



# Weekly Briefing

**North Macedonia economy briefing:  
Economic Developments in 2021  
Gjorgjioska M.Adela**

## China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.  
Szerkesztésért felelős személy: Chen Xin  
Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.  
 +36 1 5858 690  
 [office@china-cee.eu](mailto:office@china-cee.eu)  
 [china-cee.eu](http://china-cee.eu)

## Economic Developments in 2021

*The Macedonian economy in 2021 will be conditioned by a set of interconnected developments. Firstly, it will be affected by the continuing impact of the coronavirus pandemic and the cost-effectiveness of the economic response measures taken in 2020 and 2021. Secondly, it will depend on the Government's broader economic strategy - its operationalization and its possible effects on economic reality. Thirdly, it will be strongly correlated to global, European and regional economic trends in 2021. The performance of the economy as a whole will continue to be circumscribed by pervasive corruption as well as by the absence of a professional public administration which is able to play a developmental role. Combined with the underlying neoliberal logic, which remains the key organising principle, these influences suggest that the developmental capacity of the state is likely to remain locked, in spite of some efforts by the Governments to spur economic development in 2021.*

On the 20th of December 2020 the Parliament adopted the Budget for 2021. It projects a GDP growth of 4,1% and a budget deficit at 4.9%. Total revenues of the 2021 Budget are projected at 212.6 billion denars whilst expenditures are projected at 247.5 billion denars. As pointed out by Minister of Finance Besimi, the Budget's three main priorities will be 1) the health sector, 2) the economy and preserving job stability, 3) rule of law and integrations.<sup>1</sup> Moreover, he added that the Budget will have a developmental component as capital investments will be higher by 26,2% compared to the 2020 Budget. According to the Minister of Finance, this is also the country's first medium-term budget, which is based on three platforms: a) 2021-2025 fiscal consolidation, with a focus on reducing the budget deficit to 2% by 2025, which is below the Maastricht criterion; b) Strategy for Economic Recovery and Accelerated Growth, aimed at doubling the growth by 4-5% in the coming period and c) 2021-2025 Public Investments Plan, aimed at increasing the share of investments in the total

---

<sup>1</sup><https://finance.gov.mk/2020/12/20/%D1%81%D0%BE%D0%B1%D1%80%D0%B0%D0%BD%D0%B8%D0%B5%D1%82%D0%BE-%D0%B3%D0%BE-%D1%83%D1%81%D0%B2%D0%BE%D0%B8-%D0%B1%D1%83%D1%9F%D0%B5%D1%82%D0%BE%D1%82-%D0%B7%D0%B0-2021-%D0%BF%D1%80%D0%B2%D0%B8%D0%BE/>

expenditures and improving their execution.<sup>2</sup> Based on the Budget's forecasts, growth will double in the coming five-year period, from 4,1% in 2001, 4.6% growth in 2022, 5.2% in 2023, 5.6% in 2024 and 5.9% in 2025. What is more, the Government expects that the average economic growth rate will stabilize to 5.75% annually in the period 2026-2030.

These figures however are likely to prove to be too optimistic, in view of the continuing economic consequences of the pandemic, as well as its influence on deflation, reduction in consumption, investment and demand, all of which are likely to impair the forecast of 4,1% growth in GDP. Furthermore, the fiscal economy will be constrained by the high growing public debt. In 2020, the four economic packages introduced in response to the pandemic incurred an increase of the public debt of over 1 billion euros, or nearly 11%. This will influence the ability of the Government to rely on further loans in 2021, especially in view of the planned focus on fiscal consolidation in the 2021-2025 period. What is more, the country faces a heavy debt repayment schedule of 836 million euros in 2021 (in addition to the 837 million euros at the end of 2020), which may bring the public debt to over 70% of GDP by the end of 2021.<sup>3</sup> An additional cause of concern stems from the way in which the country's public debt (which has been rising exponentially in the past 10 years) has been spent. That is, debt has not been channeled towards the funding of structural and capital investments. As a result, large gaps remain in infrastructure, technology and education, which suggest that the country's economy still lacks the solid foundations which are the necessary preconditions for economic development.

### **Planned Economic Reforms**

In January 2021 the Government adopted a Programme for Economic Reforms for the period 2021-2023, which contains the macro-economic forecasts and the Budgetary planning for the next three years.<sup>4</sup> Moreover, the Programme includes the structural reforms that will be pursued in the next three years such as reform of the energy and transport markets, development

---

<sup>2</sup>ibid

<sup>3</sup><https://www.fitchratings.com/research/sovereigns/fitch-revises-outlook-on-north-macedonia-to-negative-affirms-at-bb-15-05-2020>

<sup>4</sup> <https://vlada.mk/node/24015>

of the agriculture, improvement of the business environment and reduction of the grey economy, support for research, development and digital transformation, regional economic cooperation, improvement of education and skills, social protection, inclusion and healthcare.<sup>5</sup>

The biggest challenge with regards to the Programme for Economic Reforms will be its implementation in practice. The success of any economic reforms depends on good public governance, most notably on accountability, transparency, efficiency, effectiveness, responsiveness and the rule of law. In the Macedonian context the slow and inadequate efforts to reform and strengthen public governance are likely to stifle the progress in the implementation of structural economic reforms in 2021.<sup>6</sup> The biggest challenge will come from the absence of a responsive and efficient governmental apparatus, which is able to interact with a competitive market in order to play a stabilizing role and achieve the best possible economic results. The Government's slow pace in implementing public administration reform in the previous years, suggests that it will be insufficiently prepared to coordinate and stimulate productive economic activities, to implement capital investments, as well as to stimulate the educational and technological progress necessary for the attainment of economic development in 2021. Thus, in the absence of broader political reforms it is difficult to be too optimistic about the economic potency and practical implications of the Programme for Economic Reforms as well as the broader developmental forecasts for 2021.

An additional obstacle to the successful implementation of economic policy and achieving economic development is the high level of corruption in the country. The latest Corruption Perception Index by Transparency International report, placed N. Macedonia on the 106 position with a score of 35 points (on a scale of 1-100).<sup>7</sup> This is 2 points lower than the score of 37 marked in 2019 and 2018. In comparison to other countries in the region, N. Macedonia is at the very bottom alongside Albania (with 35 points) whilst Bosnia Herzegovina, Serbia and Montenegro had a score of 36, 39 and 45 points respectively.<sup>8</sup> The perception of

---

<sup>5</sup> <https://vlada.mk/node/24015>

<sup>6</sup> [https://china-cee.eu/wp-content/uploads/2020/07/2020p05\\_North-Macedonia.pdf](https://china-cee.eu/wp-content/uploads/2020/07/2020p05_North-Macedonia.pdf)

<sup>7</sup> <https://www.transparency.org/en/cpi/2020/index/mkd>

<sup>8</sup> <https://www.dw.com/mk/%D0%BA%D0%BE%D1%80%D1%83%D0%BF%D1%86%D0%B8%D1%98%D0%B0-%D0%B2%D0%BE-%D1%81%D0%B2%D0%B5%D1%82%D0%BE%D1%82-%D0%BC%D0%B0%D0%BA%D0%B5%D0%B4%D0%BE%D0%BD%D0%B8%D1%98%D0%B0-%D0%B8-%D0%B0%D0%BB%D0%B1%D0%B0%D0%BD%D0%B8%D1%98%D0%B0->

high corruption is detrimental to the economy as a whole. It presents an obstacle to the successful implementation of planned economic policies, including the development of human resources and the advancement of technological and innovation activity necessary to accelerate productive economic activity. It also acts as a risk factor deterring both domestic and foreign investors from participating in the Macedonian economy. In turn, this blocks the country's integration in the global supply chains and stifles its overall economic activity and potential. In view of this set of underlying factors, it is difficult to justify the optimism of the Government, which projects a GDP growth of 4,1% following a negative GDP growth of -5% in 2020. It is likely that the forecasts are based on planned large scale privatizations some of which have already been hinted at by the Government. Thus, it is likely that in 2021 steps will be taken for the privatization of several large state-owned companies including the Post office, the Railways, as well as the factories "Eurokompozit", "Kolska" and "TEC Negotino".

The combined challenge of managing a growing public debt and the economic shock of Covid19, is likely to put a heavy strain on the Macedonian economy in 2021. Whilst the Government has introduced some plans and programmes for spurring economic growth it remains to be seen if and how these will translate from theory into economic practice and what the compounded effect will be on the Macedonian economy. However, the likelihood of their successful translation into practice will be severely curtailed by the pervasive corruption and the absence of adequate public governance mechanisms in the country. Thus, as neoliberalism continues to be the key organizing principle, the Government's two key roles are likely to remain as the sourcer of debt and as the mediator of new privatizations of public/state property. Therefore, it is to be expected that the state and its economic institutions in 2021 will once again miss on the opportunity to play a developmental role.

---

%D1%80%D0%B0%D0%BD%D0%B3%D0%B8%D1%80%D0%B0%D0%BD%D0%B8-  
%D0%BD%D0%B0%D1%98%D0%BB%D0%BE%D1%88%D0%BE-%D0%B2%D0%BE-  
%D1%80%D0%B5%D0%B3%D0%B8%D0%BE%D0%BD%D0%BE%D1%82/a-52117630