

Impact of COVID-19 Pandemic on the Economy of North Macedonia

Prof. Dr. Seadin Xhaferi¹, MSc. Valbon Mehmedi

^{1/2}University of Tetova, North Macedonia

Abstract

The COVID-19 pandemic appeared in a sudden, rapid way leaving great consequences. At that time, COVID-19 as an unstudied, globally unknown coronavirus, created panic among the authorities and the general population. Never imagining that this global pandemic would be the cause of the loss of over 5 million people, this pandemic also left consequences on the global economy by becoming an "economic pandemic". This so-called "economic pandemic" also affected the economy of the Republic of North Macedonia, the consequences of which are explained in this paper. The paper aims at the horizontal comparative analysis of the most important economic indicators, such as Gross Domestic Product, economic growth, unemployment rate, inflation, in the period before and during the shock of the pandemic wave.

Declining GDP, low economic growth, rising unemployment, decreased number of tourists, and the closure of many businesses were key features that characterized the North Macedonian economy during the onset of the pandemic. Inflation as an important macroeconomic indicator was affected in the next period, i.e. inflation began to increase in early 2021, marking unfavorable rates at the end of this year and the beginning of 2022. During this period of almost two years, the government of R.N.M affected and intervened to mitigate the effects of the pandemic through six sets of economic measures with a total of 106 measures, which were created in order to preserve jobs, preserve liquidity and recover the economy as a whole, measures which were dedicated to the affected sectors, both businesses, and citizens.

Keywords: Pandemic, Economic Growth, Unemployment, Inflation, Economic packs

Introduction

This paper focuses on the data of the national economy and the main macroeconomic indicators of the Republic of North Macedonia before the onset of the global pandemic COVID-19 (ten-year period 2010-2019) and during the pandemic 2020-2021.

As we know the massive spread of the virus unknown to the population at that time, led the World Health Organization (WHO) on March 11, 2020, to characterize COVID-19 as a pandemic, showing over 3 million cases and 207.973 deaths in 213 countries and territories (Pak et al., 2020 as cited in World Health Organization, 2020). In the following period, despite the loss of lives and uncontrolled spread of the disease, worldwide the whole global economy was hit, which resulted in shrinking aggregate supply and demand, job losses, deteriorating financial and stock markets, a general increase in the prices of goods and services (Kanitkar & Ramakumar, 2020). Analyzing the economic consequences of this pandemic, through this paper in the first part we will analyze the most important economic indicators of R.N.M in the period before the occurrence of the pandemic.

The second part will analyze the direct impact of the pandemic on the state economy, as we will see below. The third and final part will briefly describe the protection mechanisms and interventions by the Government of the Republic of Northern Macedonia to mitigate the consequences of the pandemic in the economy, financial sets dedicated to certain categories, and the efforts for faster recovery of the economy and start of economic stabilization of the country.

1. The Economy of North Macedonia Before the Pandemic

The Republic of North Macedonia as a country has been characterized by an economic growth of about 2-3% on an annual basis, excluding the period 1991-1995. As we will present the graph of economic growth of the Republic of North Macedonia in the period 2010-2019, we see that economic growth varies from 3.4% in 2010 and maintaining a constant growth of 2-3% with an upward trend in 2019. The exception is the period of 2012 when

the economy of Northern Macedonia marked a decline (entered a phase of recession) of -0.5% (State Statistical Office, 2021).

Comparing the data on the Gross Domestic Product in the period 2010-2019 (see Table 1) we can see a constant increase of the GDP of the Republic of North Macedonia from 437.296 million MKD in 2010 to 689.425 million MKD in 2019, in other words, we have an increase of 57.65% of GDP for the period of 10 years. From the following table, we can conclude that the largest part of GDP takes final consumption which varies from 93.8% share in GDP in 2010 to 79.7% share in GDP in 2019. Here we can highlight the decrease in the share of final consumption in total GDP of 14.1%. Also, we see an increase of gross investments as part of the GDP by 122.56%, as well as the increase of exports in the amount of 255.486 million MKD for the 10 year period. During the period 2010-2019, on an annual basis, we have a continuous decrease in the unemployment rate of the active working population in North Macedonia from 32.1% in 2010 to 17.3% in 2019 (see figure no.2).

2. The Economy of North Macedonia During the Pandemic

With the declaration of the global pandemic by the World Health Organization on 11.03.2020, each country began to prepare its own measures against the protection and reduction of the spread of the coronavirus COVID-19. The Republic of North Macedonia on 18.03.2020 announced a state of emergency- the cause of preventing the spread of the unknown virus, although the total number of cases of infection was only 35 persons¹.

2.1 Economic Growth During the Pandemic

The pandemic negatively affected the economy of North Macedonia, which at first glance recovery seems fast, but the consequences continue today, which will be presented in the following chapters. The stable trend of continued economic growth is clearly seen from 2019 with a significant increase of 6% in the second quarter of 2019 (see figure 3).

At the beginning of 2020, i.e. in the first quarter, a period which coincides with the beginning of the global pandemic, the effect of slowing economic growth is seen, in other words, the economy is already beginning to enter a recession. The biggest recession and the biggest impact of the pandemic due to the increase in the number of infections globally and nationally, the closure of borders, the reduction of aggregate demand and supply, the quarantines proposed by the government occurred in the second quarter of 2020, where the recession marked a negative two-digit number, respectively -16.4%. This drastic decrease comes as a result of the decrease of Gross Domestic Product during this beginning of the year, respectively from 159.090 million MKD during the first quarter to 141.610 million MKD in the second quarter of 2020.

As shown on the table 2, which also serves us in the analysis of economic growth, we see that the decrease in Gross Domestic Product in the second quarter of 2020 comes as a result of a decrease in gross investment by 53.54% and a decrease in a significant measure of export by 22.55% but also of import by 25.07%.

2.2 Unemployment

The literature recognizes the complex interrelationship between employment and overall health and well-being (Antipova, 2021, as cited in Wilkinson et al., 2020).). Negative COVID-19 impacts on the urban economy include loss of citizens' income, while movement restrictions and 'stay home' measures adversely impacted tourism and hospitality and small- and medium-sized businesses due to the closure of markets, food outlets, and social spaces². COVID-19 caused a decline in consumer demand in all industrial sectors resulting in economic recession and mass unemployment where not only part-time workers but also full-time professionals lost their jobs (Patterson, Westfall, et al. , 2020)³. This newly established "rule" which in the following period became a practice in all countries, including the USA, China, Japan, European Union countries, was transferred to North Macedonia where there was a decrease in the number of employees for a short-term period as a result of aggregate demand contraction.

As can be seen in the figure 4, the downward trend of the unemployment rate continues in 2019, but at the beginning of 2020 the change of the unemployment curve begins, i.e. in the first quarter of 2020 the unemployment rate was 16.2%, increasing to 16.7% in the second quarter, due to job cuts, temporary closure of some industries,

as well as declining aggregate demand and supply. After this peak of the high number of unemployed, in the third quarter of 2020, we have improved, respectively reduction of the unemployment rate and return of the trend to normal. This trend still continues today, where the Republic of North Macedonia marks a record decrease in the unemployment rate of 15.7% during the third quarter of 2021.

2.3 Inflation

Inflation as an important indicator of financial stability reflects the strength of the domestic currency and serves as a signal for the general rise in prices; it is worth analyzing its volatility during the pandemic period, the effects, and long-term trend of rising inflation because of COVID- 19. As the most important indicator of inflation, we have the Consumer Price Index (CPI), which examines the weighted average of prices of a basket of consumer goods and services consumed by a typical household over a period of time. According to data from the State Statistical Office⁴, the Consumer Price Index in December 2021, compared to the previous month is 100.4, while the retail price index is 100.9. The consumer price index in 2021, compared to 2020, has increased by 3.2%, while the retail price index is 4.3%. The movement of the consumer price index - living expenses in 2021 has been different for different consumer groups. An increase in indices was recorded in the groups: Transport by 9.9%, Restaurants and hotels by 5.9%, Alcoholic beverages, tobacco and narcotics by 3.8%, Food and non-alcoholic beverages by 3.1%, Health by 2.9%, Housing, water, electricity, gas and other fuels and Recreation and culture by 2.7%, Miscellaneous goods and services by 1.4%, Furniture, household and household maintenance by 1.0%, Clothing, and footwear by 0.2%. As shown in the figure 5, the percentages of increase /decrease of living expenses during 2021, are presented in monthly periods compared to the same period in 2020.

From the figure 5, we find that despite the increase of 4.87% for a period of one year (December 2020 / December 2021) we have an increase in expenditures even in special categories. Regarding this, we have the largest increase in consumer spending in the Transport sector with an increase of 16.77% in December 2021, followed by the category Food and non-alcoholic beverages with an increase of 6.87%. We record reductions in living expenses only in the category of Communications. Analyzing the phenomenon of rising prices, i.e. rising living costs, we see that the pandemic after a longer period from the beginning brought its effect and affected the rise in prices leading to rising inflation in the Republic of North Macedonia. This increase in the general price level came as a result of rising food prices (bread and corn, meat, milk, and dairy products). Additional contributions were also to the increase in the prices of oil derivate (according to the increasing movements in the price of crude oil on world stock exchanges) as well as the prices of catering services. On the other hand, the biggest negative contribution was given by the reduction of air transport prices as well as the reduction of fruit prices. According to National Bank of the Republic of North Macedonia projections, the inflation rate for 2022 is expected to be 2.4%, respectively with a downward trend from 2021 (NBRM, 2021).

2.4 Hospitality and Tourism

As the sector which was most affected and hit by the pandemic, indisputably it is tourism and hospitality. As a result of the increase in the number of infections and the closure of state borders, the hotel and tourism sector also suffered a drastic decline. The number of tourists in the country in recent years has marked a continuous increase, so if in 2010 the number of tourists was 586.241, in 2018 it increased to 1.126.935 which marks an increase of 92%. As for domestic tourists, their number in 2010 was 324,545 and in 2018 it was 419.590 (Dzambazovski & Metodijeski, 2020)⁵. As shown in the figure 6, at the beginning of 2020, following the constant increase in the number of tourists from 2019, we see the usual number of both domestic and foreign tourists for that time period (January-February). In the next month, respectively the announcement and the start of the pandemic, we have drastic reductions of domestic and foreign tourists, respectively from 47.288 tourists in February, the number dropped to 17.943 tourists in March, deteriorating the situation in April to only 741 tourists within a month. The next period is also characterized by a small number of tourists, but with an increasing tendency, where in July and August the situation with the lack of tourists stabilized. This increase in tourists in these two months came as a result of the increase in domestic tourists, while the number of foreign tourists marks a symbolic number, given the restrictive measures at the entrance and exit of state borders set by different countries, but also North Macedonia. This is confirmed with the decreased number of passengers in air transport,

where according to the data of the State Statistical Office in 2019 at the airports of North Macedonia there was an annual turnover of 2.666.774 passengers, while in 2020 this number was reduced to 781.327 passengers or 70.70% reduction. In 2021 we have an improvement of the situation, an increase in the number of passengers by 77.70% compared to 2020 or in absolute numbers 1.388.384 passengers.

3. Government Intervention and Influence in Managing the Economic Consequences of the COVID-19 Pandemic

With the declaration of the state of emergency and the declaration of the global pandemic, the Government of the Republic of North Macedonia was also preparing for a possible scenario of deterioration of the situation in the country, causing consequences on human health (disease, loss of life) but also affecting in the deteriorating economic situation in the country. In the period from 18.03.2020 to 22.06.2020, the President of the RNM took 5 decisions to establish the existence of a state of emergency. The activities of the Government of the Republic of North Macedonia in this period resulted in the adoption of 250 Decrees with legal force. The Government of the Republic of North Macedonia, since the beginning of the pandemic, has implemented six sets of economic measures to mitigate the negative effects of the corona crisis (Session of the Government of the Republic of Northern Macedonia, 2020).

3.1 Economic Sets of Measures

The first set of measures was introduced on March 18, 2020, as the first and expressed reaction of the Government to the new situation and aimed at mitigating the impact of the health crisis on the economy. The set consisted of intervention measures such as:

- Exemption from the payment of monthly fees for personal tax and profit tax for a certain period of time
- Abolition of customs duties for certain reasons and reduction of legal interest and penalty interest
- Realization of interest-free loans in the amount of 5.5 million euros through the Development Bank for the protection of liquidity of micro, small and medium companies
- Reduction of the basic interest rate of the National Bank to the level of 1.75%.

The second set of economic measures was approved on 31.03.2020 and consisted of concrete measures that had a direct impact on the real economy and direct assistance to every family and individual. 332.9 million euros have been allocated from this package and the measures that are included are:

- The possibility to postpone and restructure the payment of loans to enterprises and citizens for a period of 3 to 6 months.
- Approval of the suspension of the law of execution, prohibition of opening bankruptcy proceedings, exemption from rent payment for users of social housing
- Support for employers for the protection of jobs in the amount of 14.500 MKD (at the level of the minimum wage) for employees for the payment of salaries for April, May, and June, for companies and individual traders who have had income reductions of at least 30% (32nd session of the Government of Republic of North Macedonia, 2020).

The third set of economic measures, published on 17.05.2020, aimed at revitalizing the local economy through direct support of citizens and the economy (54th session of the Government of Republic of North Macedonia, 2020). A total of 229.3 million euros were allocated for the third package, which included:

- Issuance of payment cards, in the amount of 9.000 MKD for all unemployed persons, in the amount of 3.000 MKD for young people and employees with a net monthly salary of less than 15.000 MKD.
- Private sector support for new markets, competition, and modernization where 20 million euros have been implemented to support 400 companies;
- Vouchers for local tourism in the amount of 6.000 MKD for workers with a net monthly salary below 15.000 MKD - a total of 16 million euros have been executed;
- Payment cards for subsidizing 50% of green oil for farmers, - a total of 4.6 million euros have been executed;
- Bonuses for doctors and medical staff of infectious disease clinics and departments - 890 thousand euros for 4.260 doctors and medical staff;

- Unemployment compensation for persons who have lost their job due to COVID-19- 2.5 million euros for 3.123 persons.

The fourth set of measures was approved on 27.09.2020 as direct aid to the economic and social security of citizens, as well as to promote private consumption as a stimulator of social welfare. A total of 472.1 million euros have been allocated for the fourth package.

The most important measures of this package are:

- Deferment of the payment of profit tax and personal income tax payments until March 2021 for companies and businesses that have a decrease in income of more than 40%;
- Reduction of VAT rate for catering services and food and beverage service to 10%;
- Reduction of import duties for raw materials;
- Weekend without VAT, reduction of budget revenues or VAT refund, for which 17 million euros were spent(6th session of the Government of Republic of North Macedonia, 2020)

The fifth set contains a total of 29 measures, worth 9.7 billion MKD or about 160 million euros, and includes the following measures:

- Financial support of wages for workers for the months of February and March 2021, 1.9 billion MKD with the inclusion of about 60.000 workers per month.
- Interest-free loans for enterprises in the fields of tourism, handicrafts, hospitality, transport, industry for organizing events, private health institutions, etc.
- Financial support for 120 broadcasters in the amount of 50 million MKD for 2021.
- Financial support for registered craftsmen for 2021.
- Financial support for citizens by extending the measure for the payment of personal income tax until June 30, 2021.
- Financial support for international carriers(45th session of the Government of Republic of North Macedonia, 2021)

The sixth set of economic measures worth 17.8 million euros aims to support activities that were completely closed to prevent the spread of coronavirus and included:

- Support of all gastronomic facilities with coverage of 30% of revenues
- Support with 2.5 million euros for restaurants for weddings, event industry, playgrounds, nightclubs, private resorts for children, fitness gyms, photographers, and photo studios.
- Support with almost 1.4 million euros for categorized travel agencies.
- Financial support of 30.750 MKD for all musicians, members of musicians associations and licensed tour guides,
- 50.000 free PCR tests were provided for foreign tourists staying in the country (66th session of the Government of Republic of North Macedonia, 2021).

Conclusion

As can be seen in this paper, prior to the outbreak of the pandemic, the economy of North Macedonia was characterized by stable economic growth with an upward trend. But the impact of the pandemic caused this trend to break away and the positive flow of movement of important macroeconomic indicators to slow down. The pandemic brought its effects, one of which was the increase in the number of unemployed, but thankfully this increase stabilized in a very short period, compared to other countries which still have high unemployment rates. The decline in Gross Domestic Product, coupled with the slowdown in economic growth were also negative consequences of the global pandemic.

One of the problems brought by the pandemic in the long run, which is present even today, indisputably is the increase in the general level of prices and the increase in living expenses. Now, in the first months of 2022, the consequences of the pandemic are seen even more, where product prices are constantly increasing, while the NBRNM projects during 2022 a reduction of the inflation rate of 2.4%.

One of the hardest hit sectors was hospitality and gastronomy, which is seen with the decrease in the number of tourists during 2020, with an increasing tendency in 2021, and with hope for normality in 2022.

Seeing indications for the end of this pandemic which changed many things in the life and the way of living of the citizens, as a country aiming at Euro-Atlantic aspirations we hope in the trend of economic growth, job

creation, an increase of local productivity, namely an increase in exports and of course an increase in the standard of living and well-being of the population.

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Footnotes

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- ¹ 22nd session of the Government of the Republic of Northern Macedonia, held on March 18, 2020
- ² Antipova, Anzhelika, Analysis of the COVID-19 impacts on employment and unemployment across the multi-dimensional social disadvantaged areas, Memphis, 2021
- ³ Patterson, Stephen; Westfall, John M.; and Miller, Benjamin F., "Projected Deaths of Despair from COVID-19" (2020).
- ⁴ State Statistical Office, Publication, No: 4.1.22.02

⁵ Study on the effects on the private sector - tourism and catering affected by the health - economic crisis caused by the pandemic COVID-19, Kristijan Dzambazovski and Dejan Metodijeski, Skopje, 2020

Tables

Table 1. Gross Domestic Product- calculated by the expenditures approach-
 annual period (from quarterly GDP data) * current prices (mil. MKD)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gross Domestic Product	437296	464186	466703	501891	527631	558954	594795	618106	660878	689425
Final consumption	410328	427192	431883	447970	458601	479688	489803	504206	529602	549419
Household expenditure	330344	343080	344852	360115	368311	384798	398026	411981	435205	452653
Government expenditure	79984	84112	87031	87855	90290	94890	91777	92225	94398	96766
Gross investments	106999	124926	135003	144584	159847	169942	193366	199481	213654	238145
Exports	173999	218745	211764	217803	251484	272423	301346	340860	399006	429485
Imports	254031	306677	311947	308466	342301	363099	389720	426441	481384	527624

Table nr.2 Gross domestic product by expenditure approach, current prices ⁵									
in million MKD									
	Quarter				Year 2020	Quarter			
	2020					2021			
	I	II	III	IV		I	II	III	
Gross domestic product	159 090	141 610	169 632	185 599	655 931	160 521	172 333	182 618	

Final consumption	131 140	132 951	140 188	146 249	550 527	133 794	151 277	147 983
Household final consumption, including NPISHs 1)	104 812	105 705	112 979	117 894	441 389	106 547	121 439	118 387
General government final consumption	26 328	27 246	27 209	28 354	109 138	27 247	29 838	29 596
Gross capital formation	51 415	23 885	49 335	65 756	190 391	45 956	47 911	56 676
Export of goods and services	93 624	72 506	106 069	114 454	386 653	110 931	117 340	123 057
Import of goods and services	117 088	87 732	125 960	140 860	471 640	130 160	144 194	145 098

1) Non-Profit Institutions Serving Households

Table 3. Consumer Price Index

	XII 2021 ----- Ø 2020	XII 2021 ----- XI 2021	XII 2021 ----- XII 2020	Ø 2021 ----- Ø 2020	I-XII 2021 ----- XII 2020
TOTAL	105.9	100.4	104.9	103.2	102.2
Food and non-alcoholic beverages	107.2	100.6	106.9	103.1	102.8
Alcoholic beverages, tobacco, and narcotics	104.3	100.1	100.5	103.8	100.0
Clothing and footwear	101.0	100.0	100.4	100.2	99.7
Housing, water, electricity, gas, and other fuels	103.6	100.3	101.0	102.7	100.1
Furnishings, household equipment, and routine maintenance of the house	101.5	99.6	100.8	101.0	100.3
Health	104.1	100.3	102.5	102.9	101.2
Transport	115.8	101.1	116.8	109.9	110.8
Communication	99.3	100.0	99.3	99.5	99.5
Recreation and culture	103.7	100.2	103.2	102.7	102.3
Education	100.1	100.0	99.8	100.0	99.7
Restaurants and hotels	109.7	100.6	105.7	105.9	102.0
Miscellaneous goods and services	102.7	100.3	102.5	101.4	101.1

* Ø- average

Figures

Figure 1. Economic growth rate in R.N.M 2010-2019

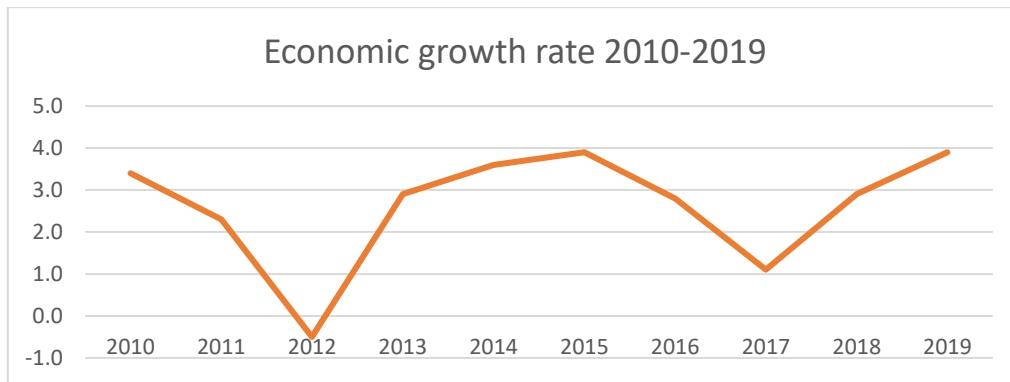


Figure 2. Unemployment rate 2010-2019



Figure 3. Economic growth in NRM 2019-2021

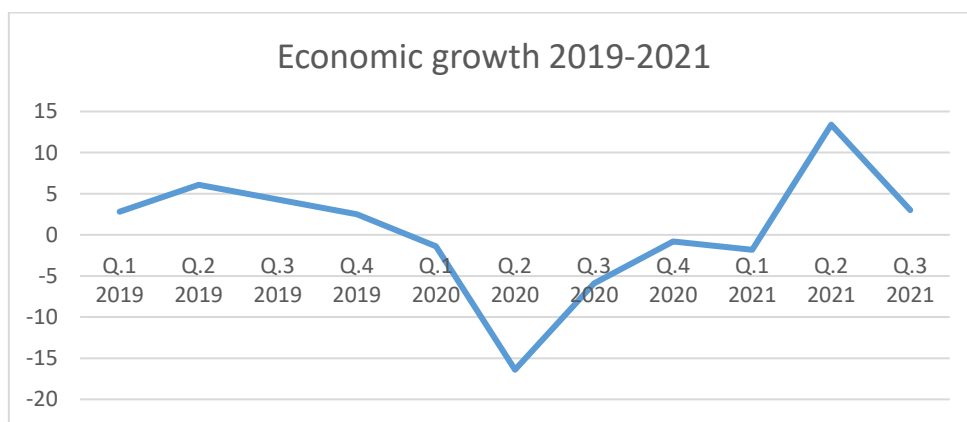


Figure 4. Unemployment rate 2019-2021

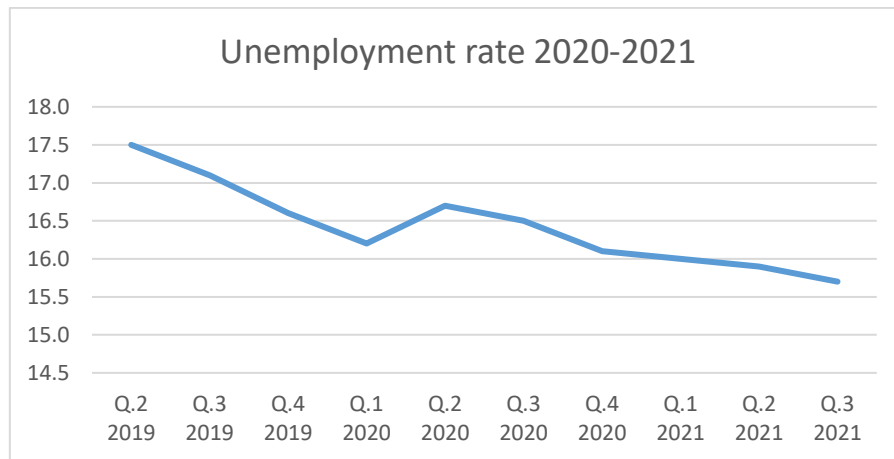


Figure 5. Living expenses 2021

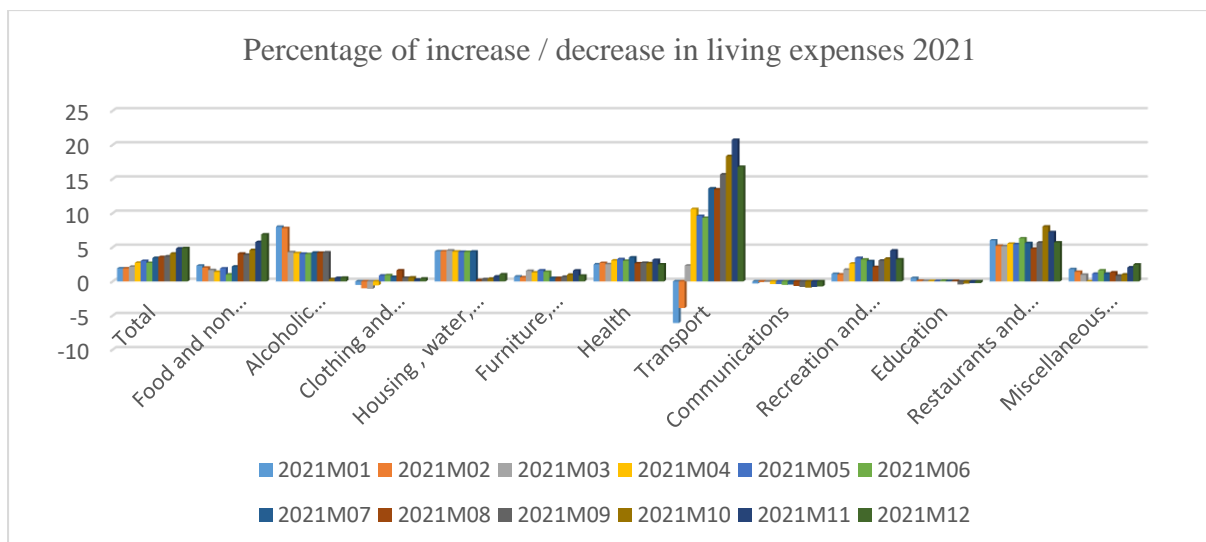


Figure 6. Number of tourists in R.N.M 2020-2021

