

ECONOMIC AND FISCAL CONSEQUENCES OF THE COVID-19 PANDEMIC: THE CASE STUDY OF NORTH MACEDONIA

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Abstract: *This paper aims to analyse the impact of Covid-19 on economic and fiscal consequences in North Macedonia. In addition, the paper assesses the effects of economic and fiscal packages implemented by the Government of the country. The study uses secondary data in order to find out the real consequences caused by Covid-19 pandemic in the economy of North Macedonia. The findings reveal that Covid-19 pandemic produced negative economic and fiscal consequences during 2020 in all sectors. Moreover at the end of 2020 the real sector of the economy recorded a 4.5% decline in GDP, the fiscal deficit achieved a level of -8.1% of the GDP. The findings of the paper show that government assistance through various packages, partly affected the reduction of negative economic consequences of Covid-19.*

Key words: *Economic-fiscal consequences Covid-19, Economic trends, Budget deficit, Economic-fiscal measures*

1. Introduction

The extension of the health crisis caused by the outbreak of the Covid-19 pandemic affected national and international economies because of the growing uncertainty regarding the duration and intensity of this non-economic shock that caused many serious economic and fiscal consequences in 2020 and other years. The seriousness of the economic crisis affected by Covid-19 is argued by the statements of the leaders of the major international financial institutions.

IMF Managing Director Kristalina Georgieva (2020) said the current crisis is "like no other" and "requires steps to enable recovery like no other". The IMF's latest economic forecast estimates that the global economy will shrink by 4.4% this year a figure unprecedented since the Great Depression of 1930.

Georgieva called on countries to co-operate internationally, stating that by accelerating the recovery \$ 9 trillion could be added in global revenue by 2025. "The crisis threatens to

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leave long-term scars on the global economy, such as weaker output growth, higher debt, financial weakness, more poverty and inequality" (IMF,2020).

European Central Bank (ECB) President Christine Lagarde (2020) said policies taken by central banks and governments around the world during the crisis caused by the Corona virus pandemic had prevented a "catastrophic depression ". She pointed out that "Fiscal policy support measures should remain in place as long as necessary to avoid economic collapse and growing inequality".

The World Bank (2020) predicts that the Corona virus pandemic could put 114 million people in extreme poverty, which means living on less than \$ 1.90 a day.

Objectively the prognoses of IMF about the recovery of economies of West Balkans for year 2021 and especially for year 2025 must be taken with big reserve taking into account that the West Balkans is the region with high political risks and fragile institutions. An additional problem for the Western Balkan countries is the large informal sector and tax evasion that directly undermine governments' efforts to stabilize public finances by covering the fiscal deficit and huge public debt because of the Covid-19 pandemic (Osmani&Morina 2020).

2. Research Methodology

The objective of the study was to find out the economic and fiscal consequences caused by Covid-19 pandemic, and the effect of government measures undertaken to solve this economic condition. In order to find out about these effects, the study used secondary data collected from credible institutions such as reports, articles and various publications from the World Bank, IMF, EU, National Bank of North Macedonia, Agency of Statistics, Ministry of Finance, and other institutions and publishers.

The research analysed the different time periods depending on the public information and in a more detailed way the 2010-2020 period on a global level and especially the real and fiscal sector in North Macedonia.

The analysis specifically aimed to respond to the basic objectives of the paper concerning the year 2020 in relation to economic activity as compared to previous years of the previous decade. The year 2020 in economic and fiscal aspect will be analyzed in correlation with the 4 packages of measures of the government of North Macedonia as assistance to businesses and citizens and the consequences in the enormous increase of the fiscal deficit for 2020 and the public debt in relation to GDP compared to the Maastricht criteria as a benchmark for EU integration.

3. Literature Review

Since the Covid-19 crisis occurs for the first time a symbolic number of researchers have made preliminary publications analyzing the negative effects on the economies of their countries and economic policies implemented to overcome the socio-economic consequences especially in the Western Balkan.

Rowthorn and Maciejowski (2020) analysed how the British government planned to save the UK economy from the COVID-19 pandemic by not blocking this country's economy. Rio-

Chanona et al., (2020) in their study provided quantitative predictions of aggregate supply and demand shocks in the US economy during the pandemic period.

Fiti (2020) in his study "Covid -19 Economic crisis and its impact on the economy of North Macedonia" states that: due to the fact that North Macedonia has a small fiscal space, it should reduce the public administration and direct these budget funds to support the businesses that are most affected by the Covid-19 pandemic.

Bexheti (2020) in his study "Fiscal policies and fiscal space during the global pandemic with special reference to the North Macedonia" argues that Macedonia now has no free space for new public debt and that cuts in operating costs are inevitable.

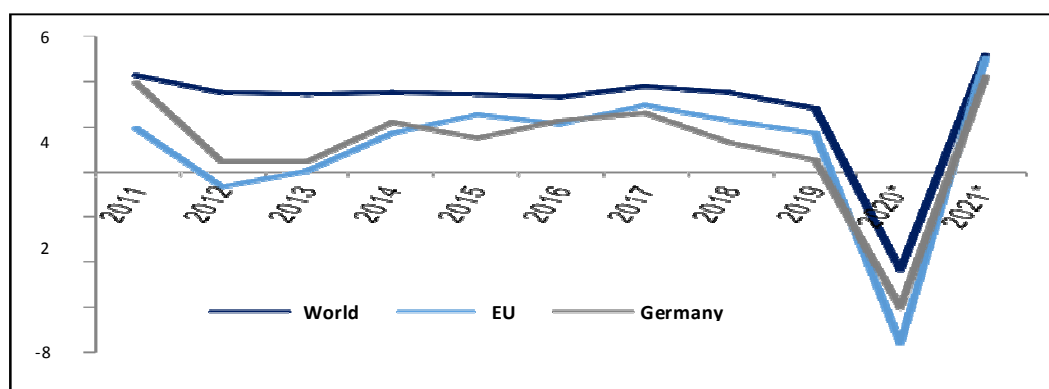
The detailed analyses and the initial projections have been made by experts of IMF, the World Bank, the European Union and other relevant institutions and researchers.

At a national level, efforts continue in an attempt to provide a deep analysis of the economic and social consequences and effects of the economic packages of the Government of North Macedonia and by the Central Bank of the country, the ministry of Finance and Economy, the Academy of science and arts and other researchers.

Since the Covid-19 pandemic partially continues in 2021, a year which by the relevant international and national institutions is projected as a year of economic and social recovery, the assessments of the author of this paper should be treated as preliminary assessments in the case of North Macedonia. More reasoned estimates regarding the economic, social and fiscal consequences and the neutralizing impact of economic and social policies may be made public at the end of 2021 under the assumption that the Covid-19 pandemic will be part of past economic and humanitarian crises.

4. Global Economic Trends

Except for 2012 when the global economy had a symbolic decline, the period between 2013-2019 was accompanied by stable economic growth. This very positive global trend with the appearance of the Covid-19 pandemic was reversed and the year 2020 marks the biggest economic downturn. The economic crisis caused by the Covid-19 pandemic caused a major economic downturn in the world and in the EU and the countries of the Western Balkans.



Graph 1. *Global economic growth (in %)*

Source: IMF, December 2020 (* projection)

As a result of the crisis in question, globally and across the EU, the decline in GDP has, in the first half of the 2020, moved from 7 to 8%. In the case of Germany as a country with which the economy of North Macedonia has important relations in terms of trade cooperation (it is the main partner of the country with 40% of the trade balance) the economic decline showed a decline of GDP by 6%). Finally, in 2020, the global economy recorded a total decline of 3.5% which represents the largest decline in GDP since the time of the Great Depression of the 1930s (IMF 2021).

Optimistic forecasts for nominal economic growth for 2021 (IMF 2021) in the case of EU countries and Western Balkans countries should be taken with reserves because they are based on a lower nominal basis due to falling GDP in 2020 and the real effect of growth can be balanced with 50-60% of nominal forecasts, while in absolute financial terms the nominal values will be lower than in 2019.

5. North Macedonia, the Main Macroeconomic Data

Similar to the global economy, due to the financial crisis of 2008, in 2012 the economy of North Macedonia had a symbolic decline.

The period between 2013-2019 was characterized by stable economic growth because of sound macroeconomic policies and a greater influx of domestic and foreign investment. Throughout 2020, all macroeconomic indicators show permanent deterioration.

As the country's economy is significantly integrated in global economic flows, the consequences of the significant deterioration of the global economic environment were inevitable in the national economic sector.

Consequently, the biggest shocks were addressed to the services' sector in the national economy, such as trade, transport, and tourism. As a result, both the global economy and the national economy faced one of the deepest unrecorded recessions in previous periods.

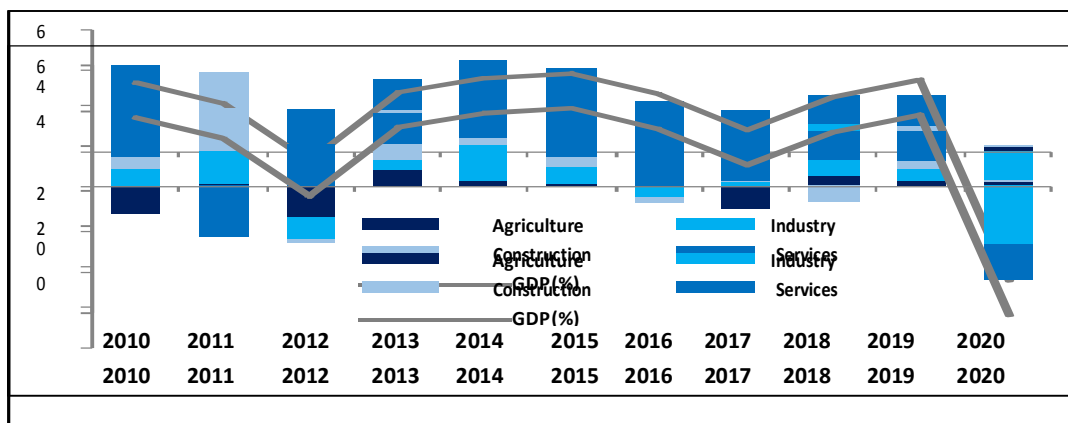


Chart 2. *Structure of economic growth by the production method of N. Macedonia*

Source: Calculated by the author according to State Statistical Office of N. Macedonia

Finally, the spread of the Covid-19 pandemic in 2020 affected the largest economic downturn in North Macedonia during the three-decade transition period. Economic growth trends for the 2020 analyzed according to the structure of expenditures which have very negative trends because domestic consumption and especially the export and import sector have very high levels of decline.

The current account of the balance of payments, in 2020, recorded a deficit of 3.5% of GDP and the trade balance showed an annual deficit of 16.8% of GDP- this level is lower by 0.8% as compared to 2019. The economic crisis affected by the Covid-19 pandemic has mostly hit foreign investment in the country.

At the end of 2020 in North Macedonia the level of foreign investment was only 1.9% of GDP which represents a decrease of 41% as compared to the previous year, 2019. Annual inflation was at the level of initial projections with a minimum rate of 1.2%.

The merit for the low level of inflation belongs to the independent monetary policy based on the targeting of the exchange rate managed by the Central Bank of the state.

The National Bank of the North Macedonia eased its monetary policy during 2020 , to mitigate the negative consequences of the covid-19 pandemic by lowering the key interest rate three times,thus historically lowering it to a level of 1.5%. (NBRNM-2021).

Finally, because of the companies' adaptation to the new economic situation and the many packages of economic and fiscal measures of the Macedonian government and the easing of the policy of commercial banks, the GDP decline at the end of 2020 reached the level of -4.5% (NBRNM-2021).

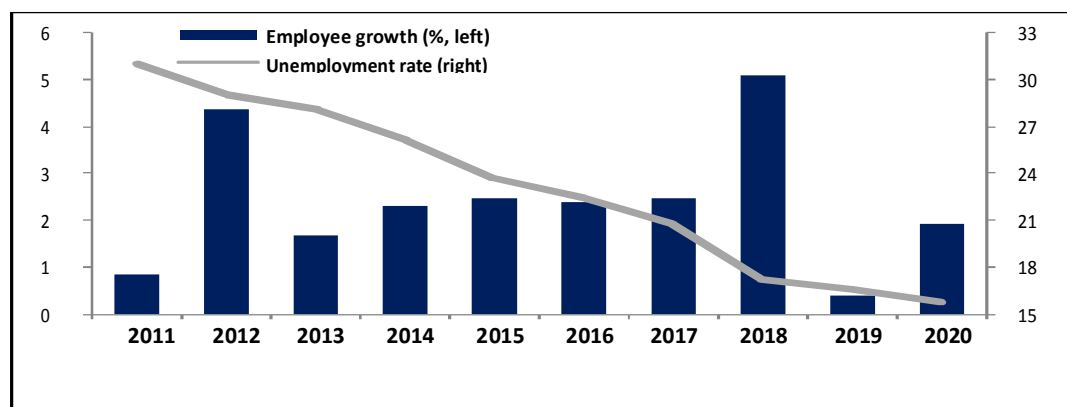


Chart 3. *Number of employees and unemployment rate of the economy of N.Macedonia*
Source: Calculated by the author according to State Statistical office of North Macedonia

According to the Labor Force Survey, the employment rate reached 48.1% at the end of the 2020 and the unemployment rate reached 16, 7%. The number of employees in 2020 decreased by only 0.3%, while the employment rate decreased by 0.2% and reached the annual level of 47.1%.(Annual Statistical Report 2021).

This trend of decreasing unemployment by only 0.2% in the period when GDP decreased by 3.8% is in complete contradiction with Okun's law (2021, which states that a one-point increase in the cyclical unemployment rate is associated with two percentage points of

negative growth in real GDP. The relationship varies depending on the country and time period under consideration.

Analyzed by economic sectors, the largest decrease in employees was recorded in the sectors of agriculture, tourism, energy, construction, transport, retail trade and administrative services activities. Since the economic decline and fiscal deficit in 2020 in North Macedonia reached record levels in a negative aspect, the trend of unemployment and employment is not in correlation with the trends in the real and fiscal sector reflected in Chart no.3.

A phenomenon of this nature partly represents a paradox of a special kind, but the preservation of employment has been significantly affected by the second package and the four anti-crisis measures approved by the government of the country. From these anti-crisis packages, private businesses have been assisted with financial assistance from the central budget at the level of 141,438,917 euros during 2020.

6. Public Finance of North Macedonia

Public finances in North Macedonia in 2020 were hit the hardest by the Covid-19 pandemic. With the rebalance of the budget for 2020, the budget deficit reached a record level of 22.94%. The budget deficit in 2020 with the annual budget account reached a record level of -8.1% of GDP, compared to the moderate deficit in the previous five-year period of an average of -2.3% of GDP (NBRNM 2021).

The extreme budget deficit is a consequence of the increase in operating budget expenditures that were a consequence of the packages of government measures for assistance to businesses and citizens to mitigate the economic and social consequences.

Financial effect on the budget of 2020 of North Macedonia

Table 1

Description	Budget Euro (2020)	Rebalance Euro (2020)	Difference (%)	Difference (Amount)
I. Total revenue	3.227.700	3.217.508	-0,32%	10.192
- Source income	3.165.100	3.103.590	-1.94%	61,510
-Capital income	35.070	35.070	0,00%	0,00
-Donations	27.530	78.848	186,00%	51.318
II. Total expenses	3.982.754	4.145.788	4,06%	161.542
-Determined purposes	3.979.474	4.141.016	4,06%	161.542
-Reserves	6.280	4.772	-24,0%	1.508
III. Deficit	755.054	928.280	22,94%	173.226
-Inflow	1.447.328	1.618.557	11,83%	171.229
-Outflow	692.274	690.277	-0,29%	1.997

Source: Authors calculations based on Rebalance of the budget of N.Macedonia for 2020

While the 4 fiscal packages of the Government of North Main macroeconomic projections (2021-2025) of the RMV Ministry of Finance reduction of fiscal revenues was evidenced because of the reduction of economic activity of businesses and the reduction of private and public consumption.

At the extremely high level of the budget deficit during 2020, the repayment of a loan of 500 million euros has had a considerable impact. This extremely high budget deficit resulted in exceeding the 60% margin of public debt / GDP as a Maastricht criterion set by the EU in the integration process of aspiring countries such as North Macedonia.

7. The 4 Packages of Economic-fiscal Measures of the Government of North Macedonia

To face the negative economic and social consequences by citizens and businesses, the government of North Macedonia during 2020 approved 4 anti-Covid-19 economic packages (Finance.gov.mk-2020). The packages were approved at different time intervals depending on the intensity of the crisis and the economic and social consequences.

Fourth economic packages of government of the country aimed to achieve these goals

- 1) The first set of measures is intended for the citizens, the social segment that refers to the citizens and their standard for facing this period.
- 2) The second set of measures refers to the private sector, economic activity and jobs, all activities that include liquidity, financial stability and economic recovery.
- 3) The third set of measures implies fiscal and financial stability of the economy.
- 4) The fourth set of measures refers to private sector (financial assistance for salaries) and fiscal facilities and soft loans for businesses from local banks and foreign international institutions and financial assistance for unemployment and pensioners.

Realization of packages of economic measures in 2020 in N.Macedonia Table 2

	Covid program	Total (euro)		% of realization	
		Budget Amount	Realization 01- 31.12.2020	Difference	%
1.	Government of North Macedonia	235.369,171	231.674.983	3.694.188	98,4%
-	Salary subsidy		141.438.917		
-	Other financial assistance to companies		33.382.310		
-	Payment card		49.385.171		
-	Transfer to PC		7.468.586		
2.	Functions of the state	14.455.285	12.991.870	1.463.415	89,9%
3.	Ministry of finance – weekend without VAT	1.138.211	830.999	307.212	73,0%
4.	Ministry of Economy	10.930.894	10.919.042	11.852	99,9%
5.	Ministry of transport	25.748.390	19.377.539	6,370.851	75,3%
6.	Ministry for education	888.293	885.486	2.807	99,7%
7.	Agency for sport	487.805	487.301	504	99,9%
8.	Ministry for culture	68.293	66.016	2.276	96,7%
9.	Academy of Art and Science	16.260	6.586	9,675	40,5%

Covid program		Total (euro)		% of realization	
		Budget	Realization		
	Institutions	Amount	01-31.12.2020	Difference	%
	of North Macedonia				
10.	Ministry for Health	1.951.220	534.984	1.416.235	27,4%
11.	Agency for Employment	910.569	883.313	27.256	97,0%
12.	Total	291.964.390	278,651.534	13,312,856	95,4%

Source: Author calculations based on information published by official sources and other sources

Based on preliminary estimates by government authorities the 4 anti-Covid-19 packages had a total value of approximately 1 billion euros. The first and second packages were designed at 180 million euros, the 3rd package 350 million euros and the 4th package 470 million euros. In the absence of official reports from government institutions, analyses made by independent experts based on partial publications by government institutions and international institutions have estimated that by 2020 a total of 278,651,534 euros has been realized as financial assistance to businesses and citizens that represents only 28% of the initial projections of the 4 government packages.

It is worth noting that amounts of bank loans with favorable interest rates and longer repayments by commercial banks and international financial institutions are not part of this calculation for lack of verified information.

Considering the fact that even during 2021 the government of North Macedonia has continued to implement part of the anti-covid economic measures, the more accurate assessment of the total assistance and the real effects in eliminating the negative economic and fiscal consequences can be calculated by the end of 2021 under the assumption that the Covid-19 crisis will belong to the past in the country and globally.

10. Conclusions

The study aimed to investigate the effect of Covid-19 pandemic in North Macedonian economy. Moreover, the study attempted to find out the effects of economic and fiscal packages implemented by the Government of North Macedonia in this hard economic period. The findings revealed that Covid 19 had very negative economic and fiscal consequences during 2020 in all economic and fiscal sectors in North Macedonia.

The real sector of the economy recorded the highest GDP decline of -4.5%, hitting all economic branches and in particular the export sector, trade, transport and tourism, reducing the level of investment by 41%, but the unemployment rate decreased by only 0.2%, a trend that is partly addressed to government financial and fiscal measures and requires more detailed analysis in 2021.

The findings also showed that the fiscal deficit in 2020 reached a record -8.1% of GDP in the three decades of economic transition. In this high level of fiscal deficit, in addition to the negative consequences of the Covid-19 pandemic, the payment of an old loan of 500 million euros had a high contribution.

The four packages of government measures partly contributed to reducing the decline in private consumption and investment and failed to stop the level of decline in overall economic activity.

The four economic and fiscal packages of anti-covid-19 measures against the initial projections of 1 billion euros at the end of 2020 were realized only 28%. This partial realization of economic-fiscal packages is a consequence of the lack of fiscal liquidity in the central budget of the government of North Macedonia.

The economic and fiscal recovery from the consequences of Covid-19 in North Macedonia will be a difficult medium-term process given the energy crisis that is underway. The economic and fiscal rehabilitation requires additional financial funding from international institutions and quality structural reforms in the economic, fiscal and social sector.

Moreover, the high fiscal deficit and overcoming the public debt margin of 60% of GDP presents an extraordinary fiscal and economic challenge for each government of the country in the future.

Review of customs and fiscal policy and pre-fiscal obligations to increase the financial liquidity of companies in order to invest in salary increases based on meritocracy criteria, advancement of human capital and advancement of technology as a comparative advantage for faster economic recovery. Finally, the Government must prepare a long-term strategy to assist the national economy in crisis situations as unforeseen shocks.

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