COVID-19 update

- **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.

Economic impact

*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.

**Policy reactions**

- 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 M²).

- **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.²

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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.

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. ³
- 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 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.

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- **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.4

- **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 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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4 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.

- 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. The payment cards are currently being distributed and will be active until 15 August.

- 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.

- 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 received salaries reduced to the legal minimum of 14 500 denars (~EUR 230) for April and May 2020.

- Change in the modality of financing of political parties: 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 received a 20% higher salary for May and June 2020, via a home payment card.

- 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.

- **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 and will support the state budget in 2021.

**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.

**Outlook**

- **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%. 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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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).