

# The World Bank in North Macedonia

## Country Snapshot



An overview of the World Bank's work in North Macedonia

April 2020

NORTH MACEDONIA	2019
Population, million	2.1
GDP, current US\$ billion	12.7
GDP per capita, current US\$ thousands	6,102
Life Expectancy at birth, years (2017)	75.6

### At a Glance

- North Macedonia and the European Union have begun accession negotiations.
- On March 27, 2020, North Macedonia officially became the 30th member of NATO.
- On March 18, the president of the country declared a state of emergency due to the COVID-19 outbreak. The World Bank plans to mobilize roughly €140 million to help North Macedonia manage the crisis.
- The economy expanded in 2019, reaching 3.6 percent compared to 2.7 percent in 2018. The main contributors to growth were wholesale and retail trade, followed by construction activities (both private and public investments) and real estate services.
- Due to the COVID-19 crisis, the economy is facing a recession, with negative growth for 2020 projected at -1.4 percent. Personal consumption is expected to slow significantly compared to 2019, while exports and investments will decline.

### Country Context

After the resolution of the name issue, North Macedonia and the European Union (EU) finally opened accession negotiations on March 26, 2020. The country has had candidate status since December 2005.

On March 27, North Macedonia became NATO's newest member state, depositing its instrument of accession to the security organization.

Due to the COVID-19 outbreak, the country's parliamentary parties have agreed to postpone the general elections. The president of North Macedonia declared a state of emergency on March 18 for a period of 30 days.

Since then, the Government and the National Bank have adopted several health-related, security, social, financial, and economic measures to deal with the crisis.

## The World Bank and North Macedonia

The strategic objective of the **Country Partnership Framework (CPF)** for the FY19–23 period is to support North Macedonia's ability to achieve faster, inclusive, and sustainable growth and provide its citizens with greater opportunities for a better life.

### Key Engagement

The World Bank is mobilizing several instruments, both financial and technical assistance, to support North Macedonia's efforts to manage and mitigate the impact of the COVID-19 pandemic.

In terms of financial assistance, the Bank is helping North Macedonia to access the emergency fast-track facility created to support countries' response to the COVID-19 emergency.

These funds, which should be available at the end of the month, will be used to address urgent health sector priorities and protect household income, in particular that of the most vulnerable.

Together with the Ministry of Finance, the World Bank is also analyzing the overall portfolio of approved projects in the county to identify funds still unallocated that could be redirected to crisis-management and post-crisis economic recovery.

As part of this effort, the Bank is exploring the activation of a special window for emergencies that is embedded in one of the recently approved operations (the Local Roads Project). The goal is to mobilize the rapid disbursement of funds in support of small and medium enterprises (SMEs) that have been negatively impacted by the public health measures and by depressed demand, both domestically and from abroad. Collectively, these programs are expected to mobilize roughly €140 million.

The CPF aims to improve the environment for a competitive private sector by boosting connectivity and improving access to markets, helping businesses become more innovative, productive, and competitive, and creating more and better jobs.

The **Western Balkan Trade and Transport Facilitation Project**, approved in 2019, will improve connectivity and integration with regional and EU markets, reduce trade costs, and increase transport efficiency. In addition, the new Agriculture Modernization Project will improve access to modern agricultural services, thus benefiting 1,000 farmers, including by establishing collection and conditioning centers for fruits and vegetables.

The CPF is also designed to support investments in human capital, with a focus on improving education and

### WORLD BANK PORTFOLIO

No. of Projects: 11

Lending: \$310.4 Million

IBRD: \$561.70 Million

EU Trust Fund: \$17.22 Million

skills training, providing better access to social services for the most vulnerable, and encouraging more inclusive participation in labor markets. Some of these goals are being achieved with a contribution from the active portfolio, e.g., the Skills Development and Innovation Support Project, through which secondary technical and vocational education students benefit from practical training in SMEs and large firms.

A new education project currently under preparation will improve conditions for acquiring key skills in primary education. The emphasis is on improving the teaching and learning environments in order to enhance what students learn in the classroom.

The most vulnerable households will be protected by a contribution from the Social Services Improvement Project, which will support the creation and expansion of preventive and nonresidential social services.

The sustainability of pensions in an aging society will be guaranteed by the Social Insurance Administration Project, which will help to modernize pension administration.

Finally, the CPF is reinforcing fiscal and environmental sustainability by strengthening public financial management and accelerating the country's transition to a more sustainable energy mix.

For example, the new Organic Budget Law and public financial management reforms will prevent the reemergence of arrears accumulation and strengthen the monitoring of fiscal risks.

Furthermore, the Public Sector Energy Efficiency Project will directly contribute to the reduction of CO2 emissions by retrofitting public buildings to improve energy efficiency, including municipal and central government buildings as well as public lighting.

## Recent Economic Developments

The economy expanded in 2019, reaching 3.6 percent compared to 2.7 percent in 2018. The main contributors to growth were wholesale and retail trade (propelled by rising employment and wages), followed by construction activities (both private and public investments) and real estate services, together accounting for 1.7 percentage points of overall growth.

Agriculture and public services contributed 0.3 percentage points each, while manufacturing had a neutral contribution to growth. On the demand side, the main contribution to growth came from private consumption's 2.6 percentage points, spurred by rising wages, pensions, and household borrowing. Investments added another 2.1 percentage points, while net exports subtracted from growth.

The labor market continued to improve. Employment went up by 5.1 percent year-on-year (y-o-y) in 2019, more than doubling the 2018 growth. The employment rate increased to 49.9 percent—up by 4 percentage points—while unemployment fell to 16.6 percent in the fourth quarter of 2019 (with an annual average of 17.3 percent), another historic low.

There were labor shortages in the most dynamic regions around technological zones, which contributed to wage pressures. The average gross wage increased by 4 percent y-o-y in real terms due to minimum wage and public sector wage increases. The highest increases were in public services, transport, construction, and agriculture.

Using the US\$5.5/day (2011 purchasing power parity) line, poverty is projected to have fallen to 16.9 percent in 2019, continuing a decreasing trend since 2009. Higher employment and labor earnings, together with higher incomes from pensions and social transfers, have been critical to reducing poverty.

A solid increase in incomes for the less well-off is behind this recent poverty reduction; income growth for the bottom 40 percent was about 7 percent between 2012 and 2017.

This also contributed to a significant reduction in inequality, from about 42 to 34.2 Gini points between 2009 and 2017. Yet, despite this reduction in poverty, a large share of the non-poor population remains vulnerable and at risk of falling into poverty if hit by a shock.

Despite the rise in revenues, the fiscal deficit widened in 2019. Revenues increased by 8.2 percent y-o-y in 2019 due to social contributions (+10 percent y-o-y as pension and health rates increased in January 2019), personal income tax (a higher rate was introduced in January and abolished in September), value added tax, and one-off non-tax revenues.

However, public spending went up by 8.7 percent y-o-y due to rising pensions, wages, operations and maintenance, and employment subsidies. Capital spending, even though again significantly under-executed, increased by 50 percent compared to the historic low in 2018.

The general government deficit with the state road enterprise stood at 2.1 percent of GDP, up from 1.1 percent in 2018. Public and publicly guaranteed debt increased slightly to 48.9 percent of GDP from 48.6 percent in 2018.

## Economic Outlook

On March 18, 2020, the president declared a state of emergency and announced measures to contain the impact of the coronavirus crisis. Snap elections that were originally expected in April have been postponed.

The economy is facing a recession, with negative growth for 2020 projected at -1.4 percent under the assumption that the crisis will end by end-June and the economy will be returning back to normal. Personal consumption is expected to slow down significantly compared to 2019, while exports and investments will decline.

On the other hand, government consumption could ramp up in an attempt to boost the economy and counter the adverse impacts of the pandemic. Increased government spending will result in higher deficit and debt levels at a time when financing conditions (both domestic and external) may tighten.

A budget revision needs to reprioritize spending. Poverty reduction gains will likely be lost as firms defer to labor shedding in the most affected sectors (tourism and manufacturing, which contributed the most to poverty reduction in the past). Once the immediate crisis is over, NATO accession and the launch of the accession negotiations with the EU should help accelerate a recovery in 2021.

Under this scenario, growth is expected to recover in 2021 to 3.7 percent as consumer and investor confidence is restored, resulting in rising personal consumption and a recovery of private investments. Poverty may resume its decline, reaching 15.6 percent by 2022, given the expected real wage growth and the improvement in the labor market.

## Project Spotlight

### Skills Development and Innovation Support Project

The **North Macedonia Fund for Innovation and Technological Development (FITD)**, in cooperation with the Ministry of Education and Science, has been implementing the World Bank–financed “Skills Development and Innovation Support Project.”

The project aims to enhance transparency in the allocation of resources and promote accountability in higher education to improve the relevance of secondary technical and vocational education and to support the country’s innovation capacity.

The FITD has provided technical and financial support to start-ups and spin-off companies through mini-grants and through matching grants for the commercialization of innovation.

Once the COVID-19 pandemic hit North Macedonia and health sector needs increased, the FITD asked the beneficiary companies to provide support in combating disease in the country. Responses to the national appeal for support include:

- Bio-Engineering DOO: Part of the equipment purchased and funded by the project is now being used in the laboratory of Philip II Hospital for testing for COVID-19.
- Angor AG Dooel – HEALTH eGuard: This is a preventive health care system that is being used in the emerging crisis. General practitioners are offered the use of the HEALTH eGuard system free of charge so they can monitor the health of their patients without having to go to their offices.
- Innovation DOO donated 10 ECG sensors and free software usage during the crisis so that doctors can monitor patients remotely without physical contact.
- Interactive Future is offering the use of its interactive mathematics program free of charge, including numerous tests and lessons for distance learning.
- VR Port is offering citizens a stroll through North Macedonia’s cultural heritage without leaving home by presenting eight virtual museums, exhibitions, and sites free of charge.
- Frotirka Kompani AD has donated masks to the Ministry of Health, which have been distributed to clinics and other institutions.

In addition, the primary school “Krste Misirkov” in Kumanovo received a 3D printer through the Innovation Fund to help in printing teaching aids. Now, however, it is being used to produce face masks.

Current and former students from the school are donating all the masks to doctors and medical staff at the General Hospital in Kumanovo. Working about 18–20 hours a day, the team currently produces 60 to 70 masks daily.



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