
SUMMARY

1. As a small, landlocked, middle-income country of 2 million people with a GDP of around EUR 11 billion, the Republic of North Macedonia (hereafter: North Macedonia) is dependent on trade, with exports and imports in goods and services representing around 133% of GDP in 2018.
2. The services sector is the largest contributor to GDP (64% of GDP in 2018), followed by manufacturing (15%), agriculture, forestry and fishing (8.4%) and construction (7%). GDP growth averaged 2.2% on an annual basis from 2012 to 2018, and is expected to remain at this level in the medium term. Between 2012 and 2018, GDP per capita rose by more than 40%, and unemployment declined from 31.0% to 20.7%. The period also witnessed a substantial reduction in poverty.
3. The current account deficit narrowed from EUR 240 million (3.2% of GDP) in 2012 to EUR 31.9 million (0.3% of GDP) in 2018. This is due to a reduction of the trade balance deficit, and to an increase in the surplus of the services balance.
4. Imports and exports of goods grew constantly during the review period, but the growth rate of exports was more sustained. The share in GDP of merchandise exports increased from 30.4% in 2012 to 45.5% in 2018, while that of merchandise imports rose from 56.9% to 61.6%. The share of manufacturing in total merchandise exports increased from 71.8% in 2012 to 82.3% in 2017. The composition of exports of manufactures also changed significantly, as illustrated by the increase in the relative shares of machinery and transport equipment, and chemicals. The surplus of the services balance grew during the review period, as the increase in the value of exports of services exceeded that of imports of services. The growth of services exports is mainly due to construction, computer services, and professional services.
5. In 2018, the European Union's share in North Macedonia's exports of goods was 82.0% and its share in North Macedonia's imports of goods was 62.4%.
6. FDI net inflows rose from approximately EUR 131.0 million in 2012 (1.5% of GDP) to EUR 621.9 million in 2018 (5.8% of GDP). The European Union accounted for 76.7% of the FDI inward stock in 2017. Nearly half of the FDI inward stock (45.2% in 2017) is in the services sector. The share of the manufacturing sector in the FDI inward stock reached 36.8% in 2018, which reflects a substantial increase in the share of vehicles and other transport equipment.
7. Following a period of significant increases in public debt, a process of gradual fiscal consolidation was initiated in 2018, through reforms of taxation, pensions and social assistance benefits, and the improvement of the management of public finances. The monetary policy stance has been mainly accommodative.
8. The pursuit of EU integration has been one of the main driving forces for the legal, institutional and economic reforms undertaken so far by North Macedonia. For more than a decade, the authorities have engaged in the process of aligning national legislation with EU law (*acquis communautaire*). The return of stability after the political crisis of 2015-17 enabled North Macedonia to address certain challenges that had formed an obstacle to the country's European and international integration. In June 2018, the European Union agreed to respond positively to the recent progress made by North Macedonia, particularly on the implementation of institutional reforms and the resolution of the name issue with Greece, and set out the path towards opening accession negotiations in June 2019.
9. Recent reforms of business regulations resulted in a significant improvement in certain aspects of the climate for doing business, both for domestic and foreign investors. At the same time, structural economic and social challenges remain, including with respect to labour market weaknesses, the large size of the informal sector (estimated at 34% of GDP in 2014 and 18% of employment in 2018), and the quality of public institutions. Increasing productivity is a key condition to improving the country's economic performance. The continued effective implementation of institutional reforms would boost confidence in North Macedonia's economy.

10. North Macedonia became a Member of the WTO in 2003, and its trade policies were reviewed once, in 2013. It has regularly notified the WTO of the trade measures it adopted since the previous Review. Some notifications are still pending, including those on domestic support for agricultural products. North Macedonia has not been involved in any proceedings under the WTO dispute settlement mechanism.
11. North Macedonia participates in five free trade agreements (FTAs), which, together, accounted for 95% of its exports and 78% of its imports in 2018. In terms of trade coverage, the two most important agreements are the 2004 Stabilization and Association Agreement (SAA) with the European Union, and the Central European Free Trade Agreement (CEFTA). The SAA provides for the harmonization of North Macedonia's legal and regulatory framework with EU law, to prepare for accession negotiations. Pursuant to the SAA, two-way trade has been completely liberalized. Trade with parties to the CEFTA constitutes 11.1% of North Macedonia's exports and 8.9% of its imports. The parties to the CEFTA achieved full liberalization of trade in industrial and agricultural products in 2015. North Macedonia did not conclude any new FTAs since the previous Review.
12. North Macedonia also took measures aimed at increasing its attractiveness to foreign investors, such as targeted investment promotion strategies, and financial and other types of incentives, including in the context of the Technological Industrial Development Zones. The investment regime is generally open to FDI, with only a few legal restrictions, in domestic and international air transport and gambling, and foreign ownership of non-agricultural land. North Macedonia is cooperating with five other Western Balkan economies to harmonize national investment policies and align them with EU standards and international best practices.
13. North Macedonia continued to update and modernize its customs legislation, particularly with a view to achieving convergence with EU customs rules and improving the efficiency of the collection of import duties and other taxes. An important aspect of the alignment of North Macedonia's customs administration with the EU *acquis* is the development of a new Customs Declarations and Excise Documents Processing System (CDEPS), which will replace the current ASYCUDA computerized declaration system and is expected to become fully operational in June 2019. Recent studies suggest that the efficiency of North Macedonia's customs procedures has improved.
14. North Macedonia has implemented 99.2% of its commitments under the Trade Facilitation Agreement, which it accepted in October 2015, and will have implemented another 0.8% by December 2019 without capacity-building support. It became a party to the Convention on a Common Transit Procedure and the Convention on the Simplification of the Formalities in Trade in Goods between EU Member States and EFTA countries in July 2015, and a party to the CEFTA Additional Protocol 5 on Trade Facilitation in January 2018.
15. While there were no fundamental changes to North Macedonia's legislation on customs valuation during the review period, new provisions on transfer pricing entered into force in January 2019. North Macedonia has no laws or regulations relating to pre-shipment inspection, and does not use pre-shipment inspection services.
16. North Macedonia grants at least MFN tariff treatment to imports from all WTO Members and non-WTO Members. The simple average of the 2019 applied MFN tariff is estimated at 8.5%, which remains almost identical to that of 2013. The coefficient of variation of 1.3 indicates high dispersion, with rates ranging from zero to 75.0%. The average applied tariff on agricultural products is 17.6%, while that on non-agricultural products is 5.8%. The applied MFN tariff structure shows tariff escalation in certain categories of products. North Macedonia has bound 100% of its tariff lines at rates ranging from zero to 75%. As in the case of applied tariffs, *ad valorem* rates apply to most bound tariff lines, except for certain agricultural products with compound and mixed bound tariffs. The simple average bound rate on agricultural products is 18.2%, while that on non-agricultural products is 6.3%.
17. The importation of certain goods (e.g. certain animals and birds, plants, fertilizers, narcotics, arms, and ozone-depleting substances) is prohibited for reasons related mainly to the protection of national security, public morals, the environment, health, endangered species, and national treasures of artistic, historical or archaeological value. For similar reasons, certain categories of

products are subject to import licensing. The product coverage of this import licensing regime has not changed in recent years.

18. The legal framework governing the application of trade contingency measures did not change during the review period, and North Macedonia did not impose any anti-dumping, countervailing duty or safeguard measures, or initiate any anti-dumping, countervailing duty or safeguard investigations.
19. North Macedonia does not apply export duties. The export of certain products is prohibited or subject to licensing for reasons of protection of human, animal or plant life or health, protection of public morals, and protection of the environment. The list of products subject to export prohibition or export licensing did not change since the previous Review. In March 2018, North Macedonia amended its export control law, by adopting a new list of dual-use goods and technologies that transposes Annex 1 of the relevant EU regulation.
20. With the aim of attracting investment and accelerating business development, North Macedonia maintains a competitive taxation system, with some of the lowest rates worldwide. Companies are subject to a corporate income tax on realized profits, at a rate of 10%. VAT is charged at a standard rate of 18% on the supply and import of goods and services. A lower rate of 5% applies to supplies of certain basic goods and services. Until recently, personal income tax was set at a flat rate of 10%. As of 1 January 2019, the portion of income that exceeds MKD 90,000 per month is taxed at a rate of 18%, and income up to MKD 90,000 continues to be taxed at a rate of 10%. Income from capital, property, industrial property rights, insurance, capital gains, games of chance and other income is taxed at 15% (raised from 10%).
21. The Government offers numerous support measures to enterprises as part of its overall economic strategy to promote industrial development, competitiveness, and the creation of new and better-paid jobs. A key objective of many of these measures is to encourage investment, particularly in manufacturing, and to promote linkages between foreign investors and domestic firms to increase the country's integration in global value chains. The Economic Growth Plan, published in February 2018, which is closely related to the new Industrial Strategy, seeks to stimulate growth in the industrial sector, focusing on manufacturing. It envisages three types of financial support (pillars), the first two of which are implemented through the Law on Financial Support of Investments, promulgated in May 2018. The first pillar involves several general measures to support investment, one of which relates to the purchase of products from domestic suppliers, while the second pillar involves measures for improving competitiveness and internationalization. The third provides for measures to foster the development of micro, small and medium-sized enterprises.
22. North Macedonia's industrial policy instruments were further developed and funded in the past few years. The challenges currently facing the authorities are to ensure the effective implementation of these instruments, to adequately monitor their results, to strengthen coordination among the different government agencies involved in their implementation, and to avoid overlapping of measures and institutional responsibilities.
23. North Macedonia continued the process of harmonizing its technical regulations and standards with relevant EU rules, with a view to preparing for accession to the European Union. Thus, the Standardization Institute of the Republic of North Macedonia adopted 28,898 standards, most of which are European standards. The authorities aim to achieve full harmonization with the EU *acquis* in product safety during the period 2019-21, particularly through the transposition of EU New Approach Directives. Since the last Review, North Macedonia submitted one notification to the WTO Committee on Technical Barriers to Trade.
24. Similarly, most changes made to the regulatory and institutional framework for the application of sanitary and phytosanitary measures since the previous Review were aimed at harmonization with international norms, especially EU rules. The Government is focusing on streamlining practices and implementing various measures related to the EU *acquis* regarding field inspection services, official controls, food and feed safety, animal disease control, plant health and plant protection products, control of veterinary medicinal products, and enhancement of border post import controls.

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25. The Law on the Protection of Competition (LPC) regulates anti-competitive behaviour and concentrations. It prohibits agreements, decisions and concerted practices between undertakings, which have as their object or effect the distortion of competition, and provides an illustrative list of these agreements, which are to be considered null and void. The LPC also specifies the situations in which the abuse of dominant position in the relevant market, or a substantial part thereof, is prohibited, and provides for the *ex ante* control of mergers. During the review period, the Commission for the Protection of Competition maintained a significant level of activity.
 26. Price controls apply in the form of regulated and approved prices (not direct controls) on a few products and services, which are characterized by monopolistic supply conditions. Prices in the energy sector (oil derivatives and electricity for universal/last resort suppliers) and prices of telecommunications and postal services are regulated.
 27. North Macedonia notified the WTO that, during the period under review, it did not maintain any state trading enterprises as defined in paragraph 1 of the Understanding on the Interpretation of Article XVII of the GATT. State involvement in the economy did not change significantly in recent years. There are currently 57 state-owned enterprises, of which 16, mostly public utilities, are wholly-owned by the State.
 28. In February 2017, North Macedonia submitted its application for accession to the WTO Agreement on Government Procurement. Its public procurement system is decentralized. Until 31 March 2019, it was regulated by the Law on Public Procurement (LPP), which entered into force in 2008. A new Law on Public Procurement (new LPP), which transposes several EU directives on public procurement, was adopted in January 2019 and entered into force on 1 April 2019. While the general structure and content of the previous Law remain essentially the same, the new LPP introduces significant changes, including with respect to minimum thresholds for the application of procurement law, the publication of contract notices, the use of special procurement methods, and the criteria for awarding contracts. In the latter regard, the new LPP provides for the possibility for quality to be evaluated in addition to price. As amended by the new LPP, the procurement regime does not provide for national preferences.
 29. While the number of public contracts awarded increased between 2013 and 2017, the value of public contracts awarded in 2017 was inferior to the annual values awarded in each of the four previous years. The value of public contracts awarded to foreign suppliers decreased in both absolute and relative terms between 2013 and 2017.
 30. North Macedonia's legal framework on intellectual property rights (IPRs) is quite comprehensive and has progressively been aligned with EU legislation. New legislation adopted during the review period, based on EU rules, includes the Law on Customs Measures for the Enforcement of Protection of IPRs and the Rulebook on the form and content for the request by right-holders for Customs to take action and for extending the period of such action. The Law on Copyright and Related Rights was amended in 2016 to regulate the functioning of the collective management of rights and fee distribution, and to eliminate a cap on right-holders' remuneration. The National Strategy on Industrial Property 2016-18, adopted in October 2017, aims to guarantee a level of IPR protection in North Macedonia like that of the European Union, to permanently harmonize it with all international obligations and agreements concluded by North Macedonia in this field, and to help develop an efficient IPR system as a backbone for economic growth. Although North Macedonia has a sound legal framework for the protection of IPRs, its practical effectiveness is limited by several institutional factors, for example, the absence of specialized courts, and the lack of coordination of IPR-enforcement bodies.
 31. Agriculture remains an important activity for North Macedonia's economy, notwithstanding its declining shares in GDP and total employment. In 2018, the sector accounted for 8.4% of GDP and 15.7% of employment. The value of agricultural production increased during the review period in most product categories. North Macedonia exhibits a structural and growing trade deficit for agri-food products. The main agricultural exports in 2018 were tobacco; preparations of cereals, flour, starch or milk; beverages; edible vegetables and certain roots and tubers; and preparations of vegetables, fruit, nuts or other parts of plants. The main import products in 2018 were meat; miscellaneous edible preparations; dairy products; animal or vegetable fats and oils and their products; preparations of cereals, flour, starch or milk; and pastry cooks' products.

The main markets for agriculture and food products are the European Union and neighbouring Western Balkan economies.

32. The level of tariff protection in agriculture is relatively high. North Macedonia notified the Committee on Agriculture that it provided no export subsidies and no export credits to agricultural products for the calendar years 2008 to 2018. The structure of support to agriculture remained relatively stable. Direct support to producers represented the largest share (60% in 2015); followed by rural development measures (28%); and general support to agriculture (12%). North Macedonia does not apply any minimum prices or any kind of market price support schemes. Its most recent domestic support notification to the Committee on Agriculture was for the calendar years 2005, 2006, and 2007. The National Strategy for Agriculture and Rural Development for the period 2014-20 defines as its objective the improvement of the competitiveness of North Macedonia's agricultural production and food industry, the development of rural areas, and the sustainable management of natural resources.
33. In 2016, mining and quarrying accounted for 1.2% of GDP. Of the 354 current concessions for mineral exploitation, around 13% are held by foreign companies. All three prospective geological research concessions are held by foreign companies.
34. Oil and coal constitute the main primary energy supply sources. In addition to national considerations, North Macedonia's energy policy aims to transpose the EU energy *acquis* in terms not only of liberalization but also of energy security, energy efficiency and environmental objectives. During the period under review, regulatory regimes in gas and electricity were reformed by the new Energy Law of May 2018, which transposes the EU Third Energy Package. The Law fully unbundled the electricity sector and instated free choice of providers for all customers.
35. The manufacturing sector accounts for slightly less than 20% of total employment. The increase in its contribution to GDP, from 11.8% in 2012 to 15% in 2018, mainly reflects the growth in value added of the category composed of motor vehicles, trailers and semi-trailers. While North Macedonia managed to integrate successfully into certain global value chains, particularly in the automotive industry, significant challenges must be addressed to improve the competitiveness of the manufacturing sector. The new Industrial Strategy, with a focus on the manufacturing sector, adopted in 2018, emphasizes the critical role of manufacturing to economic growth, productivity, high-quality jobs, innovation, and promotion of the circular economy. Its overall objective is to promote industrialization by stimulating the growth and development of the manufacturing sector to boost productivity, create good jobs, raise income, and strengthen human capital, while addressing the challenges of the circular economy.
36. The telecommunications sector is largely liberalized and offers a dynamic competitive landscape, although prices remain relatively high by international standards. North Macedonia's main legislation in the field of telecommunications is the 2014 Law on Electronic Communication, which reflects the regulatory framework for communications adopted by the European Union in 2009.
37. During the review period, North Macedonia adopted a series of by-laws aimed at strengthening the institutional and operational framework of banks, and transposed several pieces of EU banking legislation. The main reform planned is the adoption, in 2020, of a special Law on Resolution, to transpose Directive 2014/59/EU on the establishment of a framework for recovery and resolution of credit institutions and investment firms. North Macedonia transposed a series of pieces of legislation stemming from the EU insurance *acquis*, notably the Risk-based Prudential and Solvency Rules for Insurers directive. It also adopted various elements of the EU securities *acquis*. Regarding licensing procedures for securities market participants, amendments to the 2005 Law on Securities, to transpose the UCITS IV EU Package, were expected to be adopted by the Parliament in the first half of 2019. North Macedonia is also planning to transpose, in the medium-term, the Hedge Funds and Private Equities directive (the AIFMD) and the Derivatives Regulation (the EMIR).
38. The economic development of North Macedonia, as a small land-locked country, depends, to a large extent, on a well-developed transport network. To reduce transport costs arising from the relatively poor condition of roads and railways, the Government is focused on the development

of the transport infrastructure. Its aim is to better connect with the EU markets and access the nearby sea ports in Greece and Bulgaria. In that respect, road infrastructure is an important priority, since most goods, including exports, are transported by road. North Macedonia transposed, in its 2013 Law on Road Transport, the main regulations underpinning the single EU road transport market. North Macedonia also transposed a series of EU technical requirements on vehicles and the qualifications of drivers, and will soon transpose the latest EU tachymeter requirements. North Macedonia concluded 33 bilateral agreements on the international road transport of passengers and goods. It is in the process of transposing the European Union's Fourth Railway Package of 2016.

39. Tourism is still a relatively minor activity in North Macedonia in terms of its contribution to GDP, but it developed, during the period under review, in terms of arrivals and gross foreign exchanges earnings. In 2017, the sector accounted for around 3.8% of total employment, more than twice its share in GDP. In 2011, a non-discriminatory subsidy programme aimed at increasing the capacity of tour operators and travel agencies was introduced, with a view to providing competitive holidays packages. The National Strategy for the Development of Tourism 2018-23 is aimed, among several other objectives, at developing tourism beyond the two main destinations of Skopje and Lake Ohrid.