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## THE COVID-19 CRISIS IN NORTH MACEDONIA

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20 April 2020

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### COVID-19 update

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- **Current Covid-19 situation:** 1225 confirmed cases, 54 deaths and 200 recovered (20.04.2020).<sup>1</sup>
- **Assessment of the health system:** According to the North Macedonian Ministry of Health, the country has at its disposal around 1,000 hospital beds for hospitalisation of patients with coronavirus dispatched in a dozen State-owned and private hospitals. The country has around 250 respirators. As of the 6 April, North Macedonia had 4500 covid-19 tests and is expecting to receive a donation of 20.000 additional units.
- A dedicated Covid-19 website is in place : <https://koronavirus.gov.mk/>

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### Economic impact

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#### *Short-term indicators of the economic impact*

- On the 6th of April 2020, Minister of Finance, Nina Angelovska, announced revenue performance in March, as well as perspectives for 2020. North Macedonia is facing a decline of 40% to 65% as compared to 2019. Measures to prevent the spread of COVID-19 have slowed economic activity, which in turn has begun to negatively impact the budget. As of 20 March, a sharp decline of tax revenues by around 25% per day was observed. This translated into a decline of total tax revenues by 11% in March as compared to the previous year. This is a result of a 17% drop in VAT revenues, 11% in excise revenues and 11% in profit tax revenues.

#### *Financial Market*

- MBI10 index lost around 9% of its value from 10 January to 14 April. The government bond spread has increased by around 6% between 1 January and 31 March, signalling weakened investor confidence. The local currency “MKD” has depreciated around 3% since the beginning of the year, signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

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### Policy reactions

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<sup>1</sup> Source : Ministry of Health : <http://zdravstvo.gov.mk/sostojbata-so-koronavirusot-do-12-chasot-registrirani-29-novi-sluchai-na-koronavirus-vo-zemjata-vkupno-177-dijagnostirani-pacienti/> and <https://covid19.mk/>

- On 18 March, the President of North Macedonia, Stevo Pendarovski, declared a state of emergency for the whole territory of North Macedonia for a period of 30 days.
- The April 12 general elections have been postponed over concerns about the Covid-19. No new date has yet been set.

### ***Extent of containment measures***

- *Containment.* The government has closed all schools, educational institutions, cultural premises, restaurants and non-critical stores. Only food stores, pharmacies and stores allowing sufficient physical distance remain open.
- *Curfew.* On March 23, the government decided a curfew from 9 p.m. to 5:00 a.m. In addition, the movement of people in North Macedonia is limited by an additional curfew imposed on the elderly, Macedonians aged 67 years or over are prohibited from going outside between 11 a.m. to 5 p.m.. Limitations also apply on children below the age of 18. Over 8000 citizens are under self-quarantine.
- *Travel ban:* As of the 8th of April, there is a ban on movement for all citizens at the domestic level. The travel ban applies from Monday to Friday, from 4 p.m. to 5:00 a.m the next day. During the weekend, the movement of all citizens is prohibited from Friday from 4 p.m. to 5:00 a.m on Monday throughout the country. Permits to travel are granted to selected professions whose economic activity must be maintained (e.g agro-food industry workers, truck drivers, police, army, health workers, or markets and restaurants workers that deliver products).

### ***Border measures***

- All border crossings in North Macedonia are closed to foreign citizens, with a few exceptions (mainly freight vehicles, diplomatic corps). Skopje International Airport is closed to air traffic (except for state, military, medical and emergency flights), as well as St. Paul the Apostle Airport in Ohrid. On 23 March, the government put in place a public procurement for air transport charters to bring back Macedonian nationals currently abroad.
- Travellers returning to North Macedonia from COVID-19 affected areas, regardless of their residence status, are subject to mandatory 14-day self-isolation.

### ***Measures to cope with the health emergency***

- On the 6<sup>th</sup> of April 2020, the Ministry of Health launched a public call for the procurement of respirators.
- There is a general shortage of protective masks. The Ministry of Health mandated all local companies to procure the masks they have in order to protect medical personnel; clothing factories are mobilised to produce masks for the general population. In addition, Hungary sent aid packages of 100,000 protective masks and 5,000 protective suits to North Macedonia on 6 April, and Slovenia has donated 100,000 masks and 100,000 gloves worth a total of 110,000 EUR to North Macedonia on 3 April. In addition, an export ban on selected medical products and derivatives is in place.

### ***Monetary policy***

- The National Bank of North Macedonia cut its policy rate by 0.25% to 1.75%. It has also revised its credit risk regulation to encourage banks to restructure loans temporarily, and has relaxed the loan classification standards for NPLs. In addition, it has reduced the base for the reserve requirement by the amount of new loans to firms in affected sector.

- The government has also signed a decree which facilitates procedures in banks. This decree allows banks to easily and simply postpone loans to their customers without signing annexes and without having to physically go to bank offices.

### **Fiscal policy**

- The government has implemented a three-month fiscal package (0.2% of GDP) to help address firms' liquidity problems and protect jobs, targeted to affected sectors such as transport, hotel and restaurants starting in April.<sup>2</sup>

### **Support to firms:**

- *Support to salaries and firm liquidities:* The government initiated a support programme on salaries by subsidising contributions to employees of companies in the tourism, transport and catering sectors along with other affected companies, for the months of April, May and June of 2020. It will also subsidise contributions for employees up to 50% of the average salary paid in 2019, provided that the company does not reduce the number of employees below its number in February 2020. For other sectors, the measure supports employer liquidity including for the self-employed, independent performers and private media legal entities. North Macedonia will subsidise salaries for the months of April and May 2020 up to a maximum of 14,500 denars (EUR235) per month and per employee.
- *Credit support:* The National Bank of the Republic of Northern Macedonia (NBRSM) has changed its methodology for credit risk management. This decision is in addition to those taken previously, mainly aimed at promoting more favourable credit standards for companies affected by the covid-19 crisis and easing the standards for household and corporate loan restructuring. Each company, depending on the number of employees, can receive from 3000 to 30,000 euros. Micro companies, with up to 10 employees, will be able to borrow from 3000-5000 euros, small companies with 10 to 50 employees, will be able to borrow from 10,000 to 15,000 euros, and medium-sized companies with 50 to 250 employees will be able to borrow from 15,000 to 30,000 euros. Loans are interest-free. The Development Bank of Northern Macedonia will issue a total of 13.7 million (5.7 million + 8 million) interest-free loans for micro, small and medium enterprises the amount of which will depend on the number of employees.
- *Reduction of the instalment and reprogramming of loans to financial companies and leasing companies.* Instalments in the repayment of loans by individuals will be reduced by 70% over the next three months and the repayment period will be extended by at least 90 days. A similar measure for legal entities will also be put in place.
- *Bankruptcy measures:* North Macedonia adopted a decree amending the Bankruptcy Law during the state of emergency. Bankruptcy debtors who meet the requirements for starting a bankruptcy procedure shall not be subject to bankruptcy proceedings for the duration of the state of emergency. Further to this, the government amended the law on obligations by regulating default interest rates.
- *Additional support to the tourism sector:* The government issued a decision supporting the tourism sector by regulating the means of reimbursing customers who bought a trip during the crisis period. This program works in conjunction with the Tourism Fund, which is currently valued at a total of 74 million denars (EUR 1.2 million).

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<sup>2</sup> IMF, Covid-19 Policy Tracker, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M>

### **Support to the population:**

- *Price control regulations:* The government has implemented price controls on basic food products, medicines, and disinfection products, and abolished the import duties on medical supplies. In addition, a ban on exports of wheat and flour was put in place. These bans aim to ensure sufficient quantities of flour in the country amid growing market demand for these products and set maximum prices for certain products of first necessity in the wholesale and retail trade (at the price level applied on 11 March 2020, when the WHO declared the coronavirus pandemic). In order to lower prices, the government also abolished import duties on certain goods.
- *Unemployment measures:* On the 6 April, the North Macedonian government set up an unemployment insurance system for employees who lose their jobs due to the health crisis. The state will pay a monthly allowance of 50% of the average monthly net salary of the employee for the last 24 months.
- For citizens who lost their jobs or were part of the informal economy, the North Macedonian government will provide accelerated access to the social protection system for April and May. They will receive an average of 7,000 (EUR113) denars per household. The estimated scope of the new measures covers about 20,000 new households from the informal economy and 30,000 existing users.
- The payment of rent for social housing and other rents will be postponed for all users and citizens under a decree yet to be signed by the government.
- *Support for education:* As of 8 April, the government in partnership with a local telecoms provider, Makedonski Telekom will donate mobile internet for distance learning purposes to 30,000 primary and secondary school students from families at social risk.

### **Additional measures**

- *Revenue measures for civil servants:* Public officials will receive salaries reduced to the legal minimum of 14,500 denars (EUR 230) for April and May 2020.. Presidents and members of the governing and supervisory boards of public institutions will not receive compensation for the duration of the crisis unless it is their only source of revenue.
- *Creation of a solid COVID-19 fund:* A special purpose account will be opened by the government to receive donations from legal entities and individuals who will have the opportunity and will to contribute funds that will be used to help and support the corona virus crisis.
- *Support for the transport of goods, road traffic and facilitation of the work of companies in the construction sector :* The government has enacted regulations to better organise the transport sector and ensure the transport of goods, as well as to facilitate the work of construction companies in the context of a state of emergency. The measures include: i) the liberalisation of the rules applicable to the validity of professional licenses and ii) the extension of authorised working hours in the road freight transport sector to ensure faster delivery of goods.
- *Support for maintaining economic activity and exports:* The Government together with the Customs Administration has adopted various specific measures facilitating customs procedures and cross-border trade including authorisations for a delay in the payment of the amount of duties or simplified procedures for the import of certain products.

**International support:**

- *EU Support:* The EU is mobilising a package of over EUR 410 million in reallocated bilateral financial assistance to support the Western Balkans during the coronavirus emergency. Out of this package, North Macedonia will receive EUR 4 million of immediate support for the health sector and EUR 62 million of support for social and economic recovery.
- *IMF Support:* The International Monetary Fund is mobilising USD 191.8 million in emergency aid to North Macedonia to help it deal with the economic impact of the COVID-19 outbreak.

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**Outlook**

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- *Situation prior to COVID-19:* North Macedonia was in a moderate position prior to the COVID-19 outbreak. In 2019, the economy experienced an increased real GDP growth of 3.2% (driven by domestic demand in investment). Despite high unemployment rates of 17.5%, the rate has been decreasing in recent years (average annual decrease of 1.7% since 2015). General government debt stood at 41.9% of GDP.
- *Desk comments:* Given the small size of the North Macedonian economy, the scope of policy action has been quite bold and covers many key groups who have been severely affected by the containment measures. In December 2019, the government projected 3.8% growth for 2020; no recent forecasts are available. It is, however, expected that the coronavirus pandemic will lead to a notable slowdown in the economy, which is heavily reliant on trade with and investments from the EU (e.g. almost 50% of exports are directed to Germany). Within the domestic markets SMEs, manufacturing and tourism sectors will be among the most affected. Unemployment rates may rise again and labour market conditions deteriorate, given that a notable share of the workforce live abroad (around 20% of the population).

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## THE COVID-19 CRISIS IN NORTH MACEDONIA

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27 April 2020

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### COVID-19 update

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- *Current COVID-19 situation:* The Ministry of Health of North Macedonia monitors and holds daily press conferences on the COVID-19 outbreak. The detailed and updated number of cases – including statistics on patients in reanimation, number of new cases, deaths and total of positive tests for COVID-19 – is published daily on the Ministry's [website](#).
- *Assessment of the health system:* According to the North Macedonian Ministry of Health, the country has at its disposal around 1 000 hospital beds for hospitalisation of patients with coronavirus dispatched in a dozen State-owned and private hospitals. The country has around 250 respirators. As of 6 April, North Macedonia had 4 500 COVID-19 tests and is expecting to receive a donation of 20 000 additional units.
- The government issues regulatory responses to mitigate the effects on the economy, rules applicable to the population and information on a dedicated [COVID-19 website](#).

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### Economic impact

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#### *Short-term indicators of the economic impact*

- On 6 April 2020, the Minister of Finance, Nina Angelovska, announced revenue performance in March, as well as perspectives for 2020. North Macedonia is facing a decline of 40% to 65% as compared to 2019. Measures to prevent the spread of COVID-19 have slowed economic activity, which in turn has begun to negatively impact the budget. As of 20 March, a sharp decline of tax revenues by around 25% per day was observed. This translated into a decline of total tax revenues by 11% in March as compared to the previous year. This is a result of a 17% drop in VAT revenues, 11% in excise revenues and 11% in profit tax revenues.

#### *Financial Market*

- MBI10 index lost around 9% of its value from 10 January to 14 April. The government bond spread has increased by around 6% between 1 January and 31 March, signalling weakened investor confidence. The local currency “MKD” has depreciated around 3% since the beginning of the year, signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

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## Policy reactions

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- On 18 March, the President of North Macedonia, Stevo Pendarovski, declared a state of emergency for the entire territory of North Macedonia, initially for 30 days, it was later extended further.
- The 12 April general elections have been postponed over concerns about the COVID-19. No new date has yet been set.

### **Extent of containment measures**

- *Containment.* The government has closed all schools, educational institutions, cultural premises, restaurants and non-critical stores. Only food stores, pharmacies and stores allowing sufficient physical distance remain open.
- *Curfew.* On 23 March, the government imposed a curfew from 9 p.m. to 5:00 a.m. In addition, the movement of people in North Macedonia is limited by an additional curfew imposed on the elderly, Macedonians aged 67 years or older are prohibited from going outside between 11 a.m. to 5 p.m. Limitations also apply on children below the age of 18. Over 8 000 citizens are under self-quarantine.
- *Travel ban:* As of the 8 April, there is a ban on movement for all citizens at the domestic level. The travel ban applies from Monday to Friday, from 4 p.m. to 5:00 a.m. the next day. During the weekend, the movement of all citizens is prohibited from Friday from 4 p.m. to 5:00 a.m. on Monday throughout the country. Permits to travel are granted to selected professions whose economic activity must be maintained (e.g. agro-food industry workers, truck drivers, police, army, health workers, or markets and restaurants workers that deliver products).
- *Test of a tracker app:* "StopKorona!" a Bluetooth-enabled smartphone tracker application that alerts users if they have come into contact with someone who has tested positive for the covid-19 was launched on 13 April.
- *Protective masks:* The wearing of protective masks is mandatory for any outing in the public space.

### **Border measures**

- All border crossings in North Macedonia are closed to foreign citizens, with a few exceptions (mainly freight vehicles, diplomatic corps). Skopje International Airport is closed to air traffic (except for state, military, medical and emergency flights), as well as St. Paul the Apostle Airport in Ohrid. On 23 March, the government put in place a public procurement for air transport charters to bring back Macedonian nationals currently abroad.
- Travellers returning to North Macedonia from COVID-19 affected areas, regardless of their residence status, are subject to mandatory 14-day self-isolation.

### **Measures to cope with the health emergency**

- On 6 April 2020, the Ministry of Health launched a public call for the procurement of respirators.
- There is a general shortage of protective masks. The Ministry of Health mandated all local companies to procure the masks that they have in order to protect medical personnel; clothing factories are mobilised to produce masks for the general population. In addition, Hungary sent aid packages of 100 000 protective masks and 5 000 protective suits to North Macedonia on 6 April, and Slovenia has donated 100 000 masks and 100 000 gloves worth a total of

EUR 110 000 EUR to North Macedonia on 3 April. In addition, an export ban on selected medical products and derivatives is in place.<sup>1</sup>

### **Monetary policy**

- The National Bank of North Macedonia cut its policy rate by 0.25% to 1.75%. It has also revised its credit risk regulation to encourage banks to restructure loans temporarily, and has relaxed the loan classification standards for NPLs. In addition, it has reduced the base for the reserve requirement by the amount of new loans to firms in affected sectors.
- The government has also signed a decree which facilitates procedures in banks. This decree allows banks to easily and simply postpone loans to their customers without signing annexes and without having to physically go to bank offices.

### **Fiscal policy**

- The government has implemented a three-month fiscal package (0.2% of GDP) to help address firms' liquidity problems and protect jobs, targeted to affected sectors such as transport, hotel and restaurants starting in April.<sup>2</sup>
- On 24 April, the Government introduced a tax deferral system for VAT returns.

### **Support to firms:**

- *Support to salaries and firm liquidities:* The government initiated a support programme on salaries by subsidising contributions to employees of companies in the tourism, transport and catering sectors along with other affected companies, for the months of April, May and June of 2020. It will also subsidise contributions for employees up to 50% of the average salary paid in 2019, provided that the company does not reduce the number of employees below its number in February 2020. For other sectors, the measure supports employer liquidity including for the self-employed, independent performers and private media legal entities. North Macedonia will subsidise salaries for the months of April and May 2020 up to a maximum of 14 500 denars (EUR 235) per month and per employee.
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- *Reduction of the instalment and reprogramming of loans to financial companies and leasing companies.* Instalments in the repayment of loans by individuals will be reduced by 70% over

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<sup>1</sup> The export ban on certain products is gradually being lifted from 24 April. Nevertheless, exporters must prove that they maintain sufficient stocks for the needs of the local market.

<sup>2</sup> IMF, Covid-19 Policy Tracker, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M>

the next three months and the repayment period will be extended by at least 90 days. A similar measure for legal entities will also be put in place.

- *Bankruptcy measures:* North Macedonia adopted a decree amending the Bankruptcy Law during the state of emergency. Bankruptcy debtors who meet the requirements for starting a bankruptcy procedure shall not be subject to bankruptcy proceedings for the duration of the state of emergency. Further to this, the government amended the law on obligations by regulating default interest rates.
- *Additional support to the tourism sector:* The government issued a decision supporting the tourism sector by regulating the means of reimbursing customers who bought a trip during the crisis period. This program works in conjunction with the Tourism Fund, which is currently valued at a total of 74 million denars (EUR 1.2 million).

### **Support to the population:**

- *Price control regulations:* The government has implemented price controls on basic food products, medicines, and disinfection products, and abolished the import duties on medical supplies. In addition, a ban on exports of wheat and flour was put in place. These bans aim to ensure sufficient quantities of flour in the country amid growing market demand for these products and set maximum prices for certain products of first necessity in the wholesale and retail trade (at the price level applied on 11 March 2020, when the WHO declared the coronavirus pandemic). In order to lower prices, the government also abolished import duties on certain goods.
- *Unemployment measures:* On the 6 April, the North Macedonian government set up an unemployment insurance system for employees who lose their jobs due to the health crisis. The state will pay a monthly allowance of 50% of the average monthly net salary of the employee for the last 24 months.
- For citizens who lost their jobs or were part of the informal economy, the North Macedonian government will provide accelerated access to the social protection system for April and May. They will receive an average of 7 000 denars (EUR 113) per household. The estimated scope of the new measures covers about 20 000 new households from the informal economy and 30 000 existing users.
- *Support for vulnerable households:* The payment of rent for social housing and other rents is postponed for all users and citizens. Additionally, the government will unblock a monetary allowance to cover part of the costs of energy consumption of vulnerable households for the period of April to September 2020.
- *Support for education:* As of 8 April, the government in partnership with a local telecoms provider, Makedonski Telekom, will donate mobile internet for distance learning purposes to 30 000 primary and secondary school students from families at social risk.

### **Additional measures**

- *Revenue measures for civil servants:* Public officials will receive salaries reduced to the legal minimum of 14 500 denars (EUR 230) for April and May 2020. Presidents and members of the governing and supervisory boards of public institutions will not receive compensation for the duration of the crisis unless it is their only source of revenue.
- *Creation of a solid COVID-19 fund:* A special purpose account was opened by the government to receive donations from legal entities and individuals who will have the opportunity and will to contribute funds that will be used to help and support the corona virus crisis.

- *Support for the transport of goods, road traffic and facilitation of the work of companies in the construction sector*: The government has enacted regulations to better organise the transport sector and ensure the transport of goods, as well as to facilitate the work of construction companies in the context of a state of emergency. The measures include: i) the liberalisation of the rules applicable to the validity of professional licenses and ii) the extension of authorised working hours in the road freight transport sector to ensure faster delivery of goods.
- *Support for maintaining economic activity and exports*: The Government together with the Customs Administration has adopted various specific measures facilitating customs procedures and cross-border trade including authorisations for a delay in the payment of the amount of duties or simplified procedures for the import of certain products.
- *Additional measures to support the State budget*: The Government amended the Law on Games of Chance and Entertainment Games allowing online hazard games services. The decision provides for the possibility of collecting revenue in the budget which, until the decision on measures to prevent the spread of the virus, was generated by bookmakers, automatic clubs and casinos. The organisers of these services have closed all payment due to the shutdown. The decree allows those operators to continue their activities online, which creates conditions to save 7 500 jobs in this activity.

#### **International support:**

- *EU Support*: The EU is mobilising a package of over EUR 410 million in reallocated bilateral financial assistance to support the Western Balkans during the coronavirus emergency. Out of this package, North Macedonia will receive EUR 4 million of immediate support for the health sector and EUR 62 million of support for social and economic recovery.
- *IMF Support*: The International Monetary Fund is mobilising USD 191.8 million in emergency aid to North Macedonia to help it deal with the economic impact of the COVID-19 outbreak.

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## **Outlook**

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- *Situation prior to COVID-19*: North Macedonia was in a moderate position prior to the COVID-19 outbreak. In 2019, the economy experienced an increased real GDP growth of 3.2% (driven by domestic demand in investment). Despite high unemployment rates of 17.5%, the rate has been decreasing in recent years (average annual decrease of 1.7% since 2015). General government debt stood at 41.9% of GDP.
- Given the small size of the North Macedonian economy, the scope of policy action has been quite bold and covers many key groups who have been severely affected by the containment measures. In December 2019, the government projected 3.8% growth for 2020; while in April 2020 there is a projected negative growth of -4%.<sup>3</sup> The coronavirus pandemic is expected to lead to a notable slowdown in the economy, which is heavily reliant on trade with and investments from the EU (e.g. almost 50% of exports are directed to Germany). Within the domestic markets SMEs, manufacturing and tourism sectors will be among the most affected. Unemployment rates may rise again and labour market conditions deteriorate, given that a notable share of the workforce live abroad (around 20% of the population).

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<sup>3</sup> International Monetary Fund (2020), *World Economic Outlook (April 2020)*, Washington D.C., [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/MKD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/MKD)

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## THE COVID-19 CRISIS IN NORTH MACEDONIA

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29 June 2020

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### COVID-19 update

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- *Current COVID-19 situation:* The Ministry of Health of North Macedonia monitors and holds daily press conferences on the COVID-19 outbreak. The detailed and updated number of cases – including statistics on patients in remission, number of new cases, deaths and the total of positive tests for COVID-19 – is published daily on the Ministry's [website](#).
- *Assessment of the health system:* According to the North Macedonian Ministry of Health, the country has around 1 000 hospital beds at its disposal for hospitalisation of patients with coronavirus, dispatched in a dozen State-owned and private hospitals. At the beginning of the outbreak, the country had around 250 respirators. As of 6 April, North Macedonia had 4 500 COVID-19 tests and quickly received 20 000 additional units.
- The Government issues regulatory responses to mitigate the effects on the economy, rules applicable to the population and information on a dedicated [COVID-19 website](#).
- In view of the improved situation as of mid May and the relative stabilisation of the curve of diagnosed COVID-19 cases in North Macedonia, the Government considered an exit from the containment measures and a progressive opening of the economy. On 12 May 2020, Prime Minister Oliver Spasovski announced a three-step plan towards that end. However, the resurgence of the virus in some cities at the beginning of June prompted the authorities to repeat containment measures. Consequently, at the beginning of June, the government alternated between opening up the economy under the three-stage plan and temporary and localised containment measures ranging from 24 to 80 hours. Currently, North Macedonia is progressively releasing its containment measures.

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### Economic impact

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#### *Short-term indicators of the economic impact*

- On 6 April 2020, the Minister of Finance, Nina Angelovska, announced revenue performance in March, as well as perspectives for 2020. North Macedonia is facing a decline of 40% to 65% as compared to 2019. Measures to prevent the spread of COVID-19 have slowed economic activity, which in turn has begun to negatively impact the budget. As of 20 March, a sharp decline of tax revenues by around 25% per day was observed. This translated into a decline of total tax revenues by 11% in March as compared to the previous year. This is a result of a 17% drop in VAT revenues, 11% in excise revenues and 11% in profit tax revenues.

#### *Financial Market*

- The MBI10 index lost around 9% of its value from 10 January to 14 April. The Government bond spread has increased by around 6% between 1 January and 31 March, signalling

weakened investor confidence. The local currency “MKD” has depreciated around 3% since the beginning of the year, signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

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## Policy reactions

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- On 18 March, the President of North Macedonia, Stevo Pendarovski, declared a state of emergency for the entire territory of North Macedonia, initially for 30 days, it was later extended. The initial state of emergency expired on Saturday 13 June, but a final period of state of emergency was decreed between 15 June and 22 June.
- The 12 April general elections have been postponed over concerns about the COVID-19. As of 15 June, the elections were set to take place on the 15 July 2020.
- In response to the declaration by the WHO of the global COVID-19 pandemic, the Government has undertaken a series of regulatory responses to mitigate the negative effects of population protection measures on the economy. The measures were taken as of March 2020. In May 2020, the Government retroactively classified the measures into three distinct packages. The first two sets of measures mitigated the impact of the health crisis on the economy and the population, and were implemented between March and May 2020. The third package concerns revitalization, economic recovery and stimulation of consumption and industry which began on 17 May 2020.

The third package of newly implemented measures is systematised in three main pillars: the distribution of means of payment to the population in order to encourage the consumption of local goods and services; a direct support for the economy; and an aid for the agrarian sector in North Macedonia. The value of the third package is estimated to cost around EUR 355 million and will affect 733 000 users.

With the third package, the total economic assistance from all of measures taken by the Government is estimated to 550 million euros or 5.5% of North Macedonia's GDP.

### **Extent of containment measures**

*Containment:* At the beginning of the outbreak, the Government had closed all schools, educational institutions, cultural premises, restaurants and non-critical stores. Only food stores, pharmacies and stores allowing sufficient physical distance remained open. Schools and Universities were closed and the lectures continued via electronic means. Starting from 8 May, some shops were authorised to open for business, provided they had the infrastructure to maintain sufficient physical distance between customers. On 13 May, the Government decided to allow the opening of closed shopping malls under strict sanitary conditions that will continue for at least 200 days following the end of the state of emergency.

On 28 May the Government allowed the reopening of cafes and restaurants.

On 29 June Gyms and Sports clubs were allowed to reopen under strict sanitary rules.

- *Curfew:* On 23 March, the Government imposed a curfew. Initially, the curfew was applied in a differentiated manner according to the age group of citizens. On 8 May, the Government started to progressively shorten the curfew during the weekends. The total release of the curfew will be achieved via a three-step plan initiated on 11 May 2020. Currently, there is a uniform interdiction of movement of people between 7 p.m. and 5 a.m. for all citizens, including those above the age of 67 and children below the age of 18. It should be noted, that the slowdown in the curve of newly diagnosed COVID-19 cases since mid-May is accompanied by occasional peaks. The Government, therefore, regularly reintroduces sporadic 24h-48h or more containment measures. For instance, this was the case on 4 June, when a full 80-hour

lockdown of the capital Skopje, as well as the towns of Tetovo, Kumanovo and Štip was introduced after a severe peak in new cases.

*Travel ban:* On 8 April, the Government introduced a ban on movement for all citizens at the domestic level. The travel ban applied from Monday to Friday, from 4 p.m. to 5 a.m. the next day. During the weekend, the movement of all citizens was prohibited throughout the country from Friday to Monday, from 4 p.m. to 5 a.m. Permits to travel were granted to selected professions whose economic activity had to be maintained (e.g. agro-food industry workers, truck drivers, police, army, health workers, or markets and restaurants workers that deliver products). Travel bans remained in force until end of May 2020. Starting mid-June those limitations were partially lifted as part of the gradual relaxation through the three-stage release plan announced by the Government.

- *Test of a tracker app:* "StopKorona!" a Bluetooth-enabled smartphone tracker application that alerts users if they have come into contact with someone who has tested positive for the COVID-19 was launched on 13 April.
- *Protective masks:* The wearing of protective masks is mandatory for any outing in the public space.
- *Three-stage release plan:* on 12 May 2020, the Government adopted a three-phase plan. The first phase is the current functioning of economic activities during the declared state of emergency with a gradual reduction of the curfew. The second, "transitional phase", will be the establishment of work activities with respect to the recommended measures and strict health protocols. The third phase, will be a full return to the regular work process with respect to the basic anti-epidemic measures for maintaining personal hygiene and physical distance. No exact dates have been given for when phases two and three will be implemented, as North Macedonia is facing peaks in the number of newly diagnosed cases since the beginning of June.

### **Border measures**

- During the virus outbreak, all border crossings in North Macedonia were closed to foreign citizens, with a few exceptions (mainly freight vehicles, diplomatic corps). Skopje International Airport was closed to air traffic (except for state, military, medical and emergency flights), as well as St. Paul the Apostle Airport in Ohrid. On 23 March, the Government put in place a plan for air transport charters to bring back Macedonian nationals. Those restrictions were lifted on 29 June 2020. Starting on 1 July 2020, both Airports will resume their transport operations.
- Travellers returning to North Macedonia from COVID-19 affected areas, regardless of their residence status, were initially subject to mandatory 14-day self-isolation. State quarantine was replaced by home insulation with an attached negative PCR test on 22 May 2020. Those measures were lifted on 29 June 2020.

Border measures are part of the three-step release plan initiated by the Government in mid-May. On 16 June 2020, all border crossings were opened to foreigners for transit. Foreigners willing to stay in North Macedonia had to submit a valid negative PCR test no older than 72 hours. According to the foreigners' situation, a 14-day state quarantine or self isolation measures were introduced but lifted with the reopening of all borders on 29 June 2020.

### **Measures to cope with the health emergency**

- On 6 April 2020, the Ministry of Health launched a public call for the procurement of respirators.

- At the beginning of the outbreak, there was a general shortage of protective masks. The Ministry of Health mandated all local companies to procure the masks that they have in order to protect medical personnel; clothing factories were mobilised to produce masks for the general population. North Macedonia benefitted from various masks and gloves donations worth a total of EUR 110 000. In addition, an export ban on selected medical products and derivatives was put in place.<sup>1</sup>

### **Monetary policy**

- The National Bank of North Macedonia cut its policy rate by 0.25% to 1.75%. It has also revised its credit risk regulation to encourage banks to restructure loans temporarily, and has relaxed the loan classification standards for NPLs. In addition, it has reduced the base for the reserve requirement by the amount of new loans to firms in affected sectors.
- The Government has also signed a decree that facilitates procedures in banks. This decree allows banks to easily and simply postpone loans to their customers without signing annexes or having to physically go to bank offices.

### **Fiscal policy**

- The Government has implemented a three-month fiscal package (0.2% of GDP) to help address firms' liquidity problems and protect jobs, targeted to affected sectors such as transport, hotel and restaurants starting in April.<sup>2</sup>
- On 24 April, the Government introduced a tax deferral system for VAT returns.
- On 14 May, the Government introduced a tax deferral system for excise duties for selected excise goods (mainly auxiliary medicines and disinfectants).

### **Support to firms:**

- *Support to salaries and firm liquidities:* The Government initiated a support programme on salaries by subsidising contributions to employees of companies in the tourism, transport and catering sectors along with other affected companies for the months of April, May and June of 2020. It will also subsidise contributions for employees up to 50% of the average salary paid in 2019, provided that the company does not reduce the number of employees below its number from February 2020. For other sectors, the measure supports employer liquidity including for the self-employed, independent performers and private media legal entities. North Macedonia will subsidise salaries for the months of April, May and June 2020 up to a maximum of 14 500 denars (~EUR 235) per month and per employee.
- *Credit support:* The National Bank of the Republic of Northern Macedonia (NBRSM) has changed its methodology for credit risk management. This decision is in addition to those taken previously, mainly aimed at promoting more favourable credit standards for companies affected by the COVID-19 crisis and easing the standards for household and corporate loan restructuring. Each company, depending on the number of employees, can receive from 3 000 to 30 000 euros. Micro companies, with up to ten employees, are able to borrow from 3 000 to 5 000 euros, small companies with 10 to 50 employees, are able to borrow from 10 000 to

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<sup>1</sup> The export ban on certain products is gradually being lifted from 24 April. Nevertheless, exporters must prove that they maintain sufficient stocks for the needs of the local market.

<sup>2</sup> IMF, COVID-19 Policy Tracker, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M>

15 000 euros, and medium-sized companies with 50 to 250 employees are able to borrow from 15 000 to 30 000 euros. Loans are interest-free.

The Development Bank of Northern Macedonia issued a first set of 13.7 million (5.7 million + 8 million) interest-free loans for micro, small and medium enterprises the amount of which depended on the number of employees. The loans were up to 90 000 euros. Further to this, as part of the third package of measures, the Development Bank of Northern Macedonia will unblock interest free loans worth EUR 31 million. This credit line will be available to all micro and small companies and it will also offer a 30% grant (non-refundable) for those companies that are run or founded by women or employ young people, are export-oriented or introduce innovation and digitalization in their operations.

- *Reduction of the instalment and reprogramming of loans to financial companies and leasing companies.* Instalments in the repayment of loans by individuals will be reduced by 70% over the next three months until June 2020 and the repayment period will be extended by at least 90 days. A similar measure for legal entities will also be put in place.
- *State guarantee for commercial loans and customs debt:* a support for start-ups and small and micro companies through commercial banks with EUR 10 million initial capital for easier access to funds will be granted, mainly by taking part of the credit risk.
- *Bankruptcy measures:* North Macedonia adopted a decree amending the Bankruptcy Law during the state of emergency. Bankruptcy debtors who meet the requirements for starting a bankruptcy procedure shall not be subject to bankruptcy proceedings for the duration of the state of emergency. Further to this, the Government amended the law on obligations by regulating default interest rates.
- *Support for the development of domestic start-up products and services:* The already existing *Innovation and Technological Development Fund* will be given additional EUR 1.6 million for the development of innovative products and services. Additionally, the Macedonian tourist village in Skopje's Nerezi will be transformed into a Macedonian start-up incubator.
- *Additional support to the tourism sector:* The Government issued a decision supporting the tourism sector by regulating the means of reimbursing customers who bought a trip during the crisis period. This program works in conjunction with the Tourism Fund, which is currently valued at a total of 74 million denars (~EUR 1.2 million).

As part of the *third package of measures*, the Government will indirectly support the domestic tourism sector by distributing vouchers to the local population.<sup>3</sup>

- *Additional support to the textile sector – digital platform:* With financial support of EUR 1 million, the Government will help the textile industry to create a digital platform on which the companies will place their products.
- *Additional support to the agro-food sector:* As part of the first and second package of measures, the Government allocated funds from the Program for enhancing the activities in tobacco production for 2020 in the Program for financial support in agriculture for 2020. The transfer is estimated to be around 110 million denars (~EUR 780 000).

The third package of measures supporting agriculture will mobilise up to EUR 76.1 million. It includes support to micro enterprises and SMEs; direct support to green oil farmers. The measure will cover 50 000 farmers and is worth EUR 4.6 million; Support to grape processors and wineries with EUR 3.5 million over three years to stimulate alcoholic distillate production that will be used by domestic chemical companies to produce disinfectants; Long-term lease

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<sup>3</sup> More details of this measure under paragraph “Support to population - *Support of domestic tourism by vulnerable households*” below.

of pastures to support cattle breeders; and a Program for financing micro-agricultural companies in the amount of EUR 3 million for processing equipment and marketing.

### **Support to the population:**

- *Price control regulations:* The Government has implemented price controls on basic food products, medicines, and disinfection products, and abolished the import duties on medical supplies. In addition, a ban on exports of wheat and flour was put in place. These bans aim to ensure sufficient quantities of flour in the country amid growing market demand for these products and set maximum prices for certain products of first necessity in the wholesale and retail trade (at the price level applied on 11 March 2020, when the WHO declared the coronavirus pandemic). In order to lower prices, the Government also abolished import duties on certain goods.
- *Unemployment measures:* On 6 April, the Government set up an unemployment insurance system for employees who lose their jobs due to the health crisis. The state will pay a monthly allowance of 50% of the average monthly net salary of the employee for the last 24 months.
- For citizens who lost their jobs or were part of the informal economy, the North Macedonian Government will provide accelerated access to the social protection system for April and May. They will receive an average of 7 000 denars (~EUR 113) per household. The estimated scope of the new measures covers about 20 000 new households from the informal economy and 30 000 existing users.
- *Support for education:* As of 8 April, the Government in partnership with a local telecoms provider, Makedonski Telekom, is donating mobile internet for distance learning purposes to 30 000 primary and secondary school students from families at social risk.
- *Financial support for young people:* As part of the third package of measures, up to 6 000 denars for tuition fees and a payment card of 3 000 denars and co-financing vouchers up to 30 000 denar for IT and digital skills training are to be distributed to North Macedonian students. The measure is estimated to affect 100 000 students and mobilise around EUR 12 million.
- *Support for local consumption of vulnerable households:* The Government initially adopted measures to support vulnerable households by postponing the rent of social housing. Additionally, as part of the third package of measures, the Government distributes payment cards credited with 9 000 denar in order to stimulate the consumption of domestic goods and services. The measure will affect about 100 000 citizens from the poorest households, i.e. earning less than 15 000 denar per month (the minimum wage is denar 14 500 per month). Payment cards are valid for 30 days and can only be used to purchase local goods and services. The measure aims to boost local consumption and limit informal cash exchanges, thus reducing the grey economy. The Government estimates the measure to mobilise around EUR 16 million.
- *Support of domestic tourism by vulnerable households:* As part of the third package of measures, the Government distributes payment cards credited with 3 000 denar and 6 000 denar vouchers in order to stimulate domestic tourism by the poorest households. The measure will affect about 100 000 citizens from the poorest households, i.e. earning less than 15 000 denar per month (the minimum wage is 14 500 denar per month). The voucher must be used in domestic hotels and other accommodation facilities, while with the payment card will encourage the purchase of domestic tourism products and services.
- *Support of private solidarity initiatives:* In addition to the aid paid directly by the Government, North Macedonia has set up a fund to support private associative initiatives that respond to the need for solidarity arising from the COVID-19 crisis. 30 million denar (~EUR 485 000) will be

allocated in tranches of 600 000 to 900 000 denar to associations and foundations working, inter alia, in the field of information, education, assistance, including legal assistance, for the populations affected by the pandemic, as well as the fight against corruption and the promotion of sustainable means of agricultural production.

### **Additional measures**

- *Revenue measures for civil servants:* Public officials will receive salaries reduced to the legal minimum of 14 500 denars (~EUR 230) for April and May 2020. Presidents and members of the governing and supervisory boards of public institutions will not receive compensation for the duration of the crisis unless it is their only source of revenue
- *Change in the modality of financing of political parties:* In view of the parliamentary elections of 15 July 2020 and the budgetary measures taken by the Government to limit the negative effects of COVID-19 on the economy, North Macedonia has decided to lower the rate of participation of the state budget in the financing of political parties. The rate will decrease from 0.15% to 0.04% of the total income of the budget.
- *Additional measures for the medical staff:* doctors and medical staff of infectious disease clinics and departments, like all members of the emergency medical teams will receive a 20% higher salary for May and June 2020, via a home payment card.
- *Creation of a COVID-19 Fund:* A special purpose account was opened by the Government to receive donations from legal entities and individuals who will have the opportunity to contribute funds that will be used to help and support the corona virus crisis.
- *Support for the transport of goods, road traffic and facilitation of the work of companies in the construction sector :* The Government has enacted regulations to better organise the transport sector and ensure the transport of goods, as well as to facilitate the work of construction companies in the context of a state of emergency. The measures include: i) the liberalisation of the rules applicable to the validity of professional licenses and ii) the extension of authorised working hours in the road freight transport sector to ensure faster delivery of goods.
- *Support for maintaining economic activity and exports:* The Government together with the Customs Administration has adopted various specific measures facilitating customs procedures and cross-border trade including authorisations for a delay in the payment of the amount of duties or simplified procedures for the import of certain products.
- *Additional measures to support the State budget:* The Government amended the Law on Games of Chance and Entertainment Games allowing online hazard games services. The decision provides for the possibility of collecting revenue in the budget which, until the decision on measures to prevent the spread of the virus, was generated by bookmakers, automatic clubs and casinos. The organisers of these services have closed all payment due to the shutdown. The decree allows those operators to continue their activities online, which creates conditions to save 7 500 jobs in this activity.
- *Eurobonds:* on 15 May, the Government adopted a Decision on new loans from international institutions that will be repaid with a Eurobond sale that will likely take place late in 2020 or early next year.

### **International support:**

- *EU Support:* The EU is mobilising a package of over EUR 410 million in reallocated bilateral financial assistance to support the Western Balkans during the coronavirus emergency. Out of this package, North Macedonia will receive EUR 4 million of immediate support for the health sector and EUR 62 million of support for social and economic recovery.

- *EU accession and European Union Solidarity Fund (FSEU)*: On 26 March, the EU formally gave the green light to start accession negotiations with North Macedonia. As an EU candidate country, North Macedonia is eligible to use the FSEU, which was extended to support COVID-19 responses on April 2020. The fund is approx. EUR 800 million.
- *IMF support*: The International Monetary Fund is mobilising USD 191.8 million in emergency aid to North Macedonia to help it deal with the economic impact of the COVID-19 outbreak.
- *USAID*: on 11 May 2020, North Macedonia and the United States of America agreed on the amendment of the USAID grant. With this amendment, USAID is increasing the amount of funds it provides with an additional USD 16 million which will be used to support the growth of the private sector.
- *World Bank support*: a loan from the World Bank of EUR 50 million, for the modernisation of agriculture.

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## Outlook

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- *Situation prior to COVID-19*: North Macedonia was in a moderate position prior to the COVID-19 outbreak. In 2019, the economy experienced an increased real GDP growth of 3.2% (driven by domestic demand in investment). Despite high unemployment rates of 17.5%, the rate has been decreasing in recent years (average annual decrease of 1.7% since 2015). General government debt stood at 41.9% of GDP.
- Given the small size of the North Macedonian economy, the scope of policy action has been quite bold and covers many key groups who have been severely affected by the containment measures. In December 2019, the Government projected 3.8% growth for 2020; while in April 2020 there is a projected negative growth of -4%.<sup>4</sup> The coronavirus pandemic is expected to lead to a notable slowdown in the economy, which is heavily reliant on trade with and investments from the EU (e.g. almost 50% of exports are directed to Germany). Within the domestic markets SMEs, manufacturing and tourism sectors will be among the most affected. Unemployment rates may rise again and labour market conditions deteriorate, given that a notable share of the workforce lives abroad (around 20% of the population).
- Indicators for the first two months of 2020 signal growth in the first quarter, but first readings for March 2020 indicate that the Coronavirus Pandemic containment measures are taking a toll on economic performance. The industrial production index increased by 1.9% y-o-y in January and February 2020, but suffered a heavy decrease in March (-13.4% y-o-y), leading to a drop of 3.7% in the first quarter. Manufacturing output declined by 2%. On average in the first three months, trade turnover amounted to 2.7%, due to strong increases in January and February 2020 but fell in March (-9.4% y-o-y).

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<sup>4</sup> International Monetary Fund (2020), *World Economic Outlook (April 2020)*, Washington D.C., [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/MKD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/MKD)



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## THE COVID-19 CRISIS IN NORTH MACEDONIA

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30 July 2020

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### COVID-19 update

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- *Current COVID-19 situation:* The Ministry of Health of North Macedonia monitors and holds press conferences on the COVID-19 outbreak. The detailed and updated number of cases – including statistics on patients in remission, number of new cases, deaths and the total of positive tests for COVID-19 – is published daily on the Ministry's [website](#). As of 30 July, North Macedonia ranks 35th in the world in terms of the number of confirmed cases with 506 cases per 100 000 inhabitants (10 503 in total) and 26th in the world in terms of the number of active cases with 197.4 cases per 100 000 inhabitants (4 096 in total).

- *Assessment of the health system:* According to the North Macedonian Ministry of Health, the country had around 1 000 hospital beds at its disposal for hospitalisation of patients with coronavirus at the beginning of the pandemic, dispatched in a dozen State-owned and private hospitals. At the beginning of the outbreak, the country had around 250 respirators. As of 6 April, North Macedonia had 4 500 COVID-19 tests.

The Government is currently preparing for a possible second wave of COVID-19 in the autumn. In the coming weeks, the authorities are preparing to have 16 operational health care units dedicated to the screening and treatment of covid patients, compared to 11 currently. The plan also foresees, by the end of the year, being able to test an average of 2 000 people per day. This is equivalent to increasing the number of tests per day by an average of 200-300 units compared to the average reached in July 2020.

- *Three-stage release plan:* on 12 May 2020, the Government adopted a three-phase plan. The first phase was the functioning of economic activities during the declared state of emergency with a gradual reduction of the curfew. The second, “transitional phase”, is the establishment of work activities with respect to the recommended measures and strict health protocols. The third phase, will be a full return to the regular work process with respect to the basic anti-epidemic measures for maintaining personal hygiene and physical distance. No exact dates have been given for when phases two and three will be implemented.

The resurgence of the virus in some cities prompted the authorities to repeat containment measures. Consequently, since the beginning of June, the government alternates between opening up the economy under the three-stage plan and temporary, localised measures ranging from 24 to 80 hours.

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### Economic impact

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#### *Short-term indicators of the economic impact*

- On 6 April 2020, the Minister of Finance, Nina Angelovska, announced revenue performance in March, as well as perspectives for 2020. North Macedonia is facing a decline of 40% to 65%

as compared to 2019. Measures to prevent the spread of COVID-19 have slowed economic activity, which in turn has begun to negatively impact the budget. As of 20 March, a sharp decline of tax revenues by around 25% per day was observed. This translated into a decline of total tax revenues by 11% in March as compared to the previous year. This is a result of a 17% drop in VAT revenues, 11% in excise revenues and 11% in profit tax revenues.

### **Financial Market**

- The MBI10 index lost around 9% of its value from 10 January to 14 April. The Government bond spread has increased by around 6% between 1 January and 31 March, signalling weakened investor confidence. The local currency “MKD” has depreciated around 3% since the beginning of the year, signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

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### **Policy reactions**

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- On 18 March, the President of North Macedonia, Stevo Pendarovski, declared a state of emergency for the entire territory of North Macedonia, initially for 30 days, it was later extended until 22 June 2020.
- The 12 April general elections have been postponed over concerns about the COVID-19 and took place on the 15 July 2020.
- In response to the declaration by the WHO of the global COVID-19 pandemic, the Government has undertaken a series of regulatory responses to mitigate the negative effects of population protection measures on the economy. The measures were taken as of March 2020. In May 2020, the Government retroactively classified the measures into three distinct packages. The first two sets of measures mitigated the impact of the health crisis on the economy and the population, and were implemented between March and May 2020. The third package concerns revitalization, economic recovery and stimulation of consumption and industry which began on 17 May 2020 and is still ongoing.

The third package of newly implemented measures is systematised in three main pillars: the distribution of means of payment to the population in order to encourage the consumption of local goods and services; a direct support for the economy; and an aid for the agrarian sector in North Macedonia. The value of the third package is estimated to cost around EUR 355 million and will affect 733 000 users.

With the third package, the total economic assistance from all of measures taken by the Government is estimated to 550 million euros or 5.5% of North Macedonia’s GDP.

### **Extent of containment measures**

- *Containment:* At the beginning of the outbreak, the Government closed all schools, educational institutions, cultural premises, restaurants and non-critical stores. Only food stores, pharmacies and stores allowing sufficient physical distance remained open. Schools and Universities were closed and the lectures continued via electronic means.
- From 8 May, the Government began the process of opening up the economy. Entities authorised to resume their activities are subject to compliance with strict sanitary conditions defined on a case-by-case basis for the activity in question. These measures are intended to be maintained at least 200 days after the end of the state of emergency. At present, the following are in operation but subject to restrictions: shopping centres (since 13 May), cafés and restaurants (since 28 May with a gradual relaxation of the health measures applicable since

8 July), most sporting activities (since 29 June) and sporting competitions (since 1 July but still without supporters). Finally, cultural events are very limited. Only art galleries and museums are allowed to welcome the public (since 1 July, with limits to the number of visitors per M<sup>2</sup>).

- *Curfew*: On 23 March, the Government imposed a curfew. Initially, the curfew was applied in a differentiated manner according to the age group of citizens. Currently, there is no ban on the movement of persons. However, it should be noted that the slowdown in the curve of newly diagnosed COVID-19 cases since mid-May has been accompanied by occasional spikes. The Government has therefore reintroduced curfews of 24 to 48 hours or more.
- *Travel ban*: On 8 April, the government introduced a nationwide travel ban for all citizens. The travel ban applied from Monday to Friday, from 16:00 to 05:00 the following day. During the weekend, the movement of all citizens was banned throughout the country. Travel permits were granted to certain professions whose economic activity had to be maintained (e.g. workers in the food industry, truck drivers, police, military, health workers or workers in markets and restaurants delivering goods). The travel ban was fully lifted on 1 July 2020.
- *Tracker app*: "StopKorona!" a Bluetooth-enabled smartphone tracker application that alerts users if they have come into contact with someone who has tested positive for the COVID-19 was launched on 13 April.
- *Protective masks*: The wearing of protective masks is mandatory for any outing in the public space.

### **Border measures**

- During the virus outbreak, all border crossings in North Macedonia were closed to foreign citizens, with a few exceptions (mainly freight vehicles, diplomatic corps). Skopje International Airport was closed to air traffic (except for state, military, medical and emergency flights), as well as St. Paul the Apostle Airport in Ohrid. Those restrictions were lifted on 1 July 2020, both Airports resumed their transport operations. Nevertheless, a series of sanitary measures have been implemented. Passengers are advised to arrive at least 3 hours in advance of their flight and are subject to shoe disinfection, temperature measurement and are obliged to wear their masks until they reach the aircraft where the measures introduced by the various airlines apply. Only persons holding a travel document are allowed to enter the two airports via restricted entrances.

Since 16 June 2020, all border crossings are opened. However, on 8 July, the Government reintroduced the requirement of a negative PCR test of less than 72 hours for travellers from Serbia, Montenegro, Bosnia and Herzegovina and Kosovo\*.

### **Measures to cope with the health emergency**

- On 6 April 2020, the Ministry of Health launched a public call for the procurement of respirators.
- At the beginning of the outbreak, there was a general shortage of protective masks. The Ministry of Health mandated all local companies to procure the masks that they have in order to protect medical personnel; clothing factories were mobilised to produce masks for the general population. North Macedonia benefitted from various masks and gloves donations worth a total of EUR 110 000. In addition, an export ban on selected medical products and derivatives was put in place.<sup>2</sup>

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\* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

<sup>3</sup> IMF, COVID-19 Policy Tracker, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M>

### **Monetary policy**

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are run or founded by women or employ young people, are export-oriented or introduce innovation and digitalization in their operations.

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The third package of measures supporting agriculture will mobilise up to EUR 76.1 million. It includes support to micro enterprises and SMEs; direct support to green oil farmers. The measure will cover 50 000 farmers and is worth EUR 4.6 million; Support to grape processors and wineries with EUR 3.5 million over three years to stimulate alcoholic distillate production that will be used by domestic chemical companies to produce disinfectants; Long-term lease of pastures to support cattle breeders; and a Program for financing micro-agricultural companies in the amount of EUR 3 million for processing equipment and marketing.

### **Support to the population:**

- *Price control regulations:* The Government has implemented price controls on basic food products, medicines, and disinfection products, and abolished the import duties on medical supplies. In addition, a ban on exports of wheat and flour was put in place. Those measures were abolished after the end of the state of emergency.
- *Unemployment measures:* On 6 April, the Government set up an unemployment insurance system for employees who lose their jobs due to the health crisis. The state is paying a monthly allowance of 50% of the average monthly net salary of the employee for the last 24 months.

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<sup>4</sup> More details of this measure under paragraph “Support to population - *Support of domestic tourism by vulnerable households*” below.

- For citizens who lost their jobs or were part of the informal economy, the North Macedonian Government provided accelerated access to the social protection system for April and May by providing 7 000 denars (~EUR 113) per household. This measure affected about 20 000 new households from the informal economy and 30 000 existing users.
- *Support for education:* Since 8 April, the Government in partnership with a local telecoms provider, Makedonski Telekom, is donating mobile internet for distance learning purposes to 30 000 primary and secondary school students from families at social risk.
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- *Support for local consumption of vulnerable households:* The Government initially adopted measures to support vulnerable households by postponing the rent of social housing. Additionally, as part of the third package of measures, the Government distributes payment cards credited with 9 000 denar in order to stimulate the consumption of domestic goods and services. The measure will affect about 100 000 citizens from the poorest households, i.e. earning less than 15 000 denar per month (the minimum wage is denar 14 500 per month). Payment cards are valid for 30 days and can only be used to purchase local goods and services. The measure aims to boost local consumption and limit informal cash exchanges, thus reducing the grey economy. The Government estimates the measure to mobilise around EUR 16 million. This program will end mid-August.
- *Support of domestic tourism by vulnerable households:* As part of the third package of measures, the Government distributes payment cards credited with 3 000 denar and 6 000 denar vouchers in order to stimulate domestic tourism by the poorest households. The measure will affect about 100 000 citizens from the poorest households, i.e. earning less than 15 000 denar per month (the minimum wage is 14 500 denar per month). The voucher must be used in domestic hotels and other accommodation facilities, while with the payment card will encourage the purchase of domestic tourism products and services.
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### **Additional measures**

- *Revenue measures for civil servants:* Public officials received salaries reduced to the legal minimum of 14 500 denars (~EUR 230) for April and May 2020.
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sector and ensure the transport of goods, as well as to facilitate the work of construction companies in the context of a state of emergency.

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- *EU Support:* The EU is mobilising a package of over EUR 410 million in reallocated bilateral financial assistance to support the Western Balkans during the coronavirus emergency. Out of this package, North Macedonia will receive EUR 4 million of immediate support for the health sector and EUR 62 million of support for social and economic recovery.
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- *USAID:* on 11 May 2020, North Macedonia and the United States of America agreed on the amendment of the USAID grant. With this amendment, USAID is increasing the amount of funds it provides with an additional USD 16 million which will be used to support the growth of the private sector.
- *World Bank support:* a loan from the World Bank of EUR 50 million, for the modernisation of agriculture.

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## **Outlook**

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- *Situation prior to COVID-19:* North Macedonia was in a moderate position prior to the COVID-19 outbreak. In 2019, the economy experienced an increased real GDP growth of 3.2% (driven by domestic demand in investment). Despite high unemployment rates of 17.5%, the rate has been decreasing in recent years (average annual decrease of 1.7% since 2015). General government debt stood at 41.9% of GDP.
- Given the small size of the North Macedonian economy, the scope of policy action has been quite bold and covers many key groups who have been severely affected by the containment measures. In December 2019, the Government projected 3.8% growth for 2020; while in April 2020 there is a projected negative growth of -4%.<sup>5</sup> The coronavirus pandemic is expected to lead to a notable slowdown in the economy, which is heavily reliant on trade with and investments from the EU (e.g. almost 50% of exports are directed to Germany). Within the domestic markets SMEs, manufacturing and tourism sectors will be among the most affected. Unemployment rates may rise again and labour market conditions deteriorate, given that a notable share of the workforce lives abroad (around 20% of the population).

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<sup>5</sup> International Monetary Fund (2020), *World Economic Outlook (April 2020)*, Washington D.C., [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/MKD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/MKD)

Indicators for the first two months of 2020 signal growth in the first quarter, but first readings for March 2020 indicate that the Coronavirus Pandemic containment measures are taking a toll on economic performance. The industrial production index increased by 1.9% y-o-y in January and February 2020, but suffered a heavy decrease in March (-13.4% y-o-y), leading to a drop of 3.7% in the first quarter. Manufacturing output declined by 2%. On average in the first three months, trade turnover amounted to 2.7%, due to strong increases in January and February 2020 but fell in March (-9.4% y-o-y).

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## THE COVID-19 CRISIS IN NORTH MACEDONIA

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31 August 2020

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### COVID-19 update

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- *Current COVID-19 situation:* The Ministry of Health of North Macedonia monitors and holds press conferences on the COVID-19 outbreak. The detailed and updated number of cases – including statistics on patients in remission, number of new cases, deaths and the total of positive tests for COVID-19 – is published daily on the Ministry's [website](#). As of 31 August, North Macedonia ranks 38th in the world in terms of the number of confirmed cases with 690 cases per 100 000 inhabitants (14 330 in total) and 40th in the world in terms of the number of active cases with 128.6 cases per 100 000 inhabitants (2 668 in total).
- *Assessment of the health system:* According to the North Macedonian Ministry of Health, the country had around 1 000 hospital beds at its disposal for hospitalisation of patients with coronavirus at the beginning of the pandemic, dispatched in a dozen State-owned and private hospitals. At the beginning of the outbreak, the country had around 250 respirators. As of 6 April, North Macedonia had 4 500 COVID-19 tests.

The Government is currently preparing for a possible second wave of COVID-19 in the autumn. The authorities are preparing to have 16 operational health care units dedicated to the screening and treatment of covid patients, compared to 11 currently. The plan also foresees, by the end of the year, being able to test an average of 2 000 people per day. This is equivalent to increasing the number of tests per day by an average of 200-300 units compared to the average reached in July 2020.

- *Three-stage release plan:* on 12 May 2020, the Government adopted a three-phase plan. The first phase was the functioning of economic activities during the declared state of emergency with a gradual reduction of the curfew. The second, “transitional phase”, is the establishment of work activities with respect to the recommended measures and strict health protocols. The third phase, will be a full return to the regular work process with respect to the basic anti-epidemic measures for maintaining personal hygiene and physical distance. No exact dates have been given for when phases two and three will be implemented.

The resurgence of the virus in some cities in early summer prompted authorities to repeat containment measures. Thus, in the period from 1 June to 31 July, the government alternated between opening the economy under the three-stage plan and temporary and localised measures ranging from 24 to 80 hours. However, these measures were not renewed in the month of August due to the steady decrease in the number of active cases per 100 000 inhabitants in that month.

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## Economic impact

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### **Short-term indicators of the economic impact**

- On 6 April 2020, the Minister of Finance, Nina Angelovska, announced revenue performance in March, as well as perspectives for 2020. North Macedonia is facing a decline of 40% to 65% as compared to 2019. Measures to prevent the spread of COVID-19 have slowed economic activity, which in turn has begun to negatively impact the budget. As of 20 March, a sharp decline of tax revenues by around 25% per day was observed. This translated into a decline of total tax revenues by 11% in March as compared to the previous year. This is a result of a 17% drop in VAT revenues, 11% in excise revenues and 11% in profit tax revenues.

### **Financial Market**

- The MBI10 index lost around 9% of its value from 10 January to 14 April. The Government bond spread has increased by around 6% between 1 January and 31 March, signalling weakened investor confidence. The local currency “MKD” has depreciated around 3% since the beginning of the year, signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

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## Policy reactions

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- On 18 March, the President of North Macedonia, Stevo Pendarovski, declared a state of emergency for the entire territory of North Macedonia, initially for 30 days, it was later extended until 22 June 2020.
- The 12 April general elections have been postponed over concerns about the COVID-19 and took place on the 15 July 2020.
- In response to the declaration by the WHO of the global COVID-19 pandemic, the Government has undertaken a series of regulatory responses to mitigate the negative effects of population protection measures on the economy. The measures were taken as of March 2020. In May 2020, the Government retroactively classified the measures into three distinct packages. The first two sets of measures mitigated the impact of the health crisis on the economy and the population, and were implemented between March and May 2020. The third package concerns revitalization, economic recovery and stimulation of consumption and industry which began on 17 May 2020 and is still ongoing.

The third package of newly implemented measures is systematised in three main pillars: the distribution of means of payment to the population in order to encourage the consumption of local goods and services; a direct support for the economy; and an aid for the agrarian sector in North Macedonia. The value of the third package is estimated to cost around EUR 355 million and will affect 733 000 users.

With the third package, the total economic assistance from all of measures taken by the Government is estimated to 550 million euros or 5.5% of North Macedonia’s GDP.

### **Extent of containment measures**

- *Containment:* At the beginning of the outbreak, the Government closed all schools, educational institutions, cultural premises, restaurants and non-critical stores. Only food stores, pharmacies and stores allowing sufficient physical distance remained open. Schools and Universities were closed and the lectures continued via electronic means.

- As of 31 August, the Government has set up a working group that will have to decide on the course of the new school year 2020-2021. The later has already been postponed from September to 1 October. The Government is considering several options for the start of the new school year, ranging from all digital and a partial presential start for some categories of students depending on the capacities of schools to cope with the health constrains.
- From 8 May, the Government began the process of opening up the economy. Entities authorised to resume their activities are subject to compliance with strict sanitary conditions defined on a case-by-case basis for the activity in question. These measures are intended to be maintained at least 200 days after the end of the state of emergency. At present, the following are in operation but subject to restrictions: shopping centres (since 13 May), cafés and restaurants (since 28 May with a gradual relaxation of the health measures applicable since 8 July), most sporting activities (since 29 June) and sporting competitions (since 1 July but still without supporters). Finally, cultural events are very limited. Only art galleries and museums are allowed to welcome the public (since 1 July, with limits to the number of visitors per M<sup>2</sup>).
- *Curfew*: On 23 March, the Government imposed a curfew. Initially, the curfew was applied in a differentiated manner according to the age group of citizens. Currently, there is no ban on the movement of persons. However, it should be noted that the slowdown in the curve of newly diagnosed COVID-19 cases since mid-May has been accompanied by occasional spikes. The Government has therefore reintroduced ponctual curfews of 24 to 48 hours or more.
- *Travel ban*: On 8 April, the government introduced a nationwide travel ban for all citizens. The travel ban applied from Monday to Friday, from 16:00 to 05:00 the following day. During the weekend, the movement of all citizens was banned throughout the country. Travel permits were granted to certain professions whose economic activity had to be maintained (e.g. workers in the food industry, truck drivers, police, military, health workers or workers in markets and restaurants delivering goods). The travel ban was fully lifted on 1 July 2020.
- *Tracker app*: "StopKorona!" a Bluetooth-enabled smartphone tracker application that alerts users if they have come into contact with someone who has tested positive for the COVID-19 was lunched on 13 April.
- *Protective masks*: The wearing of protective masks is mandatory for any outing in the public space.

### **Border measures**

- During the virus outbreak, all border crossings in North Macedonia were closed to foreign citizens, with a few exceptions (mainly freight vehicles, diplomatic corps). Skopje International Airport was closed to air traffic (except for state, military, medical and emergency flights), as well as St. Paul the Apostle Airport in Ohrid. Those restrictions were lifted on 1 July 2020, both Airports resumed their transport operations. Nevertheless, a series of sanitary measures have been implemented. Passengers are advised to arrive at least 3 hours in advance of their flight and are subject to shoe disinfection, temperature measurement and are obliged to wear their masks until they reach the aircraft where the measures introduced by the various airlines apply. Only persons holding a travel document are allowed to enter the two airports via restricted entrances.

Since 16 June 2020, all border crossings are opened. However, on 8 July, the Government reintroduced the requirement of a negative PCR test of less than 72 hours for travellers from Serbia, Montenegro, Bosnia and Herzegovina and Kosovo\*.

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\* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

### **Measures to cope with the health emergency**

- On 6 April 2020, the Ministry of Health launched a public call for the procurement of respirators.
- At the beginning of the outbreak, there was a general shortage of protective masks. The Ministry of Health mandated all local companies to procure the masks that they have in order to protect medical personnel; clothing factories were mobilised to produce masks for the general population. North Macedonia benefitted from various masks and gloves donations worth a total of EUR 110 000. In addition, an export ban on selected medical products and derivatives was put in place.<sup>2</sup>

### **Monetary policy**

- The National Bank of North Macedonia cut its policy rate by 0.25% to 1.75%. It has also revised its credit risk regulation to encourage banks to restructure loans temporarily, and has relaxed the loan classification standards for NPLs. In addition, it has reduced the base for the reserve requirement by the amount of new loans to firms in affected sectors.
- The Government has also signed a decree that facilitates procedures in banks. This decree allows banks to easily and simply postpone loans to their customers without signing annexes or having to physically go to bank offices.

### **Fiscal policy**

- The Government has implemented a three-month fiscal package (0.2% of GDP) to help address firms' liquidity problems and protect jobs, targeted to affected sectors such as transport, hotel and restaurants starting in April.<sup>3</sup>
- On 24 April, the Government introduced a tax deferral system for VAT returns.
- On 14 May, the Government introduced a tax deferral system for excise duties for selected excise goods (mainly auxiliary medicines and disinfectants).

### **Support to firms:**

- *Support to salaries and firm liquidities:* The Government initiated a support programme on salaries by subsidising contributions to employees of companies in the tourism, transport and catering sectors along with other affected companies for the months of April – July of 2020. It will also subsidise contributions for employees up to 50% of the average salary paid in 2019, provided that the company does not reduce the number of employees below its number from February 2020. For other sectors, the measure supports employer liquidity including for the self-employed, independent performers and private media legal entities. North Macedonia subsidises salaries for the months of April – July 2020 up to a maximum of 14 500 denars (~EUR 235) per month and per employee.
- *Credit support:* The National Bank of the Republic of Northern Macedonia (NBRSM) has changed its methodology for credit risk management. This decision is in addition to those taken previously, mainly aimed at promoting more favourable credit standards for companies

<sup>3</sup> IMF, COVID-19 Policy Tracker, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#M>

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affected by the COVID-19 crisis and easing the standards for household and corporate loan restructuring. Each company, depending on the number of employees, can receive from 3 000 to 30 000 euros. Micro companies, with up to ten employees, are able to borrow from 3 000 to 5 000 euros, small companies with 10 to 50 employees, are able to borrow from 10 000 to 15 000 euros, and medium-sized companies with 50 to 250 employees are able to borrow from 15 000 to 30 000 euros. Loans are interest-free.

The Development Bank of Northern Macedonia issued a first set of 13.7 million (5.7 million + 8 million) interest-free loans for micro, small and medium enterprises the amount of which depended on the number of employees. The loans were up to 90 000 euros. Further to this, as part of the third package of measures, the Development Bank of Northern Macedonia unblocked interest free loans worth EUR 31 million. This credit line is available to all micro and small companies and it will also offer a 30% grant (non-refundable) for those companies that are run or founded by women or employ young people, are export-oriented or introduce innovation and digitalization in their operations.

- *Reduction of the instalment and reprogramming of loans to financial companies and leasing companies.* Instalments in the repayment of loans by individuals were reduced by 70% over until June 2020.
- *State guarantee for commercial loans and customs debt.* a support for start-ups and small and micro companies through commercial banks with EUR 10 million initial capital for easier access to funds was granted, mainly by taking part of the credit risk.
- *Bankruptcy measures:* North Macedonia adopted a decree amending the Bankruptcy Law during the state of emergency which froze all bankruptcy procedures during the state of emergency.
- *Support for the development of domestic start-up products and services:* The already existing *Innovation and Technological Development Fund* is being granted additional EUR 1.6 million for the development of innovative products and services. Additionally, the Macedonian tourist village in Skopje's Nerezi is transformed into a Macedonian start-up incubator.
- *Additional support to the tourism sector.* The Government issued a decision supporting the tourism sector by regulating the means of reimbursing customers who bought a trip during the crisis period. This program works in conjunction with the Tourism Fund, which is currently valued at a total of 74 million denars (~EUR 1.2 million).

As part of the *third package of measures*, the Government is indirectly supporting the domestic tourism sector by distributing vouchers to the local population.<sup>4</sup>

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of pastures to support cattle breeders; and a Program for financing micro-agricultural companies in the amount of EUR 3 million for processing equipment and marketing.

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## Outlook

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- Given the small size of the North Macedonian economy, the scope of policy action has been quite bold and covers many key groups who have been severely affected by the containment measures. In December 2019, the Government projected 3.8% growth for 2020; while in April 2020 there was a projected negative growth of -4%.<sup>5</sup> The coronavirus pandemic was expected to lead to a notable slowdown in the economy, which is heavily reliant on trade with and investments from the EU (e.g. almost 50% of exports are directed to Germany). Within the domestic markets SMEs, manufacturing and tourism sectors will be among the most affected.
- Indicators for the first two months of 2020 signaled growth in the first quarter, but first readings for March 2020 indicated that the Coronavirus Pandemic containment measures were taking a toll on economic performance. The industrial production index increased by 1.9% y-o-y in January and February 2020, but suffered a heavy decrease in March (-13.4% y-o-y), leading to a drop of 3.7% in the first quarter. Manufacturing output declined by 2%. On average in the first three months, trade turnover amounted to 2.7%, due to strong increases in January and February 2020 but fell in March (-9.4% y-o-y).
- According to the semi-annual report on the implementation of the 2020 budget published on the 30 August 2020, in the period January-June, the gross domestic product in the first quarter (Q1) of 2020 recorded an annual growth of 0.2%. This figure is explained by a positive contribution to growth of the domestic demand which seems to have been maintained in Q1 counterbalanced by the expected fall in net exports and industrial production, in an overall context of declining exports, imports and production.

With regard to employment, the number of employees in Q1 2020 is 2.7% higher than in the same quarter in 2019, and the number of unemployed decreased by 8.6%, leading to a reduction in the unemployment rate to 16.2%.

The inflation rate in the first half of 2020 is 0.5%, which is mainly the result of the increase in food prices by 1.7%, while reducing energy prices.

The total budget revenue was realised in the amount of 87,437 million denars, which is 44.4% of the amount planned for 2020, and the total budget expenditure of the Republic of Northern Macedonia for the period January-June 2020 was realized in the amount of 113,387 million denars, which is 46.7% of the annual plan.

In the period January-June 2020, the budget deficit of the Republic of North Macedonia amounted to 25,950 million denars, which represents 3.8% of the GDP planned for 2020, and the public debt of the Republic of North Macedonia at the end of Q1 of 2020, i.e. 41.8% of GDP, while the public debt represents 50.7% of GDP.

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<sup>5</sup> International Monetary Fund (2020), *World Economic Outlook (April 2020)*, Washington D.C., [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/MKD](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/MKD)



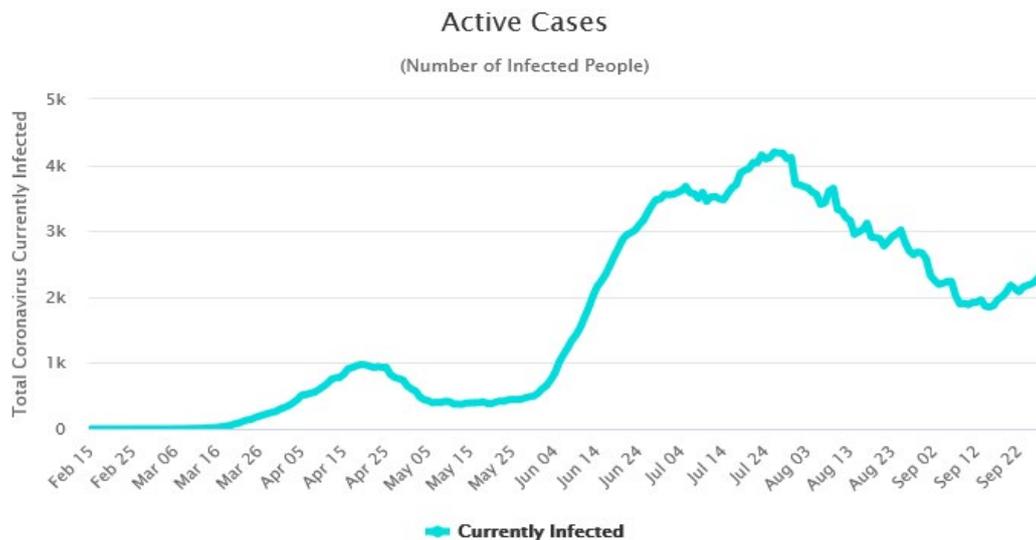
## THE COVID-19 CRISIS IN NORTH MACEDONIA

1 October 2020

### COVID-19 health situation – August/September 2020

- Between the ends of August and September, North Macedonia had a steady decrease of COVID-19. On 30 September, the economy had 857 active cases per 100 000 inhabitants ([17 786 in total](#), with 737 deaths reported) and ranks 38<sup>th</sup> in the world. The daily rate of new COVID-19 cases fell to an average of 100 new cases per day. Since May 2020, the Government has been conducting a deconfinement plan, which is, however, sporadically accompanied by temporary reconfinement measures.

#### Evolution of active cases in North Macedonia



Source: Worldometers.info

### Policy reactions – August/September 2020

- On 27 September 2020, the Government announced the launch of the [4th package of measures](#) aimed at mitigating the negative impact of the pandemic on the economy. This package ([whose estimated cost is EUR 470 million](#)), taken as a direct extension of the three previous ones, will bring North Macedonia's aid up to EUR 1 billion. It consists of 31 measures:
- Aid for the payment of wages* (measure 1): this measure is further extended for the last quarter of the year. Support will be determined gradually according to the income losses suffered by the company and will vary between 14 500 (equivalent to the minimum wage in MKD; around EUR 240) and 21 776 denars (around EUR 350). Eligible companies will be subject to a strict employment protection obligation until 31 July 2021.

- *Support to loans* (measures 3, 4, 14, 15 and 16): Individuals and businesses will benefit from new loans, preferential interest rates, regulated penalties, state guarantees or additional delays for repayment.
- *Support to local consumption: payment cards* (measure 2) and *VAT refunds*: Extension of the measure on payment cards for citizens for inhome consumption.
- *Measures on taxes* (measures 17, 22, 23 and 27): Increases in income tax payment deadlines, lowering of tax base thresholds and the modulation of payments were announced. The Government also introduced *Measures affecting VAT*: (Measures 12, 18, 19 and 20) VAT will be reduced for food and beverage services (10% against the previous 18%) and craftsmanship (reduced VAT from 18% to 5%), and occasionally refunded VAT during targeted commercial actions (measure 31) "Week ends without VAT"
- *Reduction of parafiscal charges* (measure 8, 10 and 21): including various fees, licences, permits.
- *Tourism* (measures 5, 6 and 7): direct payments to tourist guides (21 776 denars about EUR 350) and a total subsidy aid of EUR 1.9 million to travel agencies and reimbursement of the tourist tax to all operators in this sector (estimated around EUR 2 million).
- *Agriculture* (measure 28): Support for wine production: through the purchase of grapes from the 2020 harvest, for which EUR 6.7 million is foreseen.
- *Catering* (measure 9) "*Grants to restaurants for weddings*" - support will be given to all entities registered and authorised for this activity, for a total value of EUR 1 million.
- *Import duties* (measure 26) Reduction of import duties on raw materials, provides support for the most affected processing industries, as well as an incentive for the development of processing facilities.

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## Economic impact/outlook

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- *Macroeconomic data*: In 2019, the economy experienced an increased real GDP growth of [3.5%](#) (driven by domestic demand in investment). In Q1 of 2020 the GDP recorded an annual [growth of 0.2%](#) (between -1.4% and -3.2% according to the [World Bank](#) estimation). This was explained by a positive contribution to growth of the domestic demand which was maintained, on the contrary of net exports that dropped ([-5.4% y-o-y](#)). In Q2, the GDP contracted by [-12.7 %](#) y.o.y. and the consumption decreased by -9.9%. Overall, the IMF forecasts that the economy of Northern Macedonia will shrink by almost [5.5% in 2020](#) (by [3.5%](#) According to the forecast of the National Bank of the Republic of North Macedonia).
- According to the [EU](#), the industrial production index increased by 1.9% y-o-y in January and February 2020, but suffered a heavy decrease in March (-14.4% y-o-y), leading to a drop of 3.7% in Q1. Manufacturing output declined by 2%. On average in the first three months, trade turnover amounted to 2.7%, due to strong increases in January and February 2020 but fell in March (-9.4% y-o-y).
- Despite a [17.5%](#) unemployment rate in 2019, the figure has been decreasing in recent years (average annual decrease of 1.7% since 2015). In Q2 2020, it increased by [2.7% y-o-y](#). The labour force expanded, by 0.7% y-o-y, on account of a rise in the female workforce (+1.9%) and [the unemployment rate](#) dropped to 16.7% ([-0.4 pps q-o-q, and -1.6 pps y-o-y](#)).
- *Fiscal data*: In Q1, public revenues decreased by [8.3%](#) year-on-year, with a drop in tax revenues (-12%). Total expenditures increased by 7.9% while current expenditures increased by 8.3% y.o.y. This is due to an increase in social transfers (+6.3%) and subsidies (+22.9%). Taking into account the sharp decline in May (-51% year-on-year), investment expenditure was only slightly higher than the level for the same period in 2019 (+0.5%).

- In 2019, government debt stood at 41.9% of GDP. In 2020, it was [slightly higher](#) at the end of the Q1 y.o.y. (+0.5%). In Q3, the budget deficit amounts to 25.95 million denars, i.e. 3.8% of the GDP planned for 2020. In 2020, overall public debt is forecasted to represent 59.6% of GDP and Government debt 49.5% of GDP.

**All previously published COVID-19 notes can be accessed on the [OECD South East Europe webpage](#)**

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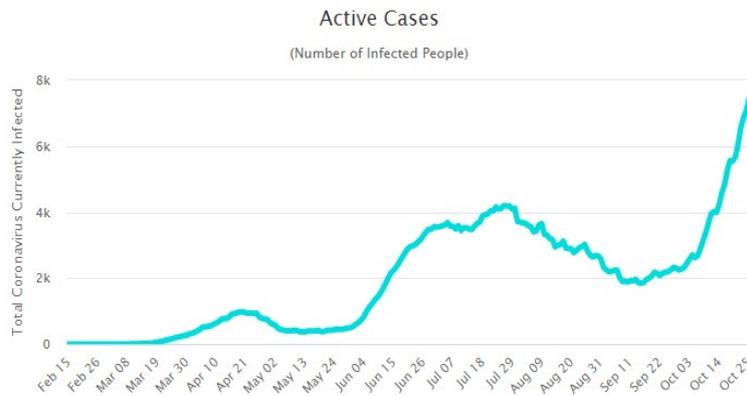
## THE COVID-19 CRISIS IN NORTH MACEDONIA

31 October 2020

### COVID-19 health situation - October 2020

- Since mid-September, North Macedonia has had a strong increase of active COVID-19 cases. On 27 October 27, the economy had 1 311 active cases per 100 000 inhabitants and 27 827 cases in total (vs. [17 786 in total](#) on September 30). It reported 934 deaths and ranked 35<sup>th</sup> in the world. The daily rate of new COVID-19 cases ranged from +80 on 13 October to +640 on 21 October. Since May 2020, the government has been conducting a deconfinement plan, which is, however, sporadically accompanied by temporary sanitary measures.

#### Evolution of active cases in North Macedonia



Source: Worldometers.info

- On 6 October, the government set its strategic priorities for 2021, including the fight against the global COVID-19 pandemic. In this regard, the Government has taken a series of health measures to limit the spread of the COVID-19 virus. On 13 October, the Government introduced the mandatory wearing of masks outdoors; limited the maximum number of people gathered for indoor family celebrations, and after 10 p.m., in public spaces to four persons maximum; reduced the maximum number of passengers on public transport to 50% of its normal capacity; limited the working hours of all catering establishments, except those that deliver. Nightclubs remain closed, singers and other musical performers are not allowed in catering establishments, nor is standing room service in bars permitted. North Macedonia has given greater powers to the inspection services that sanction violators of COVID's health protocols and introduced emergency teaching methods for primary and secondary schools, so that pupil assessments can be carried out without their physical presence.
- Nevertheless, on 6 October, Northern Macedonia allowed the entry of foreign nationals from Serbia, Kosovo, Montenegro and Bosnia and Herzegovina without proof of a negative PCR CoV-2 test for SARS. In accordance with the principle of reciprocity, Northern Macedonians can also enter these countries without testing. The decision entered into force on 12 October.

### Policy reactions – October 2020

- On 27 October, the government reviewed the Framework Agreement for public procurement of the antiviral "remdesivir" and instructed the Ministry of Finance to provide within the budget of the Ministry of Health for 2020, additional MKD 13,500,000 for its procurement in October.
- The Government adopted a series of implementation measures within the [4th package of measures](#) aimed at mitigating the negative impact of the pandemic, mainly:
  - Establishing an interest-free credit line with a grant component intended for micro and small enterprises affected by COVID-19;
  - Amending the law regulating the Financing of Local Self-Government in order to provide the municipalities with stable revenues during the COVID-19 crisis;
  - Presenting a bill regulating the Financial Support to Employers Affected by the Health and Economic Crisis Caused by COVID-19;
  - Reducing VAT in different fields (exemption for donations, 10% for food and beverage for on-site consumption and catering services starting 1 January, etc.).
  - Extending the monthly financial support of MKD 17,410 (~EUR 282) for the self-employed during the months of October, November and December 2020.

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## Economic impact/outlook

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- *Budget:* On 4 October, the government adopted a second supplementary budget. As a result of the increased total expenditure and the decrease of total revenues (mainly tax revenues and contributions), the new deficit now reaches MKD 56.6 millions, ie 8.49% of GDP (vs. 6.8% before this supplementary budget).
- *Macroeconomic data:* In 2019, the economy experienced an increased real GDP growth of [3.5%](#) (driven by domestic demand in investment). In Q1 of 2020, the GDP recorded an annual [growth of 0.2%](#) (between -1.4% and -3.2% according to the [World Bank](#) estimation). This was explained by a positive contribution to growth of the domestic demand which was maintained, on the contrary of net exports that dropped [\(-5.4% y-o-y\)](#). In Q2, the GDP contracted by [-12.7 %](#) y.o.y. and the consumption decreased by -9.9%. Overall, the IMF forecasts that the economy of Northern Macedonia will shrink by almost [5.5% in 2020](#) (by [3.5%](#) According to the forecast of the National Bank of the Republic of North Macedonia).
- According to the [EU](#), consumer price inflation accelerated in Q3 and reached 1.6 percent y-o-y, from an average of 0.6 percent in the first half of 2020. This increase was driven by higher food and electricity prices together with increased excise taxes on petroleum products.
- According to the [EU](#), the industrial production index increased by 1.9% y-o-y in January and February 2020, but suffered a heavy decrease in March (-14.4% y-o-y), leading to a drop of 3.7% in Q1. Manufacturing output declined by 2%. On average in the first three months, trade turnover amounted to 2.7%, due to strong increases in January and February 2020 but fell in March (-9.4% y-o-y).
- Despite a [17.5%](#) unemployment rate in 2019, the figure has been decreasing in recent years (average annual decrease of 1.7% since 2015). In Q2 2020, it increased by [2.7% y-o-y](#). The labour force expanded, by 0.7% y-o-y, on account of a rise in the female workforce (+1.9%) and [the unemployment rate](#) dropped to 16.7% ([-0.4 pps q-o-q, and -1.6 pps y-o-y](#)).
- *Fiscal data:* In Q1, public revenues decreased by [8.3%](#) year-on-year, with a drop in tax revenues (-12%). Total expenditures increased by 7.9% while current expenditures increased by 8.3% y.o.y. This is due to an increase in social transfers (+6.3%) and subsidies (+22.9%). Taking into account the sharp decline in May (-51% year-on-year), investment expenditure was only slightly higher than the level for the same period in 2019 (+0.5%).
- In 2019, government debt stood at 41.9% of GDP. In 2020, it was [slightly higher](#) at the end of the Q1 y.o.y. (+0.5%). In Q3, the budget deficit amounts to 25.95 million denars, i.e. 3.8% of the GDP planned for 2020. In 2020, overall public debt is forecasted to represent 59.6% of GDP and Government debt 49.5% of GDP.

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