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Original scientific paper

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FISCAL IMPLICATIONS FROM THE POLITICAL CRISIS IN THE REPUBLIC OF NORTH MACEDONIA

Abstract

In the paper fiscal implication are examined from the perspective of the political crisis¹ in the Republic of North Macedonia, which obviously still endures. As consequence of that, the economy is in a state of perpetual decline, among other things, public finances are deteriorating, i.e., there are unfavorable fiscal implications.

For this purpose, the paper analyzes in detail the separate implications of public revenues and expenditures, deficits and public debt. The results show a decline, both on the side of public revenues and on the side of public expenditures. The most important thing is that the reduction of public expenditures, especially capital expenditures, is larger part dependent from political crisis. From the analysis made it is perceived that the deficit and the debt in these crisis years were not adequately managed, nor serious structural reforms started, nor with reforms in the management of public finances.

Key words: fiscal implication; public revenues and expenditures; deficits; public debt

JEL Classification: E62

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¹ The deep political crisis, which arose from the 2015 revelations of wide-spread illegal interceptions of communications (wiretaps), continued 2016 and 2017. A welcome accord on the implementation of the Pržino Agreement was reached on 20 July 2016. Early parliamentary elections on 11 December 2016, resulted in a change of government in May 2017. Politics and society are undergoing significant change, with a renewed spirit of hope and openness. Steps are being taken to address state capture, to consolidate democracy, restore the rule of law and trust in institutions.

Introduction

The economy of the Republic of North Macedonia has suffered a lot of shocks, including the last prolonged political crisis. As a consequence of this entire period of time, there are poor economic ratios², ie negative or modest rates of growth and welfare. The lurking of the crisis is due to unsustainable policies, the absence of new foreign direct investment, and great uncertainty as some of more relevant factors. The longer period of adaptive fiscal policy helped support domestic demand, but also exhausted the space for action to prevent further shocks.

The positive outlook was extremely uncertain about the return of political stability. The process of political decision-making after the formation of the new government in June 2017 and the holding of the local elections of September 2017, is still not effective, with the prospect of blockade both at central and local level, although stabilization was expected in the previous mentioned period. Hence, the perception of the fiscal consequences of the last political crisis in this period is not yet clear. The available data from the beginning of the crisis are analyzed to date, so for the period 2014-2017, there seems to be nothing more than reform packages arising from the necessity for rapid integration into the EU and NATO of the country.

Otherwise, the area of fiscal policy significantly decreased in conditions of increased risks. Public debt has doubled since 2008 and is projected to reach 50% of GDP this year and over 50% in the coming years. The rapid increase in public debt is mainly due to the increase in primary deficits, which in turn reflects a combination of low tax rates and low efficiency of revenue collection, and the ineffectiveness of public expenditures, especially on social spending, transfers and subsidies on the cost side.

1. IMPLICATIONS FOR PUBLIC REVENUES IN THE REPUBLIC OF NORTH MACEDONIA

The start of the analysis begins at the level of public revenues, where it is noticeable that they have a tendency of continuous decrease, from 29.59% in 2012 to the level of 27.88% of GDP in 2016, which is a decrease of almost 2 percentage points of GDP. The main reason for this can be seen in taxes and contributions, which from 25.15% of GDP in 2012 are reduced to 23.35% of GDP in 2016 or about 2 pp. of GDP, which, in conditions of non-

² According to official statistics in the period 1990-2107, GDP growth was only 0.7%.

reduction of public expenditures, immediately indicates the necessary deficits in the fiscal policy of about 3% of GDP, and consequently increases the public debt. Of course, with such tendencies, the next question that arises is the sustainability of fiscal policy or public finances on the long run.

Table 1. Revenues in the Budget of the Republic of North Macedonia and their structure, as well as relative sizes in relation to GDP (2012-2017) in million MKD

Year	Total budget revenues of Republic of North Macedonia	Total budget revenues of RM as a % of GDP	Taxes	% of tax participation in total budget revenues	Contributions	% of contributions participation in total budget	Contributions + taxes	% participation in total budget revenues	Contributions + taxes as a % of GDP
2012	138.115	29.59	76.617	55,47	40.765	29,52	117.382	84,99%	25,15
2013	140.248	27.94	78.553	56,01	42.438	30,26	120.991	86.27%	24,11
2014	145.929	27,66	85.125	58,33	44.185	30,28	129.310	88,61%	24,51
2015	161.207	28,78	92.926	57,64	47.900	29,71	140.826	87,36%	25,14
2016	169.356	28,47	100.062	59,08	50.300	29,70	150.362	88,78%	25,28
2017	179.673	29,02	103.217	57,45	52.890	29,44	157.537	88.64%	25,45

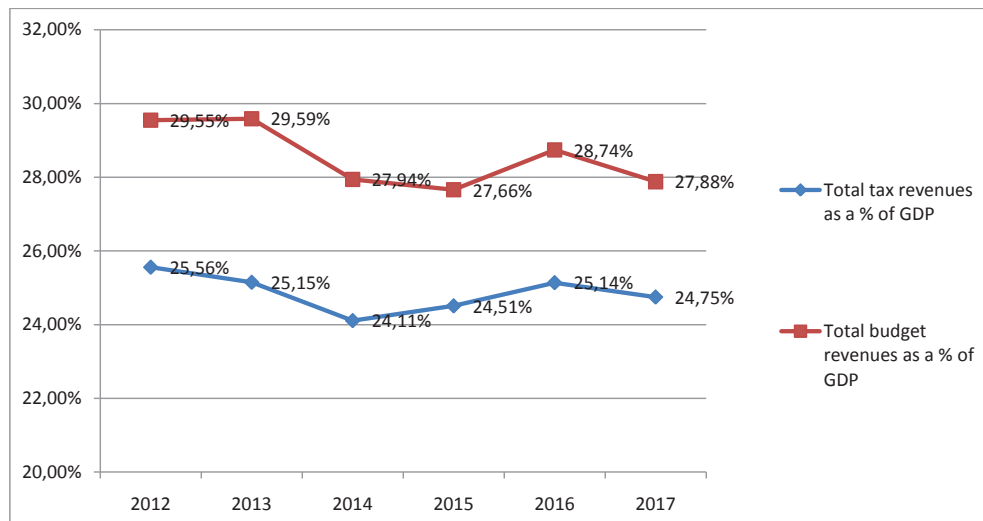
*** The nominal GDP for 2017 is estimated*

Source: own calculations based on data from the Ministry of Finance (www.finance.gov.mk)

This kind of movement of public revenues in the overall budget does impose the question of whether tax revenues, including contributions, are sufficient to finance public expenditure and whether their reduction over the years was justified. This is more visible when taking into consideration that the revenues from taxes and contributions³ is not reimbursed from other sources of income, such as capital revenues, non-tax revenues, grants, etc. This tendency can be clearly seen from Graph 1, where it is clearly visible that the decrease in total public revenues goes in parallel with the reduction of the revenues from taxes and contributions. The gap starts increasing with the reduction of the tax rates in 2011, followed by numerous incentives for foreign investors in the process of attracting FDI, and in the last two years, exclusively as a result of the political situation in the country.

³ Following 2007, immediately after the change in the profit and personal income tax policy, or the introduction of the so-called “Flat tax”, i.e. their reduction and equalization of the rate of 10%.

Graph 1. Movement of total revenues of the Budget of the Republic of North Macedonia and total taxes and contributions, expressed as% of GDP, in the period from 2012 to 2017



Source: own calculations based on data from the Ministry of Finance (www.finance.gov.mk)

The main conclusion that can be derived from the presented graph is that the tax burden in the Republic of North Macedonia is low compared with other countries. The reforms in the tax policy, which were implemented from 2007, gave only a short-term positive effect, seen through the increase in tax revenues in 2008, but since then they register a continuous downward trend, positioning at a level about 25% of GDP, or about 28% of total revenues, which is by 10 pp. lower than the level of public revenues from OECD countries, whose average is 38% of GDP⁴.

2. IMPLICATIONS FOR PUBLIC EXPENDITURES

Public expenditures represent the spending of the budget funds provided by the state in the form of public revenues, which are necessary for the functioning of the state and the fulfillment of its basic functions.

Public administration, defense, judiciary, public order and security are all paid through public expenditures, current investment, social policy, health, education, and subsidies are also covered with public expenditures.

⁴ <https://stats.oecd.org/index.aspx?DataSetCode=rev>

In addition, depending on the type of state, the scope of funding through public revenues varies. Thus, modern non-European capitalist countries perform the classical public functions for which the state possesses an absolute monopoly, and are financed entirely through the resources provided by the state in the form of public revenues and as such are small in scope, while others finance a wider range of public services with a higher level of GDP coverage, which gives an indication of the size of the public sector⁵. In the world economy, the increase in public expenditure relative to GDP is a tendency that is characteristic of all countries in the world.

Otherwise, it is known that public expenditures are less flexible compared to public revenues, they are also sensitive to economic growth associated with the business cycle and reflect historical and current policy decisions. This is because there are more items in government spending, such as capital expenditures, payments for social benefits, administration salaries, interest payments on loans taken, and subsidies.

Table 2 presented below provides a series of data on the expenditures of the Budget of the Republic of North Macedonia, which according to the GFSM methodology is defined as the Central Government plus Funds, and also according to the economic categorization of expenditures.

What can be seen from the first glance at the data series given in the previous table is the decline in the level of public expenditures, expressed as % of GDP, below 32% of GDP from the started 2013 to 2017. This movement seems to be inevitable, i.e. comes as a result of the decline in public revenues. But at the same time, for the last two years, it is the result of the political crisis alone, the two rounds of elections for which there are constraints on the Electoral Code. This is evident, and the most visible is in the reduction of expenditures for goods and services and other transfers.

⁵ General government expenditures in 2013 in the OECD countries averaged about 41.9% of GDP. Greece (60.1%), Slovenia (59.7%) and Finland (57.8%) have the highest costs, while Korea (31.8%) and Mexico (24.4%) spend the least. Between 2007 and 2009, government spending increased by an average of 5.4 pp, mostly due to measures for suppressing the effects of the global financial and economic crisis. The largest increase was registered in Estonia (by 11.7 pp) and Ireland (11.6 pp), while in Israel (0.6 pp) there was a slight decrease. In 2014, the highest expenditure was recorded in Finland (58.7%), France (57.3%) and Denmark (57.2%). Source: OECD. (2015), General Government expenditures 2007, 2009, 2013 and 2014, in *Government at a Glance 2015*, OECD Publishing, Paris.

Table 2. Movement of expenditures on the Budget of the Republic of North Macedonia, in millions of MKD and as% of GDP, in the period from 2013 to 2017

Indicator/Year	2013	2014	2015	2016	2017
TOTAL EX-PENDITURES	159.505	168.063	180.632	185.407	196.561
Current expenditures	142.894	150.440	161.965	168.433	176.698
Salaries and allowances	22.566	23.096	24.685	25.958	26.204
Goods and services	14.877	15.467	18.088	16.702	15.344
Transfers	100.845	106.787	112.734	118.902	126.762
Transfers (SSP)	1.011	962	1.592	1.517	1.879
Social transfers	74.250	78.367	82.903	89.005	94.690
Pension funds	44.954	48.073	50.285	54.622	58.084
Employment agency	1.935	1.702	1.482	1.216	1.305
Social benefits	5.941	6.462	7.489	7.571	8.261
Healthcare	21.420	22.130	23.647	25.596	27.040
Other transfers	25.584	27.458	28.239	28.380	30.193
Interest payments	4.606	5.090	6.458	6.871	8.388
Capital expenditures	16.611	17.623	18.667	16.974	19.863
TOTAL EX-PENDITURES	32%	32%	32%	31%	31,88%
Current expenditures	28%	29%	29%	28%	28,66%
Salaries and allowances	4%	4%	4%	4%	4,25 %
Goods and services	3%	3%	3%	3%	2.49 %
Transfers	20%	20%	20%	20%	20.56%
Transfers (SSP)	0%	0%	0%	0%	3.05 %
Social transfers	15%	15%	15%	15%	15,36 %
Pension funds	9%	9%	9%	9%	9.42 %
Employment agency	0%	0%	0%	0%	2.12 %
Social benefits	1%	1%	1%	1%	1.34 %
Healthcare	4%	4%	4%	4%	4.39 %
Other transfers	5%	5%	5%	5%	4.50 %
Interest payments	1%	1%	1%	1%	1.36 %
Capital expenditures	3%	3%	3%	3%	3.22 %

Source: own calculations based on data from the Ministry of Finance (www.finance.gov.mk)

If we compare the amount of public expenditures in the Republic of North Macedonia with the average of the OECD countries, the same conclusion applies as in the public revenues, which is that the level is well below the average (34% of GDP in 2013, compared to the average of 41.9% of GDP in the same year). The conclusion is that North Macedonia is at the extreme of low levels of public spending, similar to those in Korea, India and Indonesia⁶.

Moreso, the very structure of public expenditure refers to areas where public expenditure restructuring is needed, or where reforms are needed in terms of reducing unproductive expenditures, such as salaries and allowances and goods and services, towards the expense of increasing capital expenditures and social transfers. For example, in the analysis of public expenditures and transfers, spotlight should also be given to the level of expenditures intended to finance public health, which is at a very low level compared to the expenditure on health worldwide, especially to the EU countries whose average in 2013 was 9.5% of GDP, where as in Republic of North Macedonia that percentage is somewhere at the level of 6.1% (4% public and other private sources)⁷.

3. DEFICIT AND PUBLIC DEBT IMPLICATIONS

The third key component of public finances, in addition to public revenues and public spending, is the deficit or surplus in public finances. But this component, along with public debt, is the most important and reflects the government's economic and fiscal policies.

In modern fiscal theory two types of deficit are distinguished⁸:

- **Structural budget deficits**, arising as a result of expansive discretionary fiscal policy in order to stabilize the economy (reducing taxes, increasing consumption or a combination of these two measures);
- **Cyclical budget deficits**, are a consequence of automatic stabilizers in a situation where the cyclical phase of expansion has gone into a recession phase.

⁶ <https://data.oecd.org/gga/general-government-spending.htm>

⁷ Data obtained from WHO and European Observatory on Health Systems and Policies, Health system review, Macedonia, Health systems in Transition Vol. 19, No. 3, WHO and European Observatory on Health Systems and Policies, 2017.

⁸ Taki Fiti, Economics, University "St. Cyril and Methodius", Faculty of Economics, Skopje, 2010

In other words, when presenting data on fiscal balances (deficits / surpluses) in the budgets of countries, both sizes, structural deficits, and a cyclically-adjusted budget balance are usually displayed. Namely, economic activity over time has a tendency of growth, but when moving on a trendy path, it usually fluctuates above and below the long-term trend. Such cyclical movements in the economy are reflected on fiscal movements, as automatic stabilizers. In order to exclude the effects of the fluctuations of the economic activity on the fiscal indicators and the assessment of the country's basic fiscal position, a calculation and analysis of the cyclically-adjusted budget deficit must be made. The cyclically adjusted balance is obtained by adjusting the aggregate level of the budget revenues and budget expenditures against the effects of deviation of the potential from the actual GDP.

According to the Law on Budgets of the Republic of North Macedonia, the budget deficit is defined as “the negative difference between the planned, i.e. the collected revenues and the approved funds, i.e. expenditures, and it is financed with secured funds from other inflows.”⁹ Debt for a given period is a sum of all past budget deficits. Debt is a cumulative surplus of past spending and past earnings. Therefore, in the year of deficit, debt is increasing; in the year of surplus, debt is decreasing.

By analyzing the data on the primary balance and interest payments, from 2012 to 2017, it can be concluded that the Republic of North Macedonia is still in the “safe zone”, considering that although there is a continuous increase, interest payments are still about 1% of GDP. If the data are compared with the OECD countries where the average is 2.9% of GDP, the gap does not seem so surreal¹⁰.

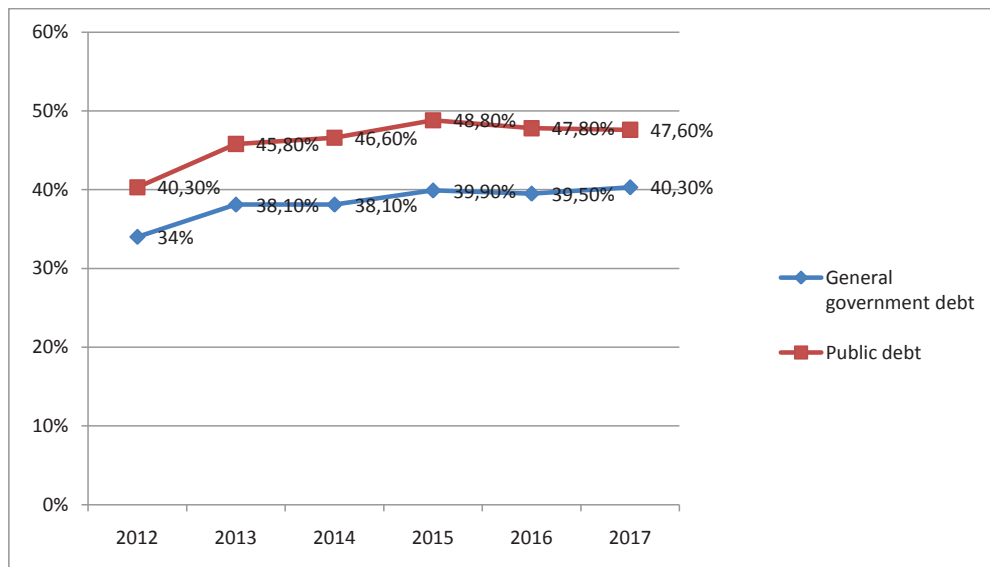
Faced again with the crises following the one in 2008, the government decided to conduct an expansive fiscal policy that helped keep growth and employment, but resulted in an increase in public debt from small to moderate levels. Since then, public debt has gradually increased to 46 percent in 2014, which is still below the SEE6 average of 52.6 percent in 2014, which would mean that the level of public debt from 2008 to 2017 has almost doubled and returned to the worsen level of public debt after the conflict in 2002. Graph 3 shows the state of public debt in the period from 2002 to the first quarter of 2018, expressed as⁰% of GDP¹¹.

⁹ Law on Budgets (Official Gazette of RM 64/05, ... 192/15), Article 2, paragraph 25

¹⁰ <https://data.worldbank.org/indicator/gc.xpn.intp.rv.zs>

¹¹ <http://www.worldbank.org/en/region/eca/publication/south-east-europe-regular-economic-report>

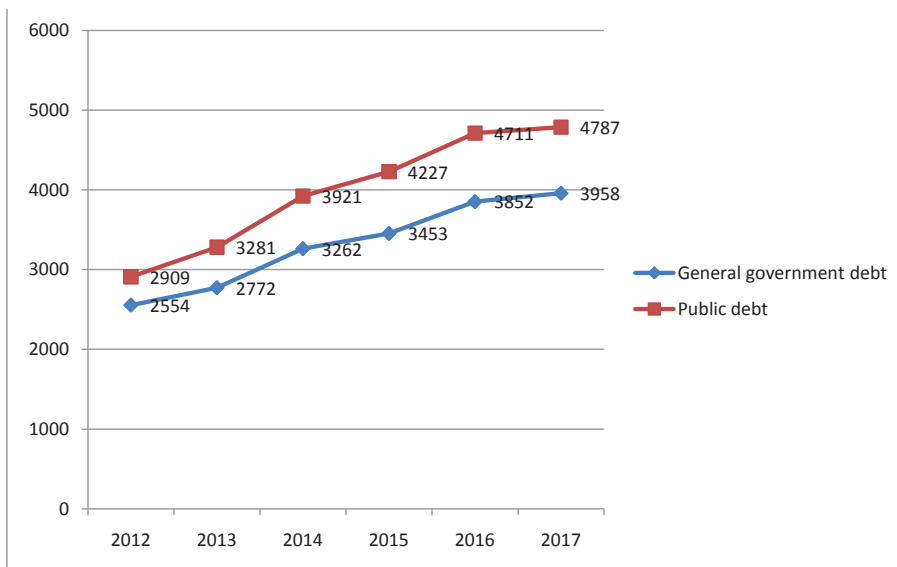
Graph 2. The state of general government and public debt in the period from 2012 to 2017, in% of GDP



Source: *Ministry of Finance (www.finance.gov.mk)*

From the graph above, it can be concluded that in the years 2002 to 2018 different trends of the public debt are present. Namely, from 2002 to 2008, public debt declined from 43.2% of GDP in 2002 to 23% of GDP in 2008. After that a tendency of continuous increase started, and in year 2016, it reached 48.8% of GDP and exceeded the level of 2002, and doubled in relation to its reduced level in 2008. While this graph shows the relative values, the nominal debt values expressed in millions of euros and their movements are shown in Graph no. 3.

Graph no 3. The state of public debt in the period from 2012 to 2017, in millions of euros



Source: *Ministry of Finance (www.finance.gov.mk)*

Looking at the nominal values, the state of the growth of public debt is worse, given that the nominal level has increased almost triple, or from the level of public debt in the amount of 2.554 million euros in 2012 at the level of 4.788 million at the end of 2017. In the structure of the public debt, however, the external debt is constantly dominated and this situation is not changing, i.e. It is maintained in the period from 2012 to 2017, with the participation of the external debt of 63% in the share of 65%, so that in the 2017 it is increased to the share of 67%. The movements of the public and government debt go in hand to hand, i.e. they have been increasing with same tendency since 2009, but with a more pronounced tendency of nominal increase in public debt, primarily due to the issuance of Eurobonds each year, from 2014 to 2017.

Conclusion

After a prolonged political crisis, stabilization is underway. Economic activity has weakened since late 2015 with the political crisis adversely affecting investor confidence. From the previously presented data it can be concluded that there are fiscal implications, they are unfavorable, and a undoubted changes in public finances are needed. The public finance in these crisis years was not adequately managed nor serious structural reforms were started. In general, the fiscal policy in this period was loose from the point of fiscal rigidity. The budget continues to increase, due to increased planned expenditures, however their realization is not sufficient and is below the planned level, this can especially be seen in the capital expenditures which are the most important expenditures when economic growth comes to question. Execution on the public expenditures is mainly for salaries on public administration and transfers (primarily due to the measures included the economic program: subsidies for proposed wage increases, the roll-out of additional employment and business incentives).

The medium-term deterioration of the fiscal deficit and public debt must be replaced with a gradual and sustained fiscal consolidation and further efforts to strengthen public financial management and increase fiscal transparency.

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Original scientific paper

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SPECIFICS OF MACEDONIAN FOREIGN TRADE OF AGRICULTURAL PRODUCTS

Abstract

This paper provides an analysis of the macedonian foreign trade of agricultural products in the period 2005-2017. It aims to explore the specifics of macedonian agricultural trade on sector and product level. The methodology used for elaboration of this paper includes methods of analysis and synthesis, based on extensive review and processing of available data.

The trade of agricultural products in the Republic of North Macedonia had share of about 10% in the total macedonian trade in 2017. The export of agricultural products rose from €266mil. in 2005 up to €504.5mil in 2017, while the import surged from €301.5mil. in 2005 up to €679.8mil in 2017. The import grew faster than the export, resulting in deepening of the macedonian agricultural trade deficit from €35.2 mil. in 2005 up to €175.3 mil. in 2017.

The structure of the macedonian agricultural trade by sectors and products is characterized with high concentration in few sectors/products. The sector of “Fruits and vegetables” has been important on both sides – export and import. On the product level, only two products - unprocessed tobacco and wine had combined share of 34.1% in total macedonian agricultural export in 2017, while meat and sugar had combined share of 15% on the import side. Such intense concentration of sectors/products imposes high volatility of macedonian agricultural trade, in particular on the export side, which requires serious strategic planning for support of the propulsive agricultural branches and potentially competitive agro-processing industries.

Key words: Foreign trade, agricultural products

JEL classification: F1, F2

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Introduction

The trade of agricultural products had share of about 10% in the total macedonian trade in 2017. It includes agro-processing industries, too. This paper provides an analysis of the macedonian foreign trade by agricultural sectors and products in the period 2005-2017. It aims to explore the specifics of the export and import of the macedonian agricultural products, in purpose of outlining the major agricultural branches for further support. The methodology used for elaboration of this paper includes methods of analysis and synthesis, based on extensive review and processing of available data.

1. VOLUME OF MACEDONIAN TRADE OF AGRICULTURAL PRODUCTS BY SECTORS

In the analysis of macedonian trade of agricultural products, two SITC¹ sector groups are included: “Food and Live animals” and “Beverages and Tobacco”. The first SITS group consists of the following sectors: Live animals; Meat and meat preparations; Dairy products and eggs; Fish and fish preparations; Cereals and cereals preparations; Fruits and Vegetables; Sugar, preparations and honey; Coffee, tea, cocoa, manufactures thereof; Feeding stuff animals and Miscellaneous food preparations. The second SITC group consists of sectors of beverages and tobacco and tobacco manufactures, as suggested by its title. It is evident that these two SITC sector groups incorporate products of certain agro-processing industries, which enable more comprehensive outline of the agricultural sector. The volume of the export and import of the agricultural products in the Republic of North Macedonia is discussed below.

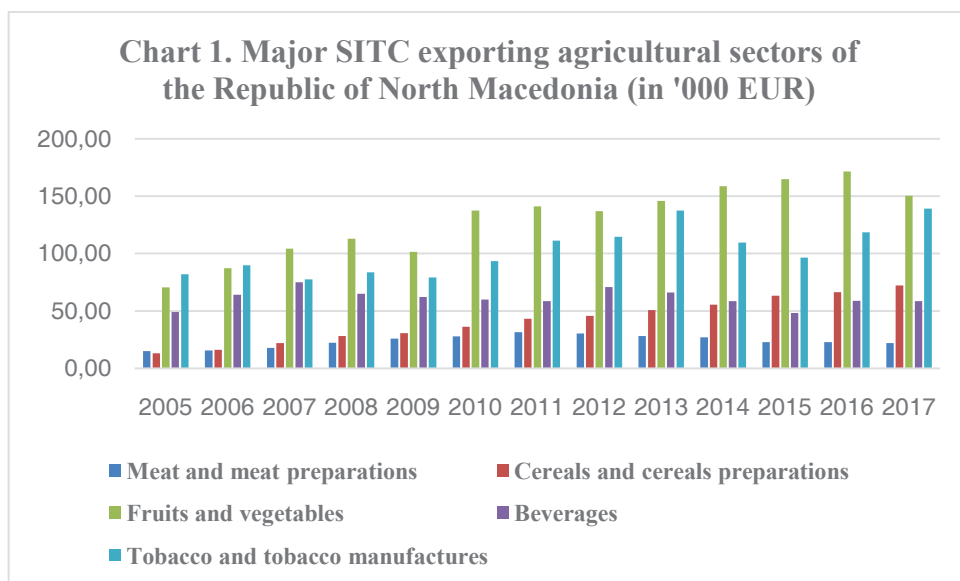
Export. On the export side, the volume of exported macedonian agricultural products almost doubled over the period 2005-2017, rising from €266mil. in 2005 up to €504.5mil in 2017. Despite significant expansion in absolute terms, the share of macedonian export of agricultural products, consisting of the above mentioned two SITS sector groups (“Food and Live animals” and “Beverages and Tobacco”) in the total macedonian export declined from 16.2% in 2005 down to 10% in 2017. The decline in relative terms was due to increase of the macedonian export of industrial products,

¹ SITC – system of International Trade Classification

attributable mainly to the export of products from FDI plants in the country, predominantly of those operating in the automotive industry.

More detailed analysis of the macedonian export of agricultural products indicates that the export of agricultural products has been mostly concentrated in three sectors - Fruits and vegetables, Tobacco and tobacco manufactures and Beverages (Chart 1). Starting from 2008, an upward trend has been noticed in the category of “Cereal preparations”, due to rise of confectionary industry, while “Meat and meat preparations” have been on the fifth position, with certain increase of the export in the period 2008-2014.

As evident on the Chart 1, the sector “Fruits and vegetables” had dominant position over the period 2007-2017. Its share in the total macedonian export of agricultural products ranged from 26.3% in 2005 and up to 34.9% in 2016. It decreased to 29.8% in 2017, while still holding the top position. In absolute numbers, the sector experienced increase of over 5 times over the period 2001-2016, i.e. surged from €34mil. in 2001, €70.6mil. in 2005 up to €171 mil. in 2016. In 2017, there was a decrease of export of fruits and vegetables to €150.4 mil., mostly indicating the volatility of the sector from the seasonal conditions and world trade prices.

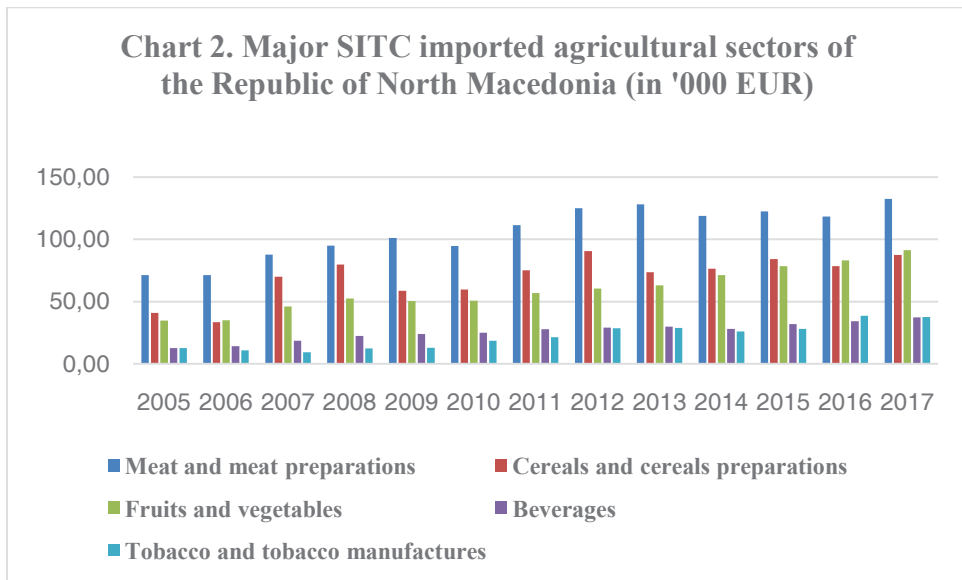


Source: National Bank of the Republic of North Macedonia (http://nbrm.mk/nadvoresno_trgovska_razmena-en.nsp)

Another important macedonian agricultural sector is “Tobacco and tobacco manufactures”. Up till 2006, this has been the leading macedonian exporting agricultural branch. The tobacco export has grown from €82.1mil. in 2005 up to €139.2mil. in 2017. Its relative share in the total agricultural export shrugged from 43.6% in 2000 to 30.8% in 2005 and further down to 24.1% in 2016 (due to the rise of the sector “Fruits and vegetables”). However, it is still one of the most important sectors/industries in the country. Its share in the total macedonian agricultural export increased again to 27.6% in 2017. The third sector by importance is the sector of “Beverages”. Its volume of export has been characterized with amplitudes, ranging from €49.2mil. in 2005 up to outmost €75mil. in 2007, and down to €58.7mil. in 2017. The increase has been mainly due to the export of wine. The other two exporting sectors on the list of top five - “Cereals and cereals preparations” and “Meat and meat preparations” have upward tendency in the recent years, although still lagging significantly behind the other three sectors.

Import. On the import side, the combined share of both SITC groups (“Food and Live animals” and “Beverages and Tobacco”) in the total macedonian agricultural import ranged from 13.3% in 2003 (highest) down to 9.8% in 2008 (lowest). It stabilized at around 10% from 2014 onwards. In absolute numbers, the volume of imported macedonian agricultural products rose from €301.5mil. in 2005 up to €679.8mil in 2017. In terms of sectors, the prevailing ones in export also dominate in import, although with different significance.

As presented on the Chart 2, the sector “Meat and meat preparations” has been dominant over the analyzed period. Its share in the total import of agricultural products in the Republic of North Macedonia ranged from 26.3% in 2005, 20.4% in 2010 and 19.4% in 2017. The sector rose from €34 mil. in 2001 up to €132 mil. in 2017. Another important sector on the import side is “Fruits and vegetables”. Similar like on the export’s side, it experienced increase of over 5 times from 2001 onwards. It rose from €18 mil. in 2001, €34.8mil. in 2005 up to €91.4 mil. in 2017. In relative figures, the share of “Fruits and vegetables” in the total macedonian agricultural import rose from 11.5% in 2005 up to 13.4% in 2017.



Source: National Bank of the Republic of North Macedonia (http://nbrm.mk/nadvoresno_trgovska_razmena-en.nsp)

The third sector by importance on the import side is the sector “Cereals and cereals preparations”. Its volume of import increased from €40.9 mil. in 2005 up to €87.4 mil. In 2017. Its share in the total agricultural export mostly refers to 13% over the period, with outmost share of 17% in 2007/2008. There is a potential for further increase of the import in this sector, as the respective domestic confectionary industries (those producing biscuits, waffles, candies, sweets, etc.) which use imported raw materials have registered rising trend in the last decade. In addition, the sectors of “Beverages” and “Tobacco and tobacco manufactures” are also included in the list of the top importing sectors, although these two sectors have more relevance with regards to the export, than to the import.

Trade balance. Although the export and import data of agricultural products indicate significant increase on both sides over the period 2005-2017, there has been higher growth on the import side. It resulted in deepening of the macedonian agricultural trade deficit from €35.2 mil. in 2005 up to €175.3 mil. in 2017. The positive balance was registered only in the sectors “Fruits and vegetables”, “Beverages” and “Tobacco and tobacco manufactures”, while in all other sectors from the two analyzed SITC groups the import prevailed over the export.

The trade of the macedonian agricultural products has been done mostly with EU and CEFTA countries, based on liberalized grounds as stipulated in Stabilization and Association Agreement (SAA) with the European Union (as of 2001) and CEFTA 2006 Agreement. The SAA stipulated immediate free access to EU market for almost all macedonian products. SAA exceptions of trade liberalization were made for sensitive products such as wine, baby beef, fisheries and fish products, for which duty free tariff quotas were agreed. On the side of import, there was gradual removal of tariffs for EU products entering the macedonian market, up till 2011, when trade liberalization was completed (with exception of several sensitive goods agreed among parties). The CEFTA 2006 Agreement² among non-EU countries from the Balkan region and Moldova provided regional trade with no restrictions for almost all products.

The trade liberalization with EU and CEFTA countries could be assessed as generally positive, although deepening of the macedonian trade deficit refers to the issues of quantity and competitiveness of the macedonian agricultural products. In this respect, an insight into the structure of the macedonian agricultural trade by products would be noteworthy.

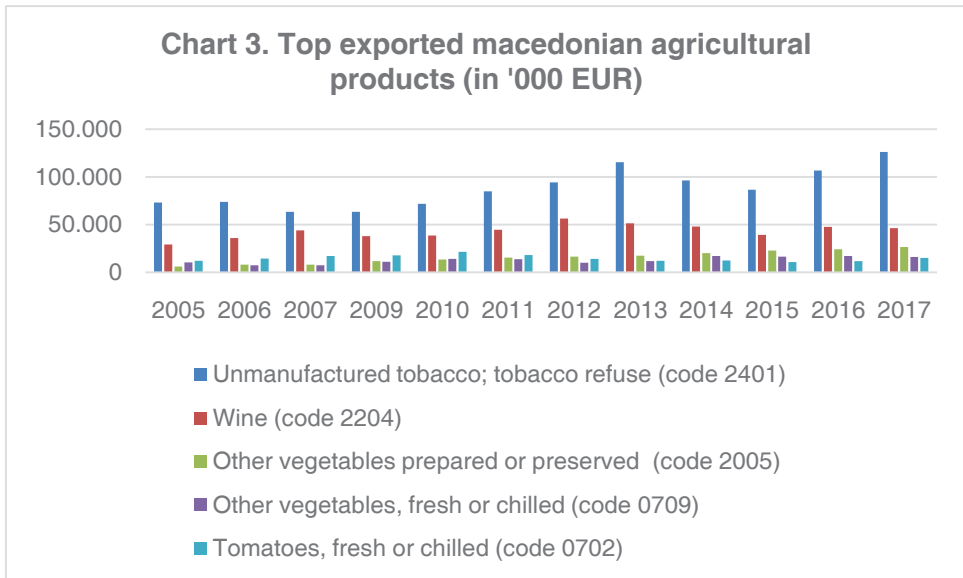
2. TRADE OF MACEDONIAN AGRICULTURAL PRODUCTS BY PRODUCTS

The data of trade by products has been derived from the INTRACEN³ database and refer to Harmonized System (HS), level 4 digits. The purpose of the product-level analysis is to provide an insight into the export/import concentration of agricultural products and trade volatility.

Export. The top exported macedonian agricultural products are tobacco, wine and vegetables. Chart 3 represents five top exported macedonian agricultural products over the period 2005-2017. Their share in the total macedonian agricultural export ranged from 48.9% in 2005; 39.5% in 2010 and up to 45.6% in 2017. This indicates very high concentration of the agricultural export in several products, which increases its volatility.

² <http://cefta.int/legal-documents/#1463498231136-8f9d234f-15f9>

³ Intracen is a database of the International Trade Centre (Joint trade Agency of World Trade Organization and United Nations). Link: <http://www.intracen.org/itc/market-info-tools/trade-statistics/>



Source: INTRACEN database (<http://www.intracen.org/itc/market-info-tools/trade-statistics>)

Given the nature of the “Tobacco” sector, consisting of relatively small number of products (unprocessed tobacco and tobacco preparations), raw tobacco appears as top exported macedonian agricultural product. The sector of “Fruits and vegetables” contains many different varieties, implying that the export has been scattered on large number of products. Therefore, although it is most relevant for the macedonian foreign trade as a sector, on the level of products - the raw unprocessed tobacco has dominated over the entire period of analysis. Around 90% of the total tobacco export from the Republic of North Macedonia has been in unprocessed form, which does not provide ground for higher net effects compared to processed tobacco products (cigarettes, etc.). The volume of raw tobacco export registered upward trend and ranged from €73mil. in 2005 to €126mil. in 2017 or 27.4% and 25% out of total macedonian agricultural export, respectively. Furthermore, the relative share of raw tobacco (refuse) in the total macedonian export was 4.5% in 2005 and shrugged to 2.6% in 2017. This was due to the increase of the industrial export, in particular from 2010 onwards. Over the analyzed period, the major export destination of the macedonian raw tobacco export has been EU28. Its share in the total macedonian export of raw tobacco ranged from outmost 93% in 2009 down to 70% in the last several years.

With regards to the second top exported agricultural macedonian product – wine, EU has also been the major export destination. The total export of macedonian wine (including bulky and bottled, as well as grape mist) increased from €29.1 mil. in 2005 to €46.3 mil. in 2017, out of which half was placed on EU market. The increase was mostly due to increase of bottled wine, reflecting rise of the macedonian wine industry. In relative terms, the share of bulky wine in the total macedonian agricultural export decreased from 8.3% in 2005 to 4.3% in 2017, on behalf of increase of bottled wine from 2.5% in 2005 up to 4.3% in 2017. However, the aggregated data show that the share of wine export in the total agricultural macedonian export decreased from 10.9% in 2005 down to 9.1% in 2017, owing mainly to the increase of the export of vegetables.

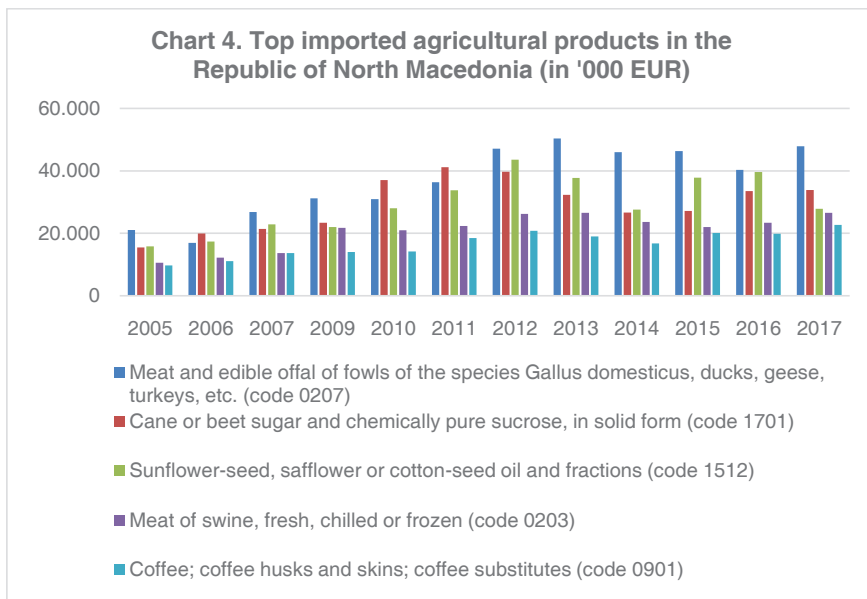
The export of different vegetables has increased over the last decade. The industry of different types of prepared or preserved vegetables has a growing trend, reflecting into third position of this category in the top exported macedonian agricultural products. In absolute terms, its export rose from €5.8mil. in 2005 up to €26.3mil. in 2017. In addition, there was an increase of the export of fresh or chilled vegetables (excluding potatoes and tomatoes which are registered in separate INTRACEN categories), consisting primarily of export of genus *Capsicum* (peppers) and mushrooms, which rose from €10.3mil. in 2005 up to €15.9mil. in 2017. Furthermore, tomatoes were also largely exported macedonian product, with export ranging from €12mil. in 2005 up to €15.2mil. in 2017.

From the analyzed data, it is evident that the combined share of raw tobacco and wine in the total agricultural export of the Republic of North Macedonia has been 38.3% in 2005 and 34.1% in 2017. The concentration of over 1/3 of the total agricultural export in just two products indicates lack of long-term planning in the agricultural sector which would provide greater variety of the exported products, given the natural preconditions of the country for agricultural products of good quality.

In addition to the analysed five agricultural exported products, there is another agro-related industry which ranks as a top export. The export of bread, pastry, cakes, biscuits and other bakers' wares has been growing rapidly from €11mil. in 2005 up to €59.2mil. in 2017. According to the volume of agricultural export by products, this industry has been on the second position in 2017, following raw tobacco export. It uses raw materials such as cereals, sugar, cocoa, etc., which have been primarily imported. However, it was not included in the Chart 3, as the focus of the analysis of the top five exported

products have been done in accordance to primarily domestic agricultural or agro-industrial products. This industry is predominantly import depended.

Import. Chart 4 represents top five imported agricultural products in the Republic of North Macedonia over the period 2005-2017. They include meat, sugar, edible oils and coffee. Their share in the total agricultural export of the country ranged from 28.8% in 2005; 34% in 2012 and down to 26.4% in 2017. This is rather different compared to the export, indicating higher range of imported products.



Source: *INTRACEN database* (<http://www.intracen.org/itc/market-info-tools/trade-statistics>)

The analysis of the top five imported products refers to the SITC classification of sectors (Chart 2) with regards to meat and meat preparations, as prevailing import sector. Chart 4 indicates that two of the top five imported agricultural products in the Republic of North Macedonia include meat products (ducks, geese, turkeys, chicken, etc., as well as pork meat), which combined share in the total agricultural import ranged from 10.5% in 2005 up to 13.5% in 2013 and down to 10.9% in 2017. In absolute figures, the value of their import rose from €31.6mil. in 2005 up to €74.5mil. in 2017. The relative decrease was attributable to the increase of the overall agricultural import in the country. Most of the import of meat has been done from EU

(predominantly from Poland, Austria, Spain), as well as Brazil and to certain extent from Serbia.

The second agricultural product by its import value in the Republic of North Macedonia has been cane or beet sugar. Its import rose from €15.4mil. in 2005 up to €33.9mil. in 2017, owing mostly to the rise of the confectionary industry, as discussed in the export section. The share of sugar in the total agricultural import has been 5% in 2005, up to 7.9% in 2010 and back to 5% in 2017. The main country of import has been Serbia, which imports sugar from Brazil and distributes it to the Balkan region. Certain amount of the macedonian import of sugar comes directly from Brazil.

The other two products in the top five include edible oils and coffee. The absolute value of both products has increased over time, while the share of edible oils in the total agricultural export has shrugged from 7.4% in 2012 to 4.1% in 2017, while coffee's share remained stable at around 3% over the analyzed period.

From the analyzed import data, it is evident that the import of agricultural products has not been highly concentrated as the export. This is logical, provided that the agricultural production in the country has been limited to certain cultures, while meat production has been insufficient even for domestic purposes, implying the need for import of variety of products.

Same as on the export side, in addition to the analysed five agricultural imported products, the import of confectionery industry products (bread, pastry, cakes, biscuits, etc.) has been also rising in the Republic of North Macedonia. In absolute terms, its import rose from €13.8mil. in 2005 up to €30.6mil. in 2017. However, the data provided above indicate much faster rise of the domestic confectionary industry. It is a positive trend, although its further growth implies the need for agricultural planning aiming to production of domestic inputs (import substitution) for this industry, in order of achieving higher net effects from trading of the confectionary products.

Prospects. The export and import analyses revealed one leading sector – “Fruits and vegetables” on both sides, while more detailed insight on the level of products indicated very high concentration, in particular on the export side. The sectors that fuel agricultural export are very few – production of tobacco, wine, fruits and vegetables. The export of lower value added products is strongly present in the export structure (unprocessed tobacco and bulky wine), which implies the need for support of the sectors which produce products with higher value (tobacco manufactures, bottled wine, processed vegetables, etc.). In this respect, the wineries, vegetables and fruit processing industries, as well

as agricultural production of currently imported products should be supported. This particularly refers to the cultures produced in the country some time ago, such as sugar beet and sugar, sunflower and sunflower oil, etc. In addition, the production of meat is rather scarce in the Republic of North Macedonia, entailing its import, while the meat processed industries are rather strong. In this respect, the exporting industries which are rather well established on the foreign markets (such as confectionary and meat processing industries) should be taken seriously into consideration by agricultural policy makers, in sense of encouraging domestic production of inputs for these industries.

It is likely to expect that the structure of the export/import of the agricultural products from/to the Republic of North Macedonia would not change significantly in the upcoming period as it is related to strong strategic planning and well organized support. In the context of the agricultural support, the country already provided significant subsidies for agricultural sector (total of 446 mil. EUR for the period 2010-2014).⁴ However, no systematized data were available with regards to the allocation of the funds by sectors/branches, implying that there is lack of monitoring and evaluation system which would provide information about the effects of the subsidies-based agricultural policy.

In addition, there is a specific EU instrument for rural development – IPARD. It has been available to the Republic of North Macedonia since 2007 (to the present), aiming to support structural changes in the macedonian agriculture, more specifically in three areas: investment in agricultural holdings, investment in processing and marketing and diversification of rural economy. IPARD I (2007-2013) made available around 85mil. EUR to the macedonian farmers, while IPARD II (2014-2020) provided additional 60 mil. EUR. However, macedonian absorption of IPARD have been very limited, as evident in 2015, when de-commitment of 15mil. EUR from the allocation of the 2011 was done.⁵ The de-commitment has been serious signal that the macedonian authorities must undertake measures for increase of the absorption capacity for IPARD. In addition, there is need for ensuring better implementation of the domestic instruments, too, in purpose of achievement of positive visible results of the macedonian agricultural sector and implicitly, increase of the export of higher value added products.

⁴ Prizma.birn.eu.com

⁵ Annual Report on the Implementation of the IPARD Programme 2007-2012: For the period 1 January 2015 – 31 December 2015, Ministry of Agriculture, Forestry and Water Economy of the Republic of Macedonia, June 2016, p. 44

Conclusion

The export and import of the agricultural products from/to the Republic of North Macedonia increased significantly over the period 2005-2017. The export rose from €266mil. in 2005 up to €504.5mil in 2017, while the import surged from €301.5mil. in 2005 up to €679.8mil in 2017. Evidently, the import grew faster than the export, resulting in deepening of the macedonian agricultural trade deficit from €35.2 mil. in 2005 up to €175.3 mil. in 2017.

The structure of the macedonian agricultural trade by sectors and products is characterized with high concentration in few sectors/products. On the sector level, “Fruits and vegetables” has been important on both sides – export and import. It has been ranked as leading exporting and second importing sector with share of 29.8% and 13.4% in the total macedonian agricultural export and import in 2017, respectively. The leading importing sector has been “Meat and meat preparations” with share of around 20% in the total import of agricultural products. Furthermore, the product-level analysis reveals that unprocessed tobacco and wine have been the most exported macedonian agricultural products (with combined share of 34.1% in total macedonian agricultural export in 2017), while meat and sugar have been the most imported agricultural products in the Republic of North Macedonia (with combined share of 15% in total macedonian agricultural import in 2017).

Such intense concentration of the sectors/products imposes high volatility of macedonian trade in agricultural products, in particular on the export side. The trade of agricultural products is related to many risks caused by climate conditions, as well as non-tariff barriers set by many countries, which jointly affect the world market prices. Diversification of the export is crucial, in purpose of achieving stable agricultural sectors which would contribute to country’s development. In this respect, macedonian agricultural policy-makers should focus on strategic planning for further support of rising propulsive branches, as well toward encouraging agricultural production for import substitution. The structure of the macedonian agricultural trade needs to change in favour of faster growth of export versus import, and, particularly, towards export of products with higher value added and higher competitiveness.

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