



## NORTH MACEDONIA

### Highlights

- **Economic growth is picking up.** As a result of the Covid-19 pandemic, gross domestic product (GDP) fell by 4.5 per cent in 2020, with industry, trade, transport and tourism being particularly affected. Manufacturing, exports and retail trade picked up relatively strongly in the first six months of 2021.
- **Plans have advanced for the closure of coal-fired power plants.** The country is preparing to shut down all coal-fired thermal power plants by the end of 2027, as set out in the National Energy and Climate Plan (NECP), currently under public consultation.
- **Support for economic inclusion of the Roma population has been increased.** A new €2 million fund has been set up to support Roma businesses and address unemployment in this community.

### Key priorities for 2022

- **To maintain fiscal sustainability, the fiscal governance framework needs to be improved.** While fiscal policy should remain supportive to growth, it would be important to develop a credible medium-term fiscal strategy. The focus needs to be on enhancing the efficiency of tax collection and improving public investment management.
- **A “just transition” for the planned phase-out of coal should be ensured.** To mitigate the negative social and economic impacts of the closure of coal-fired power plants and related coal mines in the affected regions, it is important to work out in advance a plan to address associated labour and regional development issues.
- **Educational reform should be accelerated to address the persistently high level of youth unemployment.** Ongoing reforms focusing on addressing skills mismatches in the labour market through revamping the vocational education system could help address this problem.

### Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	1.1	2.9	3.2	-4.5	4.0
Inflation (average)	1.4	1.5	0.8	1.2	3.1
Government balance/GDP	-2.7	-1.8	-2.0	-8.1	-5.9
Current account balance/GDP	-1.0	-0.1	-3.3	-3.4	-2.1
Net FDI/GDP [neg. sign = inflows]	-1.8	-5.6	-3.2	-1.4	-3.0
External debt/GDP	73.3	73.0	72.7	79.1	n.a.
Gross reserves/GDP	23.2	26.7	29.1	31.1	n.a.
Credit to private sector/GDP	49.9	50.2	51.5	56.2	n.a.

## Covid-19: macroeconomic implications

**After a recession in 2020, GDP has started to recover in 2021.** In 2020 GDP declined by 4.5 per cent year-on-year, on the back of a double-digit fall in investment and exports and a 5.6 per cent decline in private consumption. These falls were somewhat counter-balanced by a significant (10.1 per cent) increase in government consumption. Industrial output contracted by 10 per cent in 2020, and the trade, transport and accommodation sectors only slightly less. After a negative first quarter, economic developments became more favourable in the second quarter of 2021 with GDP growing by 13.1 per cent year-on-year; domestic trade picked up by a strong 46 per cent year-on-year on the back of pent-up demand, and manufacturing recovered by nearly 20 per cent year-on-year, which was also reflected in strongly growing exports (by 45 per cent year-on-year). Investments rebounded by nearly 40 per cent year-on-year in the same quarter.

**The fiscal stance remains expansionary.** The general government deficit jumped from 2.0 per cent of GDP in 2019 to 8.1 per cent in 2020. As a consequence, general government and government-guaranteed debt rose to 60 per cent of GDP at the end of 2020, more than 10 percentage points higher than at the end of 2019. The expansionary fiscal stance is continuing in 2021, involving further Covid-19-related support measures such as wage subsidies, investment incentives and liquidity support to firms. In March 2021 the government issued a €700 million seven-year Eurobond. Some of the proceeds (€500 million) were used to repay a Eurobond issued in 2014 and the rest of the proceeds will be used to finance the state budget for 2021.

**GDP should exceed its 2019 level in 2022.** A partial recovery is expected in 2021, with real GDP growth of 4.0 per cent on the back of the recovery of exports and private consumption, as well as sustained government consumption. The growth momentum is expected to continue in 2022, also at 4.0 per cent, on the back of resuming private investments. However, the projection is subject to significant uncertainty. Both upside and downside risks are present and primarily relate to the speed of recovery of external demand and the government's ability to realise its ambitious infrastructure agenda, given the narrowed fiscal space.

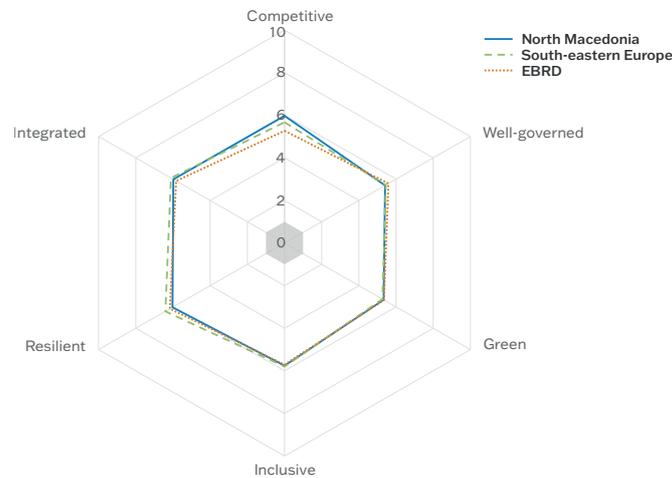
## Policy response to Covid-19

**The fifth and sixth packages of support measures were approved in April 2021.** The fifth package was worth €160 million and consisted of four pillars: (i) direct financial support for companies in the troubled sectors (tourism, transport, hospitality and the events industry) to help preserve jobs; (ii) interest-free loans to the private sector with a grant component to support the liquidity of companies; (iii) a reduction of para-fiscal duties, tax relief measures and tax deferrals to improve the business environment; and (iv) direct financial assistance to citizens. The sixth package of economic support measures was worth €17.8 million and it aimed to financially support around 10,000 companies employing around 60,000 workers in total.

**New interest-free loans have been extended to micro, small and medium-sized enterprises (MSMEs) and a guarantee scheme is to be established.** In December 2020 the Development Bank of North Macedonia issued a public call for small and medium-sized enterprises (SMEs), sole proprietors and artisans to apply for interest-free loans under a €31 million credit line. In July 2021 the government announced the launch of a guarantee fund that would provide loan guarantees worth up to €500,000 to MSMEs, but also to large companies with export revenues accounting for at least 30 per cent of total revenues.

**The central bank temporarily blocked dividend distribution.** In February 2021 the central bank prohibited commercial banks from distributing dividend payments to shareholders until the end of 2021. The decision was rescinded in August 2021. In March 2021 the key policy rate was cut by 25 basis points, to 1.25 per cent.

**Assessment of transition qualities (1-10)**



**Structural reform developments**

**No decision was made about opening European Union (EU) accession negotiations.**

Despite the green light in March 2020 and the subsequent positive report by the European Commission on the country's progress towards the start of the EU accession negotiations, no decision has been made by the Council in 2021 on the formal start of negotiations because of a dispute with one member country. In June 2021 the European Council concluded that this issue ought to be addressed during Slovenia's presidency of the EU in the second half of 2021.

**A review of 377 para-fiscal charges is under way to improve the business environment.**

Para-fiscal charges create considerable barriers to businesses and could push them to operate in the informal sector. It is planned that these charges will be either eliminated or streamlined, optimised and digitalised to reduce the burden on companies, especially SMEs.

**The authorities have developed a plan to close coal-fired power plants, accompanied by large-scale investment in renewables and gas-fired power capacity as a transitional fuel.**

North Macedonia has become the first country in the Western Balkans to set a concrete plan for the closure of coal-fired power plants, through the country's Energy Development Strategy until 2040 and draft NECP, which was the first in the region to be submitted and reviewed by the Energy Community Secretariat. The NECP, currently under public consultation and expected to be approved by the government in the first half of 2022, sets a date of the end of 2027 for coal-fired power plants to close. At present, coal-based thermal power plants account for around 50 per cent of total electricity production and about a third of total consumption. To replace these, renewables will play a primary role in the transition, with planned investment of about 1,600 MW of solar power plants, 600 MW of wind farms and about 333 MW of hydropower plants. According to the government's Intervention Investment Plan 2021-27, presented in May 2021, the country will invest a total of €3.1 billion in the energy sector, mostly in renewables. In recent years, both the private and state sectors have been investing in large-scale wind, solar and hydropower projects.

**Value added tax (VAT) on electricity has been temporarily cut.**

In July 2021 the VAT Law was amended to lower electricity prices and reduce expenses for households. The VAT rate on electricity was cut to 5 per cent from 18 per cent. The reduced rate will apply for one year, until 30 June 2022. Afterwards, it will be increased to 10 per cent until the end of June 2023 and then, in July 2023, it should return to 18 per cent.

**The government has signed an agreement with Greece for the construction of a gas interconnector.** The 123 km-long pipeline will cost €110 million and will have the capacity to transport around 1.5 billion cubic metres of natural gas every year. The final investment decision by the government is expected by the end of 2021.

**The government is promoting the economic inclusion of the Roma population.** A €2 million development fund was launched in July 2021 to support Roma businesses and address the issue of unemployment in the community. The aim of the initiative is to create more favourable business conditions for Roma entrepreneurs in several ways, by facilitating access to loans, offering coaching, business development services and creating new jobs, formalising Roma employment and harnessing the Roma's demographic dividend.

