



Weekly Briefing

**North Macedonia economy briefing:
The Government adopts the Growth Acceleration Plan (GAP)
prepared by the Ministry of Finance
Gjorgjioska M. Adela**

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: : Feng Zhongping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

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Summary

On the 26th of October 2021, the Government adopted the Growth Acceleration Plan (GAP) for the period 2022-2026, which had been prepared by the Ministry of Finance in cooperation with other relevant Government departments. Its aim is to support the recovery of the economy and the growth of GDP. According to the Minister of Finance, the adoption of the plan will result in annual GDP growth of 5%, 12 billion euros in new investments in the public and private sector, 156.000 new jobs, fiscal consolidation and a stable public debt. However, economic experts have assessed these forecasts as too optimistic in the context of the country's accelerating energy crisis, the pre-existing economic and governance challenges, and the Government's suboptimal track record in implementing its own economic policies and plans.

On the 26th of October the Government announced that it had adopted the Growth Acceleration Plan (GAP) for the period 2022-2026. On the same day the GAP was presented at a joint press conference held by the Prime Minister Zoran Zaev and Minister of Finance Fatmir Besimi. The plan relies on an innovative access to equity financing, which the PM expects will accelerate economic growth and which, in addition to the planned €4 billion public investment, will mobilize additional investments by the private sector, estimated at €8 billion. “The key goal is to create new jobs and stimulate the growth of the economy in our country, with new investments, 5% growth of the Gross Domestic Product and maintaining a stable public debt,” said Prime Minister Zaev.¹ According to the Prime Minister, the second goal of the GAP, which is to accelerate economic growth, is already underway. “GDP in the first half of the year was 5.6%, and in the second quarter it was 13.1%, which is a confirmation that the economy is returning to growth paths”, Zaev stated. Within the forecasts of the plan, the employment rate is projected to increase to 54,3% in 2026, and the unemployment rate is expected to enter the single-digit zone by 2026 for the first time, when it is expected to be at 8,6%. Zaev also

¹ Press Release “Zaev - Besimi: The plan for accelerated economic growth is a continuation of the successful policies for achieving GDP growth over 5%, 12 billion euros of investments and 156,000 new jobs”, published on 26.10.2021, available at <https://vlada.mk/node/26910> accessed on 10.11.2021

expressed optimism that the favorable macroeconomic developments are expected to lead to a reduction of public debt below 60% of GDP in 2026.

Furthermore, Zaev stressed the importance of capital investments for economic development, noting that the new CAPEF mechanism, which rewards budget users with a high degree of execution of capital expenditures, will be able to generate an additional 1.5 billion euros of capital expenditures in the period 2022-2026.² However, experts have warned about the efficacy of the mechanism. According to Finance Think, the CAREF mechanism often results in rewarding budget users with low degree of capital expenditures, and is thus unable to reverse the trend of very low realisation of capital investments. They have also warned that it is necessary for the Ministry of Finance to offer a more in-depth analysis about the functioning of the mechanism and its operation in practice, instead of just declaring its existence.

GAP - continuation of the response to the Covid-19 pandemic

The essence of the Plan is to produce a positive multiplying effect by creating and using new mechanisms, instruments, funds and sources of financing, i.e. in addition to the planned public investments amounting to around EUR 4 billion for the period 2022-2026 financed from the Budget, IPA funds and by international financial institutions, much more funds and investments from the private sector to be mobilized, the Minister underlined, which, as he said, would not only scale up the total investments and accelerate growth, but would also create jobs.³

The Minister of Finance Besimi emphasized that the Plan is a continuation of all the measures that had been taken in response to the Covid-19 pandemic. “The pandemic caused a deep health and socio-economic crisis. It created the need to react in a timely manner. To that effect we designed health protection measures and six packages of economic measures in the

² Ibid

³ Press Release: “Besimi: Discussions continue through SEFF platform – innovative ways to finance investments of public and private sector through the Growth Acceleration Plan” published on 20.10.2021, available at <https://finance.gov.mk/2021/10/20/besimi-discussions-continue-through-seff-platform-innovative-ways-to-finance-investments-of-public-and-private-sector-through-the-growth-acceleration-plan/?lang=en> accessed on 10.11.2021

<https://finance.gov.mk/2021/10/20/besimi-discussions-continue-through-seff-platform-innovative-ways-to-finance-investments-of-public-and-private-sector-through-the-growth-acceleration-plan/?lang=en>

amount of over 1 billion euros. Now we are moving forward with the Growth Acceleration Plan and we will respond to the needs to support the recovery and re-growth of the economy, while committing ourselves to conduct fiscal consolidation in the medium term, i.e. to reduce the budget deficit and public debt thus maintaining a stable debt level," Minister of Finance, Fatmir Besimi, said.⁴ Moreover, Besimi informed that the GAP had already been announced in the Budget for 2021, within the Strategy for Economic Recovery and Accelerated Growth or SmartER Growth, as well as within the Budget Consolidation Policies from 2021 to 2025 and the Public Investment Plan 2021-2025. Furthermore, Besimi added that the Plan had been developed following intensive communication with international financial institutions and development organisations. On the 20th of October, one week before it was adopted, the GOP was presented to all the relevant stakeholders, which included representatives from the chambers of commerce, the banks, the development partners, as well as the institutions to be included in the implementation of the Plan, i.e. the Directors of the North Macedonia Free Zones Authority, the Development Bank of North Macedonia and the Fund for Innovations and Technology Development.⁵

New instruments and sources of funding

The GOP addresses the new ways of access to capital to finance the recovery and the acceleration of the economic growth through investment projects in both the public and the private sector. According to the Ministry of Finance, in addition to the traditional instruments, many innovative ways to finance the investments, to consume all the available funds offered from official creditors and to reach all the possibilities to mobilize private investments have been included.⁶ The proposed financing instruments for the GOP include: the mechanism for greater efficiency of capital expenditures, a development bond, project bonds, green bonds, an inflation indexed bond, public-private partnerships, public asset management, guarantee scheme, the Fund for Energy Efficiency, the Fund for Local and Regional Development, the Fund for Research and Development, the Fund for Support of Small and Medium Enterprises

⁴ Ibid

⁵ Press Release: "Besimi: Discussions continue through SEFF platform – innovative ways to finance investments of public and private sector through the Growth Acceleration Plan" published on 20.10.2021, available at

<https://finance.gov.mk/2021/10/20/besimi-discussions-continue-through-seff-platform-innovative-ways-to-finance-investments-of-public-and-private-sector-through-the-growth-acceleration-plan/?lang=en> accessed on 10.11.2021

⁶ Ibid

for their Growth and Development, the Strategic Green Investment Fund, the Fund for Increasing Funds, the Funds for Risk Capital, and the Group Financing (crowdfunding). In addition to the Budget, sources of financing will be provided from international and bilateral financial institutions, private institutional investors, banks and development partners, as well as grants. The GAP will be geared towards investments in the public sector, investments in the private sector, reform policies and institutional reforms, with the priority areas focusing on green economy, digitalization, innovations and technology development, human capital, physical infrastructure and social cohesion.

The Growth Acceleration Plan has been presented as a continuation of the previous economic packages adopted by the Government in response to the Covid-19 pandemic. It sets out on a very ambitious mission to deliver annual GDP growth of 5%, 12 billion euros in new investments in the public and private sector, 156.000 new jobs, fiscal consolidation and a stable public debt. And the means by which these results are to be delivered are the new financing instruments, which are expected to have a multiplying growth effect on the economy. As with previous economic strategies, policies and plans that have been presented by the Government, the biggest challenge of the GAP will be its implementation in practice. The realisation of the Plan's objectives will depend on the structuring and operation of the proposed financing instruments. Moreover, its outcomes will also depend on the GAP's coordination and cohesion with other economic policies, including its alignment with the Budget for 2022. In the past, the Government's fiscal policies have often been divergent and unsynchronised, which has resulted in the suboptimal implementation of plans and projects. In view of this, the Government's suboptimal track record in implementing its own economic policies and plans remains a key challenge towards the implementation of the GAP and its efficacy in delivering results in the context of the unfolding energy crisis and the increasing inflation.