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## THE COVID-19 CRISIS IN NORTH MACEDONIA

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25 May 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 current situation and the relative stabilisation of the curve of newly diagnosed COVID-19 cases in North Macedonia, the Government is considering 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.

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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 further. Currently, the state of emergency is maintained at least until the 31 May 2020.
- The 12 April general elections have been postponed over concerns about the COVID-19. No new date has yet been set.
- 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 3 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 has 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 of May, some shops were authorised to open 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. By decision of the Government, shops will be mandated to maintain the strict sanitary rules such as distancing, hydroalcoholic gel dispensers and masks for employees at least 200 days following the end of the state of emergency.

- *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 the 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 is accompanied by occasional peaks. The Government therefore regularly reintroduces additional 24h-48h containment measures.

*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 a.m. the next day. During the weekend, the movement of all citizens is prohibited throughout the country from Friday to Monday, from 4 p.m. to 5 a.m. 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). Travel bans remain in force in May 2020, however those limitations are part of the three-stage release plan announced by the Government and will therefore be subject to gradual relaxation in the coming weeks.

- *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. As of 25 May, no clear dates have been given for when phases two and three will be implemented.

### **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.
- 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 the 22 May 2020.

Border measures are part of the three-step release plan initiated by the Government in mid-May. These will be gradually opened in the coming weeks.

### **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 EUR. 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.

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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.

- 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 and May 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 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.

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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>

- *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 (around 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. 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.

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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.

- *Unemployment measures:* On the 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, will donate 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 denars 6,000 for tuition fees and a payment card of 3,000 denars and co-financing vouchers up to denar 30,000 for IT and digital skills training will 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 is planning to distribute 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 denar 15,000 per month (the minimum wage is denar 14,500 per month). Payment cards will be 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 EU 16 million.
- *Support of domestic tourism by vulnerable households:* As part of the third package of measures, the Government is planning to distribute payment cards credited with denar 3,000 and denar 6,000 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 denar 15,000 per month (the minimum wage is denar 14,500 per month). The voucher will be used in domestic hotels and other accommodation facilities, while with the payment card will encourage the purchase of domestic tourism products and services.

### **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.
- *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 live 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)