NORTH MACEDONIA

Table 1	2020
Population, million	2.1
GDP, current US$ billion	12.1
GDP per capita, current US$	5825.2
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2018).

The pandemic led to a growth contraction of 4.5 percent in 2020—the largest since independence. Government response measures partially mitigated the crisis impact on households and firms, but the fiscal deficit tripled to 8.9 percent of GDP, and debt reached 60 percent of GDP. The near-term outlook is positive, but downside risks are high. While economic and social measures to remedy the crisis will take priority in early 2021, fiscal, competition, environmental and governance reforms are needed for recovery and EU accession.

Key conditions and challenges

North Macedonia has enjoyed a period of relative macroeconomic stability over the last decade, accompanied by rising trade integration, especially in GVCs, an improved business environment and inflow of foreign direct investment. While this has resulted in an average GDP growth of 2.6 percent in the period 2010-2019, it was still lower than in peer countries.

Poverty declined in recent years, but about 16.8 percent of Macedonians (using the US$5.5/day at 2011 PPP line) were still projected to live in poverty in 2019. Hit by the pandemic and the related recession, it is estimated that poverty increased between 1 and 4 percentage points in 2020. Support measures introduced by the government (i.e., subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty.

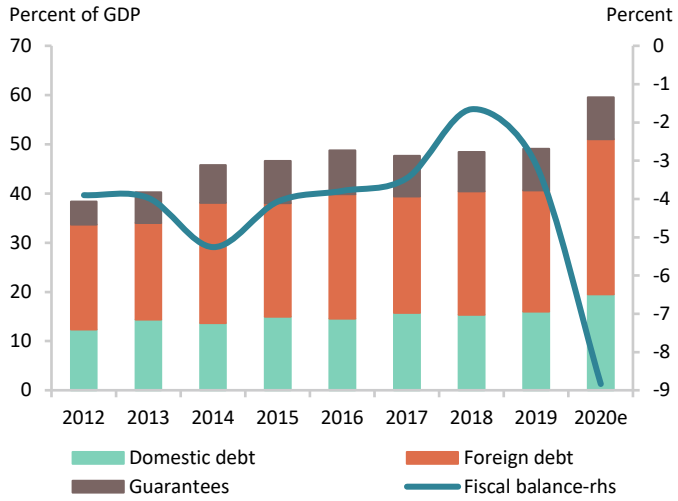
Outlook for the near term, although positive, remains challenging as a result of continued containment measures in place, slow vaccine rollout, and unresolved structural bottlenecks. Human capital development is limited as a result of weak education and workforce skills acquisition which, together with low and declining productivity, has been constraining growth. This has only been further exacerbated by the learning loss caused by COVID-19. In addition, labor resources are underutilized as only 48 percent of working-age Macedonians are employed, while low birth rates and emigration are shrinking the workforce.

The transition to a more dynamic economic model and, with it, the creation of job opportunities for the youth is linked to the implementation of key social sector, economic, and governance reforms in a context of political stability, increased transparency, accountability, voice and participation. The current economic model, based on generous public support through subsidies and broad and growing tax exemptions, is not sustainable and has led to an ever-increasing state involvement in the market. Countercyclical fiscal policies put in place to mitigate the impact of COVID-19 depleted the fiscal buffers and increased sustainability concerns. As the economic recovery firms up, a gradual withdrawal of the state support will be necessary. Finally, further delays in the opening of the EU accession negotiations may reduce willingness to undertake structural reforms.

Recent developments

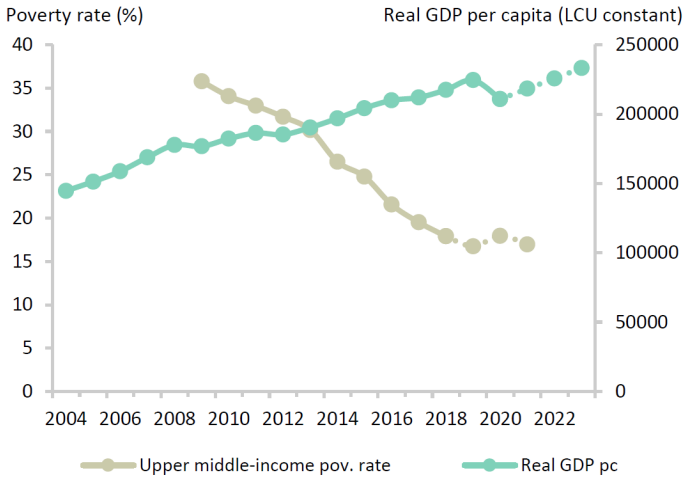
Growth declined by 4.5 percent in 2020; less than earlier projected as the recession sharply eased in Q4. Private consumption, the main driver of growth in the past, experienced a sharp decline of 5.6 percent y-o-y as a result of containment measures. Investment also declined by more than 10 percent, even though it shortly rebounded in Q3. Government consumption that

FIGURE 1 North Macedonia / Fiscal deficit, debt and guarantees



Sources: North Macedonia State Statistics Office and World Bank.

FIGURE 2 North Macedonia / Actual and projected poverty rates and GDP per capita



Sources: : World Bank. Notes: see Table 2

increased by over 10 percent partly alleviated declining domestic demand. External demand also plummeted, reflected in a 10.9 percent y-o-y decline of exports. The accompanying decline in imports alleviated the pressure on the current account deficit which is expected to remain largely unchanged compared to 2019. On the production side, agriculture, ICT and real estate activities were only sectors growing in 2020.

Government support helped cushion the crisis impact on the labor market by supporting over 130,000 jobs through wage subsidies in April, declining to 60,000 towards the year-end as the economy slowly recovered. The unemployment rate remained largely unchanged, but this was partly a result of people dropping out of the labor market. The activity rate dropped by 0.8 pp to 56.4 percent, the lowest level since 2008.

The banking sector liquidity ratio of over 23 percent in Q3 remained adequate, helped by the central bank measures. Credit continued growing at 4.7 percent y-o-y by end-2020, on account of both household and firm credits supported by strong deposit growth and crisis-support programs. Non-performing loans declined to 3.3 percent given the allowed suspension on credit reclassification requirements until December. However, an upward correction is expected in 2021 as this measure ended. The capital adequacy ratio stood at 16.9 percent in Q3 2020, double the mandatory level. Inflation remained low at 1.2 percent y-o-y in 2020, reflecting subdued output and despite rising food prices in the second half of 2020.

The fiscal deficit tripled to 8.9 percent of GDP in 2020. The drop in VAT and excise revenues amounted to 0.9 percent of GDP and was cushioned somewhat by an increase in social contributions. Spending increased by 4.4 percent of GDP, as health expenditures and subsidy schemes, aimed at employment retention, surged. Spending on wages and pensions also increased as a result of previous policy changes, while capital spending declined. Public and publicly guaranteed debt increased to 60.2 percent of GDP as the government ramped up borrowing to finance the soaring deficit and repay maturing obligations.

Outlook

The economic growth is expected to rebound to 3.6 percent in 2021. This scenario assumes accelerated vaccinations by mid-2021, no further lockdowns, and increased external demand. In this scenario of a gradual recovery, after a protracted recession in Q1 2021, a rebound is expected thereafter, as restored consumer and investor confidence pushes up personal consumption, private investment, and exports. The fiscal deficit is planned at 4.9 percent but given the extended government support to firms and households in early 2021 of an additional 1.4 percent of GDP, the actual deficit will likely be higher. Setting public finances back on a sustainable path will be needed over the medium term, as public and publicly guaranteed debt surpasses 64 percent of GDP in 2021. Targeting a primary balance over the medium term would be needed to stem further public debt growth and not crowd out productive spending. This is even more important in the eventuality that international financing costs rise. Boosting revenues through cutting back on exemptions and strengthening compliance are priorities along with a gradual state withdrawal from the corporate sector. Bringing people back to the labor market, as well as education and governance reforms could help boost potential growth. Poverty is projected to resume its decline as growth gradually recovers in 2021.

TABLE 2 North Macedonia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.9	3.2	-4.5	3.6	3.5	3.4
Private Consumption	4.5	5.6	-7.4	4.5	3.9	3.7
Government Consumption	2.0	-1.3	10.1	3.6	1.2	0.3
Gross Fixed Capital Investment	-19.8	20.2	-7.7	5.1	5.9	5.1
Exports, Goods and Services	15.6	4.6	-10.9	6.2	7.2	7.3
Imports, Goods and Services	9.1	10.5	-10.5	6.4	6.5	6.2
Real GDP growth, at constant factor prices	3.9	3.2	-3.7	3.6	3.5	3.4
Agriculture	8.6	0.6	1.7	2.7	2.5	2.0
Industry	0.2	4.6	-6.8	5.7	5.0	4.5
Services	4.9	2.9	-3.2	2.9	3.1	3.1
Inflation (Consumer Price Index)	1.5	0.9	1.2	1.6	2.0	2.0
Current Account Balance (% of GDP)	-0.1	-3.3	-3.5	-3.4	-2.6	-1.5
Financial and Capital Account excl. reserves (% of GDP)	5.2	6.6	5.2	3.9	3.1	1.9
Net Foreign Direct Investment (% of GDP)	5.6	3.2	1.9	2.6	2.7	2.7
Fiscal Balance (% of GDP)	-1.1	-2.2	-8.2	-5.4	-4.0	-3.3
Fiscal Balance with Pub. Ent. for State Roads (% of GDP)	-1.7	-3.1	-8.9	-6.0	-4.2	-3.4
Debt (% of GDP)	48.4	49.4	60.2	64.9	65.9	67.2
Primary Balance (% of GDP)	-0.5	-1.9	-7.7	-4.7	-2.8	-2.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	17.9	16.8	18.0	17.0		

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2018-SILC-C.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021.

(b) Projections based on sectoral GDP growth at constant LCU.