

## 30. NORTH MACEDONIA

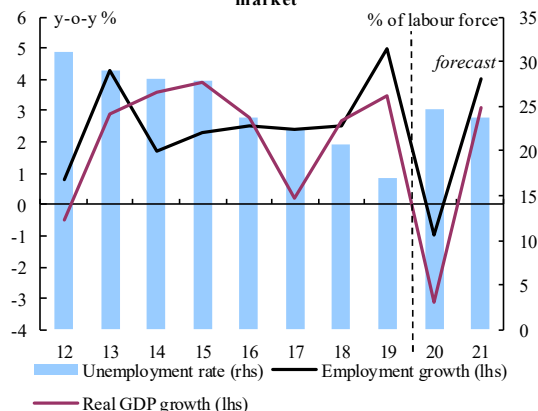
After economic growth accelerated in 2019, the outlook has deteriorated markedly due to the COVID-19 pandemic. External demand is heavily hit by trade disruptions while local containment measures are curbing domestic demand. A sharp drop in public revenues and fiscal measures to mitigate the crisis impact will lead to a significant increase in public deficit and debt levels in 2020. In a most likely scenario, based on a gradual easing of restrictions and recovery of foreign demand, the economy would start to recover in the second half of the year, and continue to pick up in 2021.

### A sharp downturn in 2020

Real growth accelerated to 3.6% in 2019, on the back of firming domestic demand. Private consumption, boosted by rising wages, social transfers, remittances from abroad, and household credit, rose faster than in the preceding year. Investment, which had been weak for two and a half years, strengthened in the second half of 2019.

The upswing ended abruptly in March, when the COVID-19 crisis required a massive lockdown of the economy, and similar measures in the main trading partners led to trade disruptions. Shop and factory closures hit both domestic activity and external trade, while travel bans impact on tourism and transport. The baseline scenario assumes the lockdown lasts until end-May and the economy would recover as of the third quarter.

Graph II.30.1: North Macedonia - Real GDP growth and labour market



### Net exports temporarily add to growth

The sharp deterioration in the economic outlook of North Macedonia's major export markets, combined with supply chain disruptions, are set to trigger a significant decline in export volumes in 2020. As the main exporters, foreign companies are particularly hit, such as producers of automotive components facing stalled car

production in Germany and import disturbances from the lockdown in China. Lower exports and the drop in domestic demand are likely to lead to a marked reduction in imports. Overall, net exports are projected to contribute marginally to growth in 2020, while the expected pick-up in domestic activity and in external demand would reverse this in 2021. On the supply side, exports could benefit from delayed new foreign-owned production capacities coming on stream in 2021 and a boost in investor confidence given the recent green light for EU accession negotiations. The improvement in the trade balance will, however, not compensate for the drop in current transfers, further widening the current account deficit in 2020.

### Consumer prices drop, before rising again

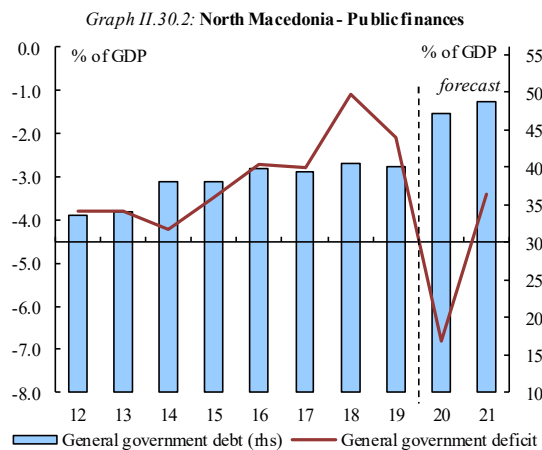
In 2019, consumer prices rose moderately, on account of higher cost of food, alcohol and tobacco, and health services. Energy and transport prices declined. In 2020, the consumer price index is expected to drop, compared to the preceding year, as the downturn reduces domestic price pressures, complemented by lower prices for energy and commodities. In 2021, price levels are projected to rise again, based on expectations of slightly firming domestic demand.

### Public revenue is set to decline heavily

In the baseline scenario, central government revenue is projected to drop by 25% in 2020, as the severe slowdown in economic activity curbs income from taxes and contributions. In addition, the government has granted sizeable tax deferrals to companies most impacted. In spite of two sets of fiscal support measures amounting to EUR 200 million, the government plans to adhere to its original spending targets by reallocating funds within the budget. In April, it cut investment spending to accommodate wage subsidies totalling EUR 120 million, as part of the overall package.

### Financing needs delay debt stabilisation

The crisis hits the country at a time when fiscal space is restricted and large debt repayments fall due in 2020 and 2021. The expected revenue shortfall in 2020 is projected to drive debt levels higher over the forecast horizon than previously anticipated. Depending on the duration and severity of the lockdown, the debt ratio might stabilise around its 2019 level only well after 2021.



### A renewed rise in unemployment lies ahead

While job creation was particularly strong in 2019, and unemployment declined further, there is likely to be a reversal in 2020. Companies' production halts have led to forced annual holidays and pay-cuts. Most established foreign companies have so far refrained from layoffs, preferring to retain skilled workers. In past years, many jobs have been linked to government spending (employment measures, FDI, public works). These funds might decline now, which would protract the return of the labour market to pre-COVID dynamics.

### Risks to the forecast are on the downside

Downside risks are sizeable. A stronger or longer-lasting than expected deterioration of the external environment, or a more extended disruption of supply chains would exacerbate the decline in exports beyond 2020. On the domestic side, a lockdown that lasts well into the summer would lead to a sharper decline in employment, disposable income, household spending, and government revenue. A much larger than anticipated drop in private transfers from abroad would further diminish financing sources.

Table II.30.1:

### Main features of country forecast - NORTH MACEDONIA

	2018		Annual percentage change							
	bn MKD	Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP	658.1	100.0		2.9	2.8	0.2	2.7	3.6	-3.9	4.0
Private Consumption	433.7	65.9		3.0	3.9	0.7	3.7	3.5	-2.5	3.0
Public Consumption	97.1	14.8		1.3	-4.9	-2.5	2.4	4.4	2.7	1.5
Gross fixed capital formation	167.6	25.5		4.7	9.9	0.8	-7.2	6.6	-10.0	13.0
of which: equipment	-	-		-	-	-	-	-	-	-
Exports (goods and services)	398.4	60.5		6.6	9.1	8.1	15.3	8.3	-11.0	10.0
Imports (goods and services)	481.3	73.1		7.1	11.1	6.4	9.0	9.0	-9.2	10.6
GNI (GDP deflator)	630.4	95.8		2.8	2.0	0.3	2.5	3.8	-4.2	4.0
Contribution to GDP growth:										
Domestic demand				3.7	4.2	0.3	1.0	4.6	-4.1	5.9
Inventories				0.6	1.5	0.1	-0.5	0.4	0.1	-0.1
Net exports				-1.3	-2.8	-0.1	2.2	-1.6	0.2	-1.9
Employment				1.7	2.5	2.4	2.5	5.0	-1.7	1.1
Unemployment rate (a)				32.5	23.7	22.4	20.7	17.3	18.1	17.6
Compensation of employees / head				2.3	0.9	0.9	5.0	3.0	-4.9	4.4
Unit labour costs whole economy				1.1	0.5	3.1	4.8	4.5	-2.7	1.5
Real unit labour cost				-1.7	-2.8	-0.6	1.1	2.1	-2.8	-1.8
Saving rate of households (b)				-	-	-	-	-	-	-
GDP deflator				3.0	3.5	3.7	3.7	2.3	0.1	3.4
Consumer-price index				-	-0.2	1.3	1.5	0.8	-0.7	2.0
Terms of trade goods				0.7	7.1	-0.8	-9.7	-0.3	-0.2	-0.1
Trade balance (goods) (c)				-22.6	-18.8	-17.8	-16.2	-17.6	-16.9	-18.7
Current-account balance (c)				-4.5	-2.9	-1.0	-0.3	-1.5	-3.0	-3.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-	-	-	-	-	-	-
General government balance (c)				-	-2.7	-2.8	-1.1	-2.1	-6.8	-3.4
Cyclically-adjusted budget balance (d)				-	-	-	-	-	-	-
Structural budget balance (d)				-	-	-	-	-	-	-
General government gross debt (c)				33.3	39.8	39.4	40.6	40.2	47.2	48.7

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.