period.

Figure 3: Total trade and trade balance in goods and services (in 000 EUR and % of GDP)



Source: NBRNM Balance of Payments Statistics and SSO.

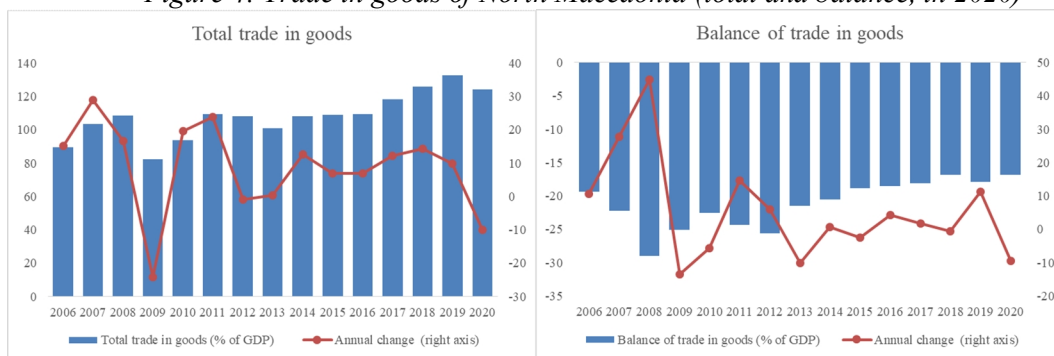
The contraction in trade openness of the Macedonian economy in 2020 was attributed to the annual decline in export and import of goods and services. The steeper decline of imports relative to

export activity resulted in a contraction in the deficit of trade in goods and services which amounted to 1.4 billion euros or 16.8% of GDP (Figure 3). Further, the analyses pay due attention to the impact of the COVID-19 pandemic separately upon the trade in goods and the trade in services of the economy.

4.1. Impact of the COVID-19 pandemic upon the Macedonian trade in goods

The trade-in goods⁵ which accounts for the dominant share of Macedonian trade creates about 80% of the total trade in goods and services. Amid an annual decline in the foreign effective demand (estimated at 5.6%⁶), the total Macedonian trade in goods decreased by 10.1% by the end of 2020 (Figure 4). On balance, the deficit in trade in goods contracted in 2020 by 9.5% at the annual level, reflecting the drop in export as well as in import activity. Both foreign trade components were impacted by the COVID-19 pandemic and the economic consequences resulting from the health crisis.

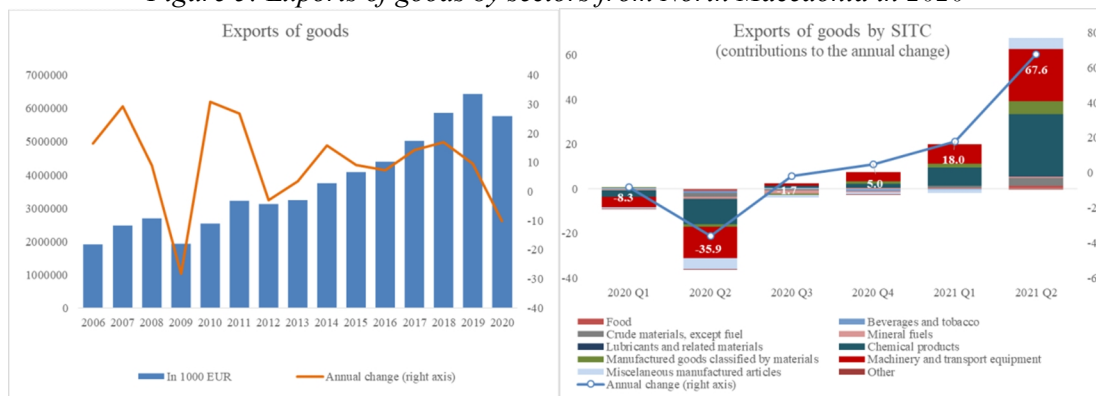
Figure 4: Trade in goods of North Macedonia (total and balance, in 2020)



Source: SSO Foreign Trade Statistics.

The unfavorable developments that interrupted the seven years of positive annual changes before 2020 originate mainly from the lower exports of machinery and equipment as well as from the fall in exports of chemical products (Figure 5). These outturns are mainly a result of temporary suspension of the production of export-oriented facilities in the automotive industry due to the COVID-19 pandemic, as a consequence of disruptions in the global supply chains and the restrictions imposed in the domestic economy, as well as within the European Union.

Figure 5: Exports of goods by sectors from North Macedonia in 2020



Source: SSO Foreign Trade Statistics.

The steepest drop of export activity was experienced during the first pick of the pandemic outbreak, from the second half of March until mid of May 2020. This decline was due to the restrictions of movement of goods and passengers within the country and with most of the EU member states which happen to be the biggest trade partners for Macedonian companies. Facing serious issues in the transportation of goods, a certain number of manufacturing plants among which the new export-

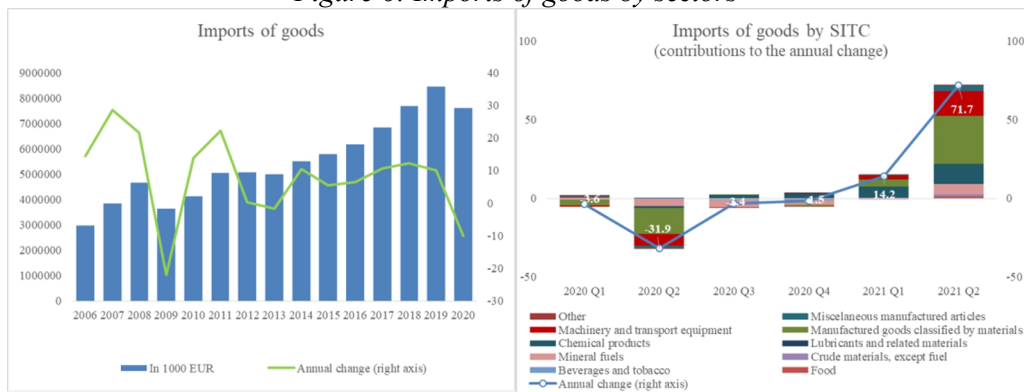
⁵ Henceforth, the dynamic and structural analysis of trade in goods is performed on the basis of Foreign Trade Statistics. According to the foreign trade methodology, data on the export of goods are published on an f.o.b. basis, and on the import of goods, on a c.i.f. basis.

⁶ NBRNM (2021), Annual Report.

oriented capacities established in the Technological Development Industrial Zones had to close down during April and May 2020. Thus, a significant decrement not only at the export but also at the import side (31.9% and 35.7% respectively measured quarterly) was registered. Almost 75% of the decrease in exports was due to the closure of the new capacities from the automotive industry as a result of the collapse of the global supply chain of this industry worldwide. Strong negative impact at the export side was also registered within the machine, the chemical and to some extent the furniture producing sector. Traditional sectors such as textiles, iron and still, energy, food, and mining faced dispersed effects of a decrease of exports with a weaker intensity (NBRNM, *Balance of Payments Statistics*).

The strongly affected export activity of export-oriented companies in the automotive industry in Macedonia induced a decrease of almost 2/3 of imports of goods at the annual level. In total, imports of goods registered a decline of over 10% in 2020. This trend reflected the unfavorable developments in export activity, depressed domestic demand, and fall in energy prices due to the pandemic (Figure 6). In particular, the drop of imports of energy and the imports of inputs used for production in the export-oriented facilities accounted for the annual decline of imports. The reduction of energy imports is a combined result of the lower import prices due to the decline of crude oil stock prices and lower imported quantities stemming from the depressed consumption due to the widely imposed travel restrictions. Certain fall in import was also evidenced in investment equipment and raw materials for the textile industry (NBRNM, *Balance of Payments Statistics*).

Figure 6: Imports of goods by sectors

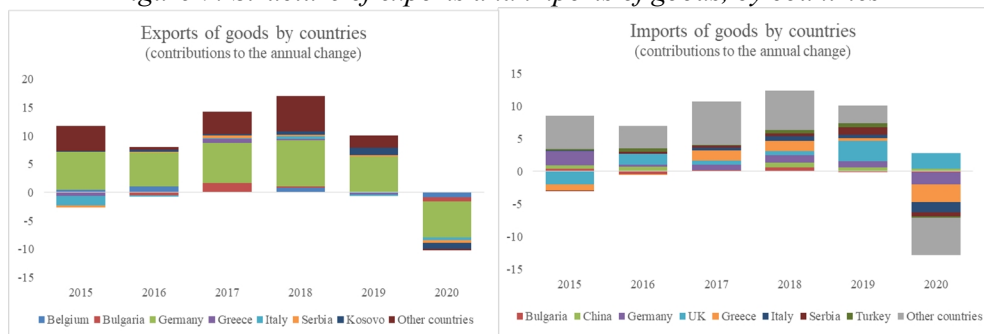


Source: SSO Foreign Trade Statistics.

The contraction of the trade activity in the first half of 2020 was much more intense on the import side, thus creating a decline of the trade deficit of 19% calculated on annual basis (NBRNM, *Balance of Payments Statistics*). Already in the second half of 2020, the total export activity registered a rebound, in line with the recovery of external demand and re-establishment of the disrupted supply chains. The latest data for the first half of 2021 show further rebound of the export activity of the Macedonian economy driven mainly by the favorable developments of the production capacities within the automotive industry. This emphasized the conviction that although severe, the negative repercussions of the pandemic on the exports were temporary.

Data on the geographic counterparts of the Macedonian trade in goods point to a decline in exports to its dominant bilateral partners in 2020 (Figure 7).

Figure 7: Structure of exports and imports of goods, by countries



Source: SSO Foreign Trade Statistics.

Lower exports to Germany, the largest European economy and our leading export market, greatly contributed to the export activity drop. As a direct consequence of the COVID-19 pandemic, this development reflects the decline in the leading export items from the Macedonian economy - chemical products and machinery and equipment - to the German market. The annual decline of exports was also registered towards several other European economies such as Belgium and Italy as well as towards the neighboring countries, especially to Kosovo due to lower exports of energy.

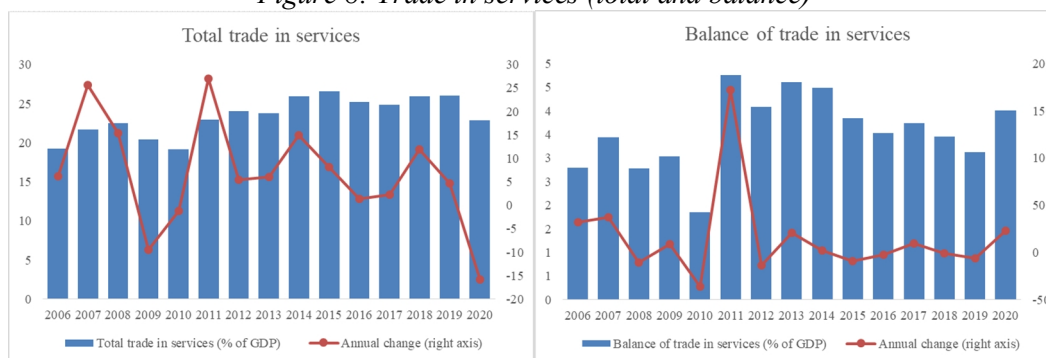
On the import side, the annual decline in 2020 was geographically more dispersed and was mostly attributed to the weaker import demand from Greece, Germany and Italy reflecting drops in imports of energy and weaker imports of inputs for the Macedonian facilities in the automotive industry.

Data for the first half of 2021 point to a gradual rise in Macedonian import demand mainly driven by the imported inputs for the automotive sector. Lower energy imports continued to depress import activity which is a result of lower import quantities amid continued subdued demand for oil derivatives, despite the rise in energy prices.

4.2. Impact of the COVID-19 pandemic upon the Macedonian trade in services

Regarding the developments in Macedonian trade in services, the balance of payments data shows that total trade in services of the Macedonian economy decreased in 2020 in comparison to 2019 from 26% to 22.8% of GDP (Figure 8).

Figure 8: Trade in services (total and balance)



Source: NBRNM Balance of Payments Statistics, SSO.

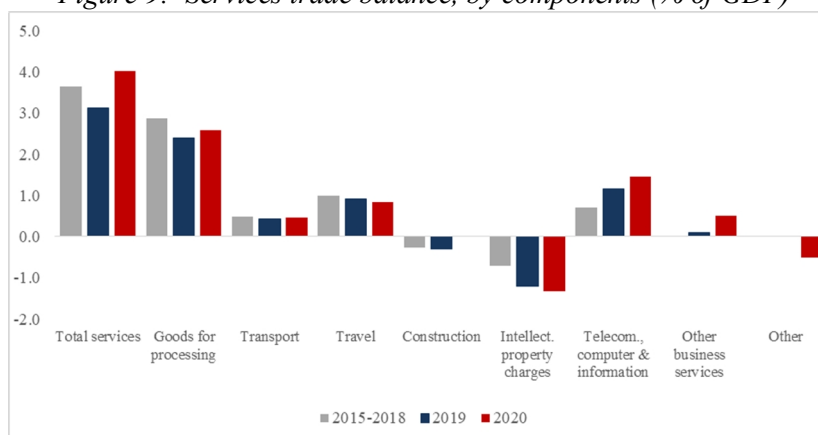
Unlike the increase of the deficit registered in trade in goods, the overall balance of trade in services records more favorable changes in 2020. Last year, the surplus of trade in services increased by 82 million euros or 0.9 percentage points in terms of GDP. This resulted from the steeper decline in import of services compared to the exports of this sector.

Globally, the services sector has been heavily affected by the pandemic. Drops in demand and supply have strongly impacted international trade in services through the type and extent of the impact varied by sector. Generally, services that rely on physical proximity between suppliers and consumers have been most impacted by mobility restrictions and social distancing measures imposed for public health reasons. Similar developments are detected in changes of Macedonian trade in services in 2020 as well.

The structural analysis of the balance of trade in services in 2020 points to the biggest improvement in the surplus of other business services from 0.1% of GDP to 0.5% of GDP driven by a drop in imports. Further favorable impact on the balance of trade in services originates from construction services which registered a nearly neutral balance in 2020 following a deficit of 0.3% of GDP in 2019. The economic effects of the pandemic are visible in the trade in telecommunications, computer and information services which increased their surplus from 1.2% of GDP in 2019 to 1.5% of GDP at the end of 2020 driven by higher exports. The upsurge of the information and communication technology (ICT) sector and related services reflects the shifts in economy and society due to the pandemic, with more people participating in both remote work and schooling accompanied by an elevated dependence on the internet for entertainment and social contact. Also, the surplus within goods for processing registered a slight increase from 2.4% of GDP in 2019 to 2.6% of GDP in

2020. The surplus of transport services increased as well from 0.4% of GDP in 2019 to 0.5% of GDP in 2020 covering up a considerable decline in both export and import component (Figure 9).

Figure 9: Services trade balance, by components (% of GDP)



Source: NBRNM Balance of Payments Statistics and SSO.

On the other hand, the balance of trade in travel services registered a visible deterioration with a drop in the surplus from 0.9% of GDP in 2019 to 0.8% of GDP in 2020. This reflected a steep decline in exports as well as in imports by around 38% and 49% in nominal terms compared with 2019 respectively, due to travel restrictions. Even globally, tourism and travel have arguably been the hardest hit sectors by the crisis given the mobility restrictions and border closures halting the movement of tourists abroad. The deficit for charges for the use of intellectual property worsened (annual increase by 0.1 p.p. in terms of GDP), a shift which is generally linked to the activities of the foreign enterprises in the domestic economy.

The latest data on trade in services shows an annual increase of its surplus in the first half of 2021. These favorable developments stem from improvements within travel services and a further increase in the surplus of telecommunications, computer and information services. (NBRNM, *Balance of Payments Statistics*)

5. MAIN POLICY MEASURES UNDERTAKEN BY THE MACEDONIAN AUTHORITIES AGAINST ADVERSE ECONOMIC EFFECTS FROM COVID-19 PANDEMIC

Since the outburst of the COVID-19 pandemic, the Macedonian authorities undertook various fiscal, monetary, financial and trade policy measures to support the economy and to help the national businesses in overcoming the adverse impact of the health crisis.

A range of fiscal measures brought by the Government addressed firms' liquidity problems, protected jobs and supported the most vulnerable sectors. The measures, most of which were temporary, included subsidies for wages within the private sector and for social security contributions for firms that maintain employment, postponement of income tax payments, loans at favorable terms and loan guarantees, and sector-specific support (IMF). Also, measures were undertaken to support vulnerable households (social assistance schemes and cash vouchers) and students (partial reimbursement of university tuition fees and free laptops). In addition, previously implemented price controls on basic food products and medicines have been lifted and the import duty on medical supplies was reintroduced.

With regard to monetary measures, the National Bank of the Republic of North Macedonia (NBRNM) made several cuts to the policy rate by a cumulative 75 basis points to 1.25% since the start of the crisis. To provide additional liquidity, the NBRNM reduced the amount of CB bills offered to banks. Several accommodative financial sector measures were undertaken encompassing revision in the credit risk regulation; temporarily easing in the loan classification standards for NPLs; reduction of the base for the reserve requirement by the number of new loans to firms in affected sectors as well as temporary restriction of dividend payments by banks unless in the form of shares.

The Government made an immediate intervention in terms of foreign trade of certain goods imposed by the COVID-19 pandemic outburst. Together with the Customs Administration, various

specific measures were adopted facilitating customs procedures and cross-border trade including authorizations for a delay in the payment of duties. Opening of “Green Corridors” for essential goods with neighboring countries was negotiated (medicines and medical equipment and certain food items, such as wheat). To support industrial production, the temporary elimination of import tariffs on certain products such as components for the textile and machine industry was effectuated. To support the transport of goods, measures such as liberalization of the rules applicable to the validity of professional licenses and the extension of authorized working hours in the road transport were implemented (WTO, OECD, 2021a).

5. CONCLUSION

The COVID-19 pandemic outbreak depressed global trade in goods and services. The negative consequences, therefore, had a strong adverse impact on the Macedonian foreign trade interrupting the positive seven-year upward trend. This paper reviewed the developments in Macedonian trade in goods and services since the pandemic outbreak early in 2020 and showed the changes in its volume and structure thereafter and the underlying mechanisms of change. Similar to the shifts registered in the SEE region, Macedonian trade openness decreased in 2020. Disruptions in the global supply chains and the restrictions imposed in the domestic economy led to the decline of exports of goods. The simultaneous drop in imports was impacted by the decline of exports, depressed domestic demand and a fall in energy prices. Both negative trends were especially evident in the automotive sector due to the collapse of the global supply chain. The effects of the pandemic were also visible in the Macedonian trade in services particularly travel, telecommunications, computer and information services. The accelerated immunization and gradual easing of the restrictive measures provided a solid basis for recovery in the following period supported by accommodative monetary policy, further fiscal stimulus as well as trade measures with a special emphasis on the creation of the “Green Corridors”.

Data on trade in goods and services for the first half of 2021 point to a gradual recovery suggesting that albeit severe, the negative repercussions of the pandemic on Macedonian trade were temporary. However, by the end of the third quarter of 2021, statistical evidence alarmed that Macedonian industrial production recorded an annual fall of 8%. Especially affected was the machine and computer parts production with a decrease of almost 44%. A very serious fall of 41% was evidenced in the investment goods production. The same negative change was reared in textile production while the manufacturing of cloths dropped by 26%. At the same time, a fall of production was registered within the metal processing sector of 16%, the manufacturing industry of 15%, and the food processing industry of 4.7% (www.mchamber.mk).

The latest energy crisis that the country is currently facing, as well as the prolonged COVID-19 crisis and its negative impact on the overall economic activity and economic growth make predictions for possible new outturns of the health crisis and adverse economic outcomes thereof completely unpredictable.

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