NORTH MACEDONIA

Table 1	2021
Population, million	2.1
GDP, current US$ billion	13.9
GDP per capita, current US$	6696.8
Upper middle-income poverty rate ($5.5)[a]	17.9
Gini index[a]	33.0
School enrollment, primary (% gross)[b]	98.2
Life expectancy at birth, years[b]	75.8
Total GHG Emissions (mtCO2e)	10.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ WDI for School enrollment (2018); Life expectancy (2019).

As the economy rebounded, the energy crisis and the war in Ukraine brought new challenges. With rising public debt, the authorities need to replace Covid-19 support with targeted fiscal support to the most energy vulnerable households and firms. Monetary policy needs to strike a balance between supporting a fragile recovery amidst rising inflation. The medium-term outlook remains positive, but short-term risks are all tilted downside and intensified.

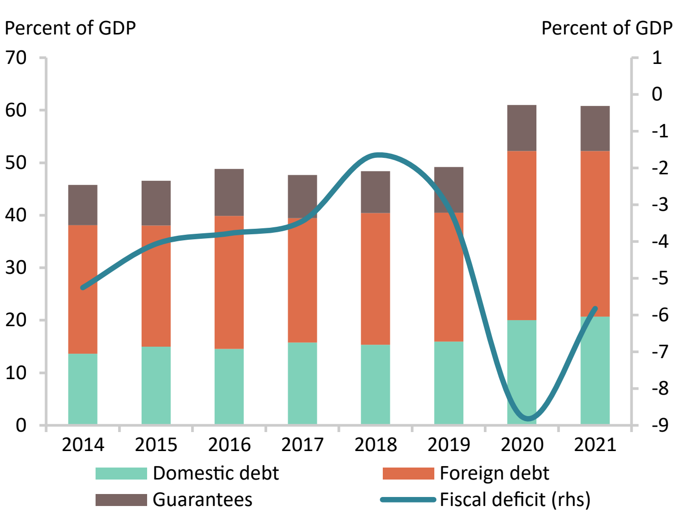
Key conditions and challenges

Following a decade-long relative macroeconomic stability, in 2020 the economy plunged into a recession with the outbreak of the global pandemic. As the recovery took hold, on the back of buoyant domestic and external demand, the energy crisis as well as the war in Ukraine in early 2022, bring new challenges and seek continued fiscal support despite elevated debt levels.
Support measures introduced by the government (i.e., subsidies and social security contributions to private firms and cash benefits and vouchers for vulnerable people) helped alleviate the impact of the pandemic on poverty in 2020. After an estimated increase in 2020, poverty likely resumed decline in 2021 (using the upper middle income class poverty line).
The medium-term outlook remains positive, but downside risks are elevated. The war in Ukraine, sanctions to Russia and Belarus, prolonged supply chain disruptions, rising inflationary and minimum wage pressures, weak political stability and the energy crisis continue to weigh on the outlook. Heightened political uncertainty, and delayed EU accession negotiations, may lead to weaker reform effort needed to boost potential growth and consolidate public finances. Further, tightening financial conditions globally may affect options and costs to meet financing needs. On the positive side, the Growth Acceleration Plan (GAP) may boost human capital development, accelerate the green transition and digitalization, helping to boost potential growth.
With eroded fiscal space and rising public debt, the reform agenda in the near to medium term needs to focus on improved targeting of crisis-related support, boosting tax compliance, restructuring and reprioritizing spending towards the GAP, addressing long-term structural bottlenecks and improving the efficiency of public investment management. The generous fiscal transfers, untargeted subsidies, and broad tax exemptions, including frequent changes of pension policy with sizeable fiscal implications are not sustainable and could derail the macroeconomic stability in the given context.

Recent developments

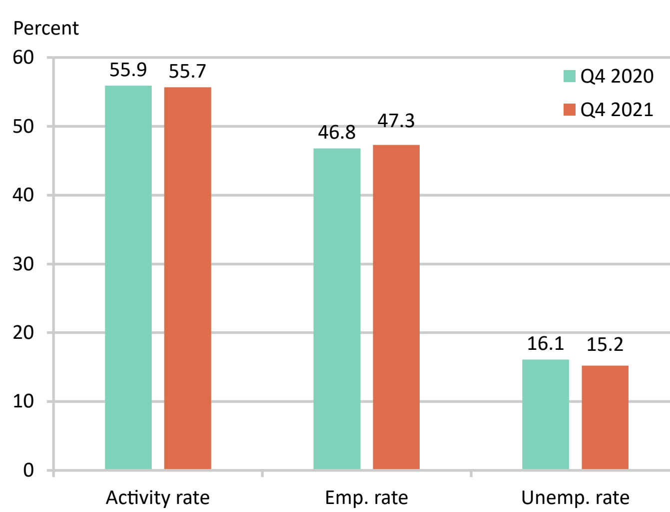
The real growth rebounded by 4 percent in 2021, following a deep contraction in 2020. The recovery was broad-based, driven by a boost in personal consumption, and a growing investment contribution. Exports and imports bounced back, but the trade balance worsened. On the production side, growth was driven by services, as the industry struggled with supply-chain blockages and reduced external orders.
The labor market witnessed a slow improvement despite government support. The unemployment rate decreased to 15.2 percent at end-2021, in part due to a small increase in the employment rate (at 47.3

FIGURE 1 North Macedonia / Fiscal performance



Sources: North Macedonia State Statistics Office, Ministry of Finance and World Bank staff calculations.

FIGURE 2 North Macedonia / Labor market indicators, 2020-21



Source: World Bank calculations based on LFS 2020 and 2021.

percent), but also due to a lower activity rate (at 55.7 percent in Q4 2021).
Banking sector performance remained solid in 2021, with the liquidity ratio at 22 percent, and an increase of capital adequacy ratio to 17.3 percent. Credit growth continued, led by FX-denominated mortgage lending, while non-performing loans ratio stood at 3.5 percent. The inflation accelerated in the second half of 2021, to reach 7.6 percent in February 2022. The surge is fueled by energy and food price hikes, but spillovers to core inflation widened. While wage growth was service sector-led in 2021, in February 2022, government increased the minimum wage by 18.5 percent and subsequently provided a temporary compensation to firms through the contribution subsidy.
The fiscal deficit declined to 5.4 percent in 2021. Yet, payment arrears increased by 0.6 pp of GDP. Tax revenues increased along with capital spending, which saw improvements in the execution rate. Current spending declined as crisis-related support decelerated. In November 2021, the government declared an energy crisis and transferred sizeable budget funds to cover the loses of energy companies and took over the private heating company. Public and publicly guaranteed debt stood at 60.8 percent of GDP, while arrears increased to 3.3 percent of GDP by yearend.

Outlook

Growth is projected to decelerate to 2.7 percent in 2022 affected by the economic consequences of the Russian invasion, war in Ukraine, and associated sanctions. The inflationary pressures (particularly food and energy prices) will increase the cost of living and hurt the poor despite sizeable government support adopted in March 2022 to alleviate the energy crisis through indirect tax cuts, supplemental social benefits to pensioners and low-income groups, and concessional credit lines to firms. The fiscal deficit will remain elevated in 2022 with further rise in public debt projected to above 62 percent of GDP. However, the Ukraine war, if prolonged, would further reduce external demand, increase key commodity and energy prices, hamper mobility, and result in investment delays. This scenario would result in even lower growth and fiscal revenues, as well as rising requests for fiscal support and a surge in financing costs.
In the medium term, the country needs to set public finances back on a sustainable path and shift its focus to resolving structural challenges, including low and declining human capital, weak regulatory frameworks, poor competition policy and judicial independence declining productivity, and out-migration.

TABLE 2 North Macedonia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.9	-6.1	4.0	2.7	3.1	3.2
Private Consumption	3.7	-4.5	5.9	2.8	2.5	3.3
Government Consumption	2.5	6.4	4.1	1.0	0.3	0.2
Gross Fixed Capital Investment	8.7	-14.8	6.8	6.0	8.0	8.0
Exports, Goods and Services	8.9	-10.9	12.3	7.2	7.0	6.0
Imports, Goods and Services	9.5	-10.0	12.9	6.5	6.2	6.0
Real GDP growth, at constant factor prices	3.8	-5.2	2.5	2.7	3.1	3.2
Agriculture	0.1	-3.2	-1.2	2.5	2.0	1.5
Industry	3.4	-9.1	-2.4	3.4	4.9	5.3
Services	4.4	-3.9	4.7	2.5	2.6	2.6
Inflation (Consumer Price Index)	0.8	1.2	3.2	5.5	2.0	1.8
Current Account Balance (% of GDP)	-3.3	-3.4	-3.5	-4.0	-3.9	-3.4
Net Foreign Direct Investment (% of GDP)	3.2	1.5	3.7	3.8	3.8	3.9
Fiscal Balance (% of GDP)	-2.1	-8.3	-5.4	-5.3	-4.7	-3.7
Debt (% of GDP)	49.2	61.0	60.8	62.7	64.3	64.1
Primary Balance (% of GDP)	-1.0	-7.1	-4.1	-4.0	-3.5	-2.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	16.5	18.3	17.2	16.4	15.9	15.1
GHG emissions growth (mtCO2e)	4.7	-6.0	0.9	0.3	0.4	0.5
Energy related GHG emissions (% of total)	69.4	67.5	67.9	67.9	67.7	67.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2018-SILC-C.Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2018) with pass-through = 0.87 based on GDP per capita in constant LCU.