



THE COVID-19 CRISIS IN NORTH MACEDONIA

27 April 2020

COVID-19 update

- *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](#).

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

- 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 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.¹

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.²
- 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.
- *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, will be able to borrow from 3 000 to 5 000 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. The loans will be up to 90 000 euros.
- *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

¹ 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.

² 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.

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%.³ 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).

³ International Monetary Fund (2020), *World Economic Outlook (April 2020)*, Washington D.C., https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/MKD

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