

A top-down view of a desk with a marble pattern. In the upper right, a pair of round glasses with brown frames and orange temples lies next to a gold paperclip. Below them, a white smartphone displays an 'Expenses' app with a list of categories: Auto, Travel tickets, Office, and Groceries. To the left of the phone is a pink calendar for March 2021, showing the days of the week and dates. A black pen rests on the calendar. In the bottom left, two more gold paperclips are visible. The background is a light pink surface with the year '2021' printed on it.

The impact of government interventions on the Macedonian economy during the COVID-19 pandemic, measured through the budget analysis of government spending and priorities actions taken

Publisher:

Center for Change Management – CCM Skopje

For the publisher:

Neda Maleska Sachmaroska

Author:

Vesna Gligorova

Electronic version

May 2021

CONTENTS

LIST OF ABBREVIATION.....	3
LIST OF FIGURES.....	3
LIST OF TABLES.....	3
1. EXECUTIVE SUMMARY.....	4
2. ANALYSIS OF THE BUDGET AND GOVERNMENT SPENDING.....	5
3. ACHIEVED MACROECONOMIC PERFORMANCE IN 2021 AND THEIR FUTURE IMPACT ON THE ECONOMY.....	12
4. GOVERNMENT POLICIES AND MEASURES INTRODUCED IN THE BUSINESS SECTOR.....	20
4.1. GOVERNMENT POLICIES TAKEN IN THE BUSINESS SECTOR WITH SPECIAL ATTENTION ON SME's.....	20
5. CONCLUSION.....	24
6. RECOMMENDATIONS.....	27
7. REFERENCES.....	31

LIST OF ABBREVIATION

COVID-19	Coronavirus Disease 2019
EC	European Commission
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
EME'S	Emerging Market Economies (EMEs)
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
IT	Information Technology
MF	Ministry of finance
NBRNM	National Bank of Republic of North Macedonia
NGO	A non-governmental organization
PRO	Public Revenue Office
RNM	Republic of North Macedonia
SME	Small and Medium-sized Enterprises
VAT	Value-Added Tax
WHO	World Health Organisation

LIST OF FIGURES

FIGURE 1:	Budget revenues, expenditures and budget balance for the period 2018-2021
FIGURE 2:	Structure of a budget income, 2021 vis a vis 2020
FIGURE 3:	Structure of a budget expenditures, 2021 vis a vis 2020
FIGURE 4:	The percentage share of government allocated funds by programs for the period 2018 – 2021
FIGURE 5:	Inflow and outflow for deficit financing in the period 2018 - 2021
FIGURE 6:	Projection for realized growth for 2021
FIGURE 7:	Figure No.6 Gini coefficient (scale from 0 to 100%) from 2016 - 2020

LIST OF TABLES

TABLE 1:	Allocated amounts of Government funds via programs for the period 2018 – 2021
TABLE 2:	Deficit financing through the years
TABLE 3:	Budget for 2021 compared with 2020 budget <i>*(expressed in billions of denars)</i>
TABLE 4:	Basic economic indicators for the period 2018 up to 2021

1. Executive summary

For the first time after a long period, countries all over the world, contemporaneously are facing an ongoing global economic crisis, caused by coronavirus disease COVID-19. In April 2020, officials at the International Monetary Fund (IMF), described the COVID-19 pandemic as *"The worst economic crisis since The Great Depression of the 1930s"*.¹ This is the attribute of realness because the crisis is considered to be unique and differs from other shocks that economies were facing until now, in many respects.

The economic crises before were typically financial crises characterised mainly by imbalances in the financial system associated with the decline of the values of assets, currency devaluation, inflation, where businesses abstained from investing and consumers constrained from spending by inability to pay their debts. In previous economic shocks, financial institutions were experiencing liquidity shortages, often associated with a panic during which investors sell off assets or withdraw money from savings accounts because feared that the value of assets will drop if they leave their valuables in a financial institution. The Republic of North Macedonia from its independence until now, showed an ability to deal with the financial crises that was caused on foreign soil, but due to globalization, the crises were spilling over into our economy very easily. Having in mind that the Macedonian economy is still underdeveloped and fragile as well as dependent on import, the stagnation and closure of economies from where companies provide industrial inputs, was an additional burden for the industry and other branches dependant on foreign commodities.

Nonetheless, as mentioned before, this crisis triggered by the spread of coronavirus caused an unusual economic downturn with a large decline in economic activities and the Governments but also and World Health Organisation (WHO), lack the possibility to predict the duration of it. Its main characteristics are unpredictability and tremendous uncertainty about the outlook but also presence of economic and health elements at the same time, that make her differ in every single economy by its severity. Many variable factors are included in these impossibilities of Governments to foresee the course of events and because of it, differ the actions taken by one economy to another. Many developed countries managed to keep their economies alive without any restrictive measures or closing of economies. While others, as in the case of the North Macedonia, were forced to introduce a police hour and total lockdown, with a period of duration, in order to put the lives of the people as a priority, or as an only familiar way to stop the spreading of the virus. These actions caused severe damage to our economy. Nevertheless, this triggered actions in many economies that meant specific, united and unique policy measures, especially in the process of creating the public budget. The finance minister has been at the forefront of the response to the COVID-19 crisis, alongside other relevant stakeholders such as the health minister, in order to decide how and where the budget funds will be allocated and in which sector. The sector where the government of the North Macedonia projected higher costs were health, social care and education. Despite all, these sectors were caught totally unprepared for a pandemic caused by the Covid-19 crisis. However, depending on the severity with which the crisis hit the economy, to that extent, the measures taken were restrictive and meant a complete closing and cessation of some sectors in the economy. Still, some of the actions in all economies were the same

¹ <https://www.bbc.com/news/business-52236936>

in need of solutions such as activating different strategies for raising the budget revenues and increase spending for the realization of priorities.

On the other hand, the way budget policy makers choose to meet the challenges they face affects economic trends and economic performance not only in the present moment but also and in the years to come. Economic growth for next year is uncertain according to world forecasts which indicate that the health-economic crisis in our country will last at least until the middle of the next year 2022. One is for sure, and that is the situation that prevents full activation and utilization of the economic capacities of the state.

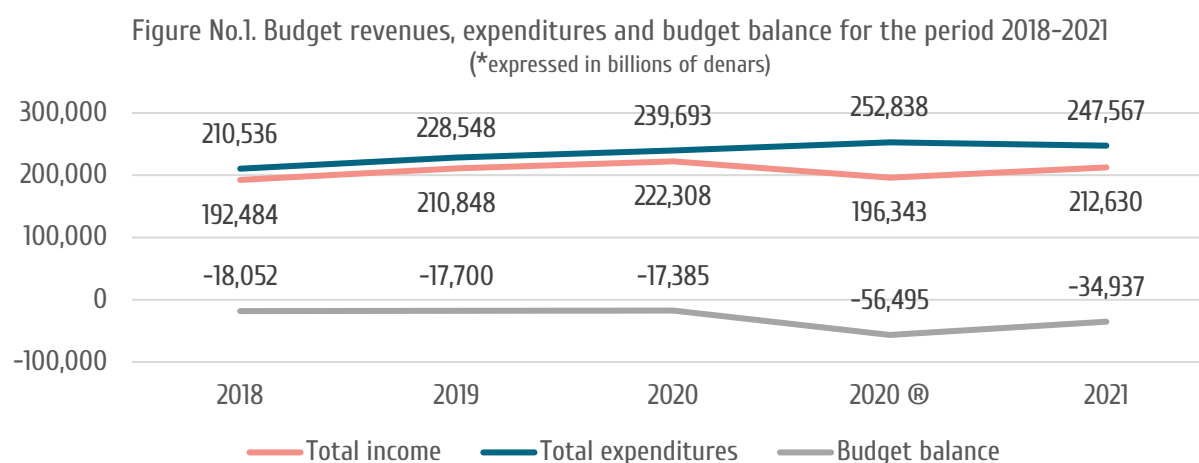
This analysis provides a brief overview of how our country and the government have coped and adapted to the demands and pressures brought about by the crisis in three main areas:

- ☞ **Funding COVID-19 and spending** - Analysis of policies and measures that the Government in the Republic of North Macedonia has taken and is still taking, through harmonized and interconnected steps that maintain economic activity and do not allow the crisis to gain momentum and thus lead to a complete collapse of the economy. This will be seen through the analysis of realised supplementary budgets for 2020 and the planned budget for 2021. Because only a transparent, accessible, and accurate budget allows citizens to participate in resource allocation and policymaking;
- ☞ **Macroeconomic variables analysis** - In this brief, we will see to which extent the Government of the Republic of North Macedonia has succeeded in its intentions through the policies and restrictive measures that it has taken to prevent the spread of the virus and simultaneously to maintain macroeconomic stability, inclusive growth and employment in order to prevent the collapse of the economy. This will be seen through the realised macroeconomic performance of the country for the past period of 2020 and the first quarter of 2021;
- ☞ **Government policies taken in the private and civil sector** - Moreover, the analysis is structured to target the market and business sector heavily affected by the COVID-19 pandemic. Within this sector, is examine the relative importance of each segment, the COVID-19 impact, the constraints, the businesses and civil sector responses to the impact, and the potentials to overcome the problems and constraints, and drive the economic recovery. Additionally, through the analysis of the Government and institution measures, we will see how much they managed to help companies and organizations to survive and cope with the crisis they are facing and which has become their everyday life.
- ☞ **Conclusion and recommendations** - Finally, it draws a set of recommendation to be considered by decision-makers such as finance ministries, Public Revenue Office (PRO) and other relevant institutions.

2. Analysis of the budget and government spending

The budget for 2021 was prepared in a period of great uncertainty, when the whole world was facing a health pandemic caused by the COVID-19 virus. The COVID-19 pandemic erupted when our country had just begun to implement its 2020 budget. Since then, the priority of the government has been to design and implement immediate responses to the crisis notably through emergency budget instruments such as supplementary budgets, transfers, contingency reserve funds, and emergency decrees. In 2020, the Ministry of finance introduced and the Assembly of RNM adopted one contingency reserve funds in form of nominal reduction of

budget items for reallocation of funds for COVID-19 in March 2020, in the amount of 6.542 billion of denars and two supplementary budgets one in May 2020 and other in November 2020. These two supplementary budgets aimed to support the economy that was already suffering the consequences of insufficient and not proper allocation of funds and allocated additional funds secured from borrowing to support planned measures. Most of the assets were allocated to the institutions that had the authority to support and realised measures that will mean assisting most attacked sectors or vulnerable groups in the economy most affected from COVID-19, such as the Ministry of Labour and Social Policy in charge of granting subsidies. Later we will see if the government succeeded in the realization of the plan, not only with the 2020 budget but also, we will analyse the forecast budget for 2021. The key question that remains open here is, do these assets that the government had collected were or will be properly targeted and in which way? And the second is how does the government finance the planned spending intended for the maintenance of economic activity, from which sources and at what price?



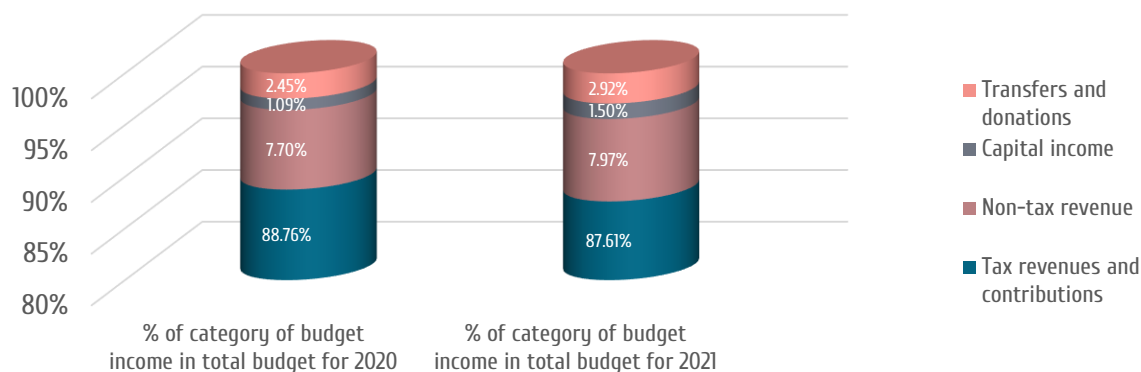
In the fourth quarter of 2020, there was a decline in domestic economic activity of 0.7% on an annual basis. This decline is the result of inappropriately targeted measures from the Government, not tailored according to the need of every sector individually, therefor is a decline is registered in all sectors of the economy. According to the Ministry of Finance, there was a decline in every single sector in the economy. In agriculture is registered a decline of 3.2% after the growth in the previous three quarters, the activity in the service sector decreased by 0.1%, which is mostly due to the reduced activity in all its activities, the industrial sector decline of 0.6%, which is significant mitigation after the double-digit decline rates in the previous two quarters of 2020, in the construction sector registered a decline of 1.4% after the growth of 3.4% in the previous quarter of 2020.²

In the 2021 budget, total income is planned to be 212.630 billion of denars and is 8.3% higher compared with the rebalance budget from 2020. The structure of the revenues is composed of extremely modest tax revenues that participate with 55.49% in the total income and they are planned in the amount of about 118 billion denars (VAT, income tax, personal tax) which for this year are forecasted to increase by 7% compared to 2020 and non-tax revenues (fees on various grounds, duties, fines, etc.) for which also is predicted growth of 12% compared to 2020. The largest share has the value-added tax in the planned tax revenue's structure, 44.3%, while the excises account for 21.4%. Participation of VAT instead of the personal tax in the first place within the structure of income is not supposed to be a case in any country because represents immaturity and underdevelopment of the country. A

² [Quarterly economic report K4 2020 \(finance.gov.mk\)](https://finance.gov.mk)

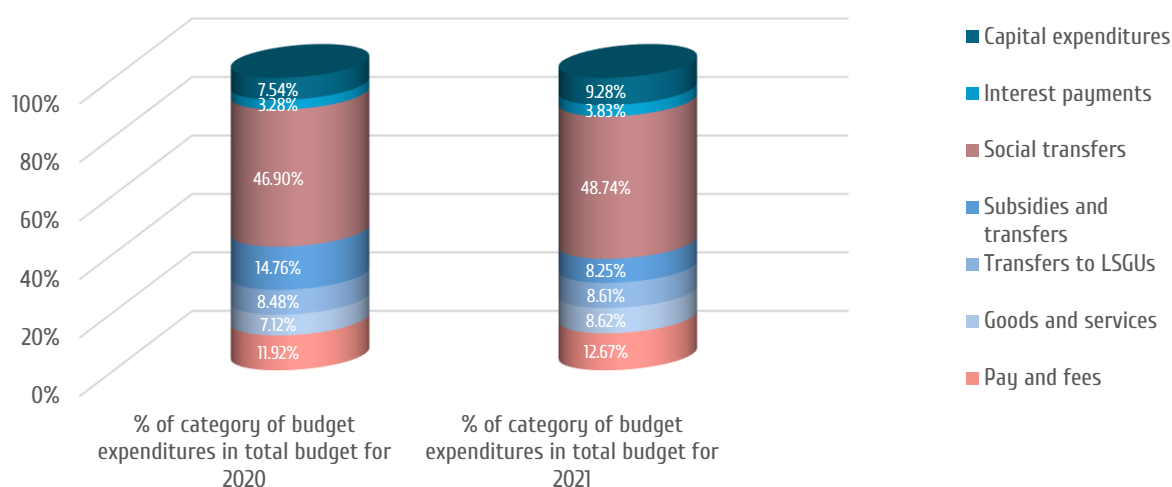
value-added tax (VAT), as a tax on consumption, is regressive, without the possibility of evasion and hit the poorest households because they spend a larger proportion of their income. In our country poorer households are surviving from borrowing from the financial institution in order to survive 'till the end of the month, so they not only are spending the monthly income but the borrowed assets as well. The reason is that low wage earners have to spend a much bigger share of their income than high earners in order to meet their basic needs. Since, from the government program for refundation of VAT to consumers, benefits will have only the richest citizens in our country³.

Figure No.2. Structure of a budget income, 2021 vis a vis 2020



Regarding the structure of expenditures in the 2021 budget, they are planned in the amount of 247.5 billion denars, -2.1% less than the 2020 supplementary budget. The expenditures are intended for regular payment of salaries to public sector employees, capital expenditures, timely and regular payment of pensions, guaranteed minimum income and other social benefits, payment of subsidies in agriculture, support of small and medium enterprises, support and subsidizing of innovative activities, as well as the support of the health sector. The

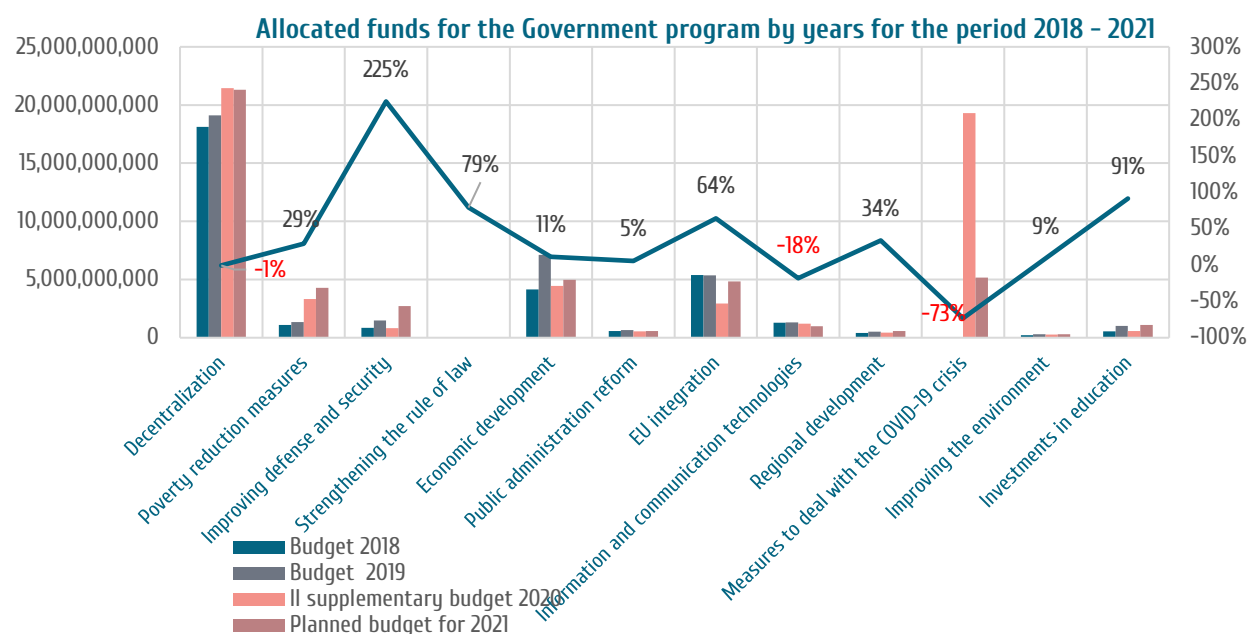
Figure No. 3 Structure of a budget expenditures, 2021 vis a vis 2020



highest growth we have within capital expenditures that for 2021 compared with 2020 are increased by 20.6% and the highest decrease in subsidies and transfers by -45.3%. Capital-intensive investment project refers to infrastructure, like roads, railway, communal infrastructure, gasification and environment, health and education

³ [Public Revenue Office of the Republic of Northern Macedonia \(ujp.gov.mk\)](http://ujp.gov.mk)

through construction and reconstruction of primary and secondary schools. Concrete investments are a construction of a National Gas Pipeline System, in order to supply the economy, the public sector and the households with cheap and ecological energy, and at the same time to reduce the emission of harmful gases into the atmosphere, the collector system of the Ohrid region lake, financial support for 80 municipalities in all territory of Republic of North Macedonia for construction works for reconstruction and upgrade of local roads and streets. From the health sector, the huge investment is planned with the construction of a new Clinical Center "Mother Teresa" in Skopje, where will be located at least 25 clinics and several institutes and the construction of a new Clinical Hospital in Shtip.



In the Table No.1. we can see the funds projected for capital investments through the programs that the Government plans to implement in 2021. The highest increase of allocated funds is for Improving defence and security, the second and third where we have increase for 91% and 79%, are Investments in education and strengthening the rule of law, respectively. The allocated funds for measures to deal with the COVID-19 crisis is decreased with a planned budget in 2021 by -73%, compared with the allocated and realised amount for this purpose in 2020, which clearly speaks that the Government will not continue to help sectors that will remain to feel the consequences in the upcoming 2022.⁴

Table No.1. Allocated amounts of Government funds via programs for the period 2018 – 2021					
Item category	Budget 2018	Budget 2019	II supplementary budget 2020	Planned budget for 2021 ⁵	% growth in 2021 compared to 2020
Decentralization	18,110,995,000	19,118,848,000	21,440,107,000	21,315,330,000	-1%

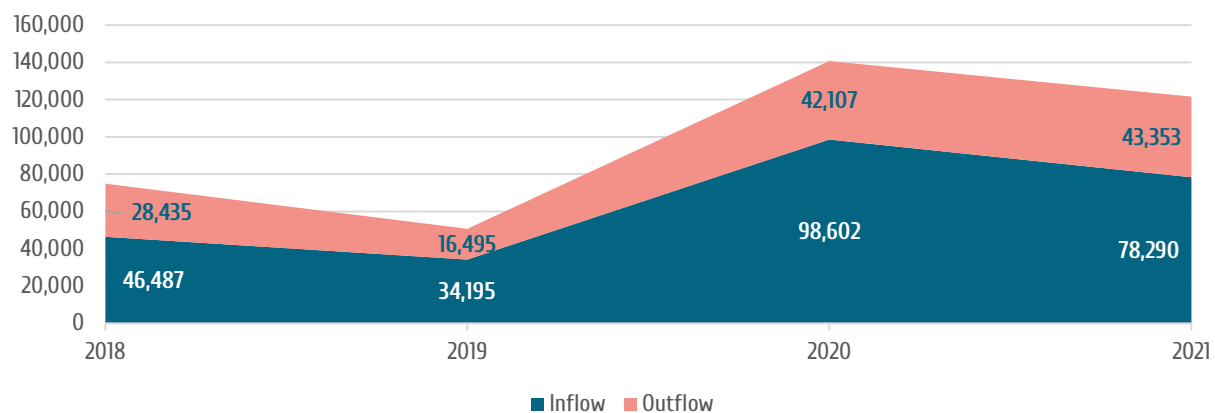
⁴ The data shown in the table are based on the official documents on state budgets from the period 2018 – 2021, available on <https://finance.gov.mk/>

⁵ Government programs of the Budget of the Republic of Northern Macedonia, page 91, 92 [BUDGET-ON-REPUBLIC-NORTHERN-MACEDONIA-FOR-2021-YEAR.pdf](#) (finance.gov.mk),

Poverty reduction measures	1,097,400,000	1,354,200,000	3,327,911,000	4,299,000,000	29%
Improving defense and security	855,000,000	1,478,866,000	835,740,000	2,714,752,000	225%
Strengthening the rule of law	2,160,000	21,300,000	1,230,000	2,200,000	79%
Economic development	4,146,004,000	7,129,537,000	4,453,989,000	4,963,850,000	11%
Public administration reform	575,809,000	658,152,000	546,160,000	575,424,000	5%
EU integration	5,400,443,000	5,352,521,000	2,951,829,000	4,846,856,000	64%
Information and communication technologies	1,282,890,000	1,304,699,000	1,214,139,000	992,494,000	-18%
Regional development	405,017,000	512,474,000	430,567,000	576,646,000	34%
Measures to deal with the COVID-19 crisis	0	0	19,295,676,000	5,160,500,000	-73%
Improving the environment	223,580,000	293,869,000	270,086,000	294,160,000	9%
Investments in education	550,847,000	1,029,097,000	570,106,000	1,091,573,000	91%
Total	32,650,145,000	38,253,563,000	55,337,540,000	46,832,785,000	

Current transfers and subsidies are planned at the level of 162.4 billion of denars and as we mentioned before they are decreased by -45.3%. compared with the 2020 subsidiary budget. They mainly refer to payment of pensions where are allocated 62.3 billion of denars, an amount that is 40% higher from the 2020 subsidiary budget, then for the payment of benefits for social protection of the most vulnerable sections of the population, the payment of cash benefits in case of unemployment, the implementation of active employment policies and health care.

Figure No.5. Inflow and outflow for deficit financing in the period 2018 - 2021



Because the source of revenue has not been enough to create healthy profits, the planned additional spending the government is financing through domestic and foreign borrowing, which in terms of indebtedness makes the country additionally risky indebted. Namely, with the planned budget for 2021, the Government predicted a deficit in the amount of -34.937 billion denars or 4.9% of the projected GDP, which macroeconomic performance is half lower than the deficit for 2020 which by the end of 2020 was realized at 8.5% of GDP. The projected deficit for 2021 of -34.937 billion denars, as well as the repayment based on the principle of external debt in the amount of 37.2 billion denars and the repayment of domestic debt in the amount of 6.1 billion denars, will be financed through foreign borrowing and the domestic government securities market.

This is leading us to the conclusion that the government spends more than it receives in taxes in a given year, and thus runs a budget deficit, so its borrowing option is inevitable. Every debt represents a burden for future generations, especially when foreign borrowing participates with a much higher percentage than domestic borrowing and above all has higher interest rates compared to other countries in the region. Namely, according to the data from the World Bank, North Macedonia has the highest lending interest rates compared with other countries in the region.⁶

Table no.2: Deficit financing through the years

*(expressed in billions of denars)

Deficit financing through the years				
	2018	2019	2020	2021
Total deficit	18,052	17,700	56,495	34,937
Inflow	46,487	34,195	98,602	78,290
Domestic source	17,676	19,004	36,287	23,437
Foreign source	33,108	25,516	65,052	53,542
Deposits	-4,297	-10,325	-2,737	1,311
Outflow	28,435	16,496	42,107	43,353
Repayments of domestic debt	12,217	10,320	15,252	6,119
Repayments of foreign debt	16,218	6,175	26,855	37,234
Deficit/% of GDP	-2.70%	-2.50%	8.50%	-4.90%

Source: Budgets of RSM, Ministry of Finance, finance.gov.mk

Namely, for the repayment of the domestic debt, the state will have to allocate 6,119 billion denars, which is 59.9% less than last year, while for foreign borrowing, the government will allocate 37,234 billion denars, which is 38.6% more than the last year 2020. Although total borrowing is only 3% higher than in 2020⁷.

This should be far from the desired situation especially when we know that external borrowing is much more expensive than borrowing in the domestic market and causing an additional burden for future generations. In terms of the origin of borrowing, the repayment of principal based on external debt includes the regular servicing of the external debt liabilities, while the repayment of the domestic debt includes the repayment of government bonds in the amount of 4.7 billion of denars and the repayment of structural bonds in the amount of 1.4 billion of denars. Domestic borrowing is envisaged at the level of 23 billion denars, and will be provided through borrowing with government securities. Hopefully, borrowing on the domestic market will provide financing on favourable terms, using favourable interest rates.

⁶ [Lending interest rate \(%\) - North Macedonia | Data \(worldbank.org\)](https://data.worldbank.org/indicator/SH.UK.SRVS.CV.NV?locations=VM)

⁷ <https://finance.gov.mk/wp-content/uploads/2020/12/DOPOLNET-PREDLOG-BUDZET-2021-10.12.2020.pdf>

Table no.3: Budget for 2021 compared with 2020 budget *(expressed in billions of denars)

	2020	2020 ®	2021	Differences 2021/2020	% increase/decrease 2021/2020
Total income	222,308	196,343	212,630	16,287	8.3%
Tax revenues and contributions	197,162	174,271	186,282	12,011	6.9%
Tax revenues	130,129	109,218	117,982	8,764	8.0%
Contributions	67,033	65,053	68,300	3,247	5.0%
Non-tax revenue	17,322	15,123	16,954	1,831	12.1%
Capital income	2,183	2,139	3,187	1,048	49.0%
Donations	5,641	4,810	6,207	1,397	29.0%
Total expenditures	239,693	252,838	247,567	-5,270	-2.1%
Current expenditures	215,922	233,775	224,586	-9,186	-3.9%
Salaries and reimbursements	30,615	30,143	31,370	1,226	4.1%
Assets and services	20,578	17,997	21,349	3,351	18.1%
Transfers to LSGUs	21,375	21,440	21,315	-125	-0.6%
Subsidies and transfers	19,035	37,311	20,422	-16,889	-45.3%
Social transfers	116,046	118,584	120,653	2,069	1.7%
Interest payments	8,273	8,299	9,478	1,179	14.2%
Capital expenditures	23,771	19,063	22,981	3,918	20.6%
BUDGET BALANCE - Deficit	-17,385	-56,495	-34,937	21,558	-38.2%
Deficit/GDP	-2.30%	-8.50%	-4.90%		

Source: Draft Budget of RSM 2021, Ministry of Finance ⁸

The analysis of the 2021 budget shows that during its preparation the government was guided by the macroeconomic policy and the projection of the macroeconomic performance for the following year. For 2021, the Government of North Macedonia has stated the following goals and policies in the Budget:

- (i) strengthening the financing of the health care system and preserving the health and lives of citizens;
- (ii) supporting economic stabilization and laying the foundations for solid economic recovery and accelerated growth, and
- (iii) smooth financing of the basic functions of the state and support for judicial reform and Euro-Atlantic integration (EU and NATO).⁹

The budget is based on an optimistic assumption that economic growth in 2021 will take an upward trend and grow by 4.1% compared to 2020, while in the next 5 years the government expects higher growth rates of

⁸ Ministry of finance, Draft budget 2021, <https://finance.gov.mk/wp-content/uploads/2020/12/DOPOLNET-PREDLOG-BUDZET-2021-10.12.2020.pdf>

⁹ Ministry of finance, Draft budget 2021, <https://finance.gov.mk/wp-content/uploads/2020/12/DOPOLNET-PREDLOG-BUDZET-2021-10.12.2020.pdf>

economic activity and reaching an average level of 5.5% with parallel fiscal consolidation in the direction of growth sustainability. The projection of the Ministry of Finance for economic growth of 4.1% is based on assumptions that after the first quarter the effects of the health crisis will begin to weaken and accordingly the investor confidence will begin to return, as well as to reduce the excessive consumer caution.

The main priorities of the budget policy in 2021 are:

- Support to the health sector is a priority, which means protection of the health and lives of citizens, which is reflected in the Draft Budget for 2021.
- The second goal is economic recovery and economic growth through measures for socially vulnerable categories, supporting the economy and preserving jobs. The focus during 2021 is as much as possible on policies that will support investments to increase competitiveness and policies that will support the realization of capital investments, which in the medium term will mean sustainable growth or acceleration of the growth rate.
- The third priority of the budget policy in 2021 is the uninterrupted financing of the basic functions of the state and support for the reforms in the judiciary and the Euro-Atlantic integration.¹⁰

Considering that all taken measures to mitigate the health crisis, such as social distancing and closures in retail, transport, restaurants, hotels, and other service industries hit mostly low-paid and insecure workers particularly hard, the government needed to redirect most of the assets in these sectors. Unfortunately, the measures didn't take into account lower-paid workers that represent around 19% of all full-time employees on average and pensioners with low income. They are likely to have fewer savings to fall back on in the event of income loss and thus the government needed to have special strategies to protect these vulnerable categories of citizens. In fact, during the preparation of the 2021 budget the Government took the following elements into account (1) evaluated the uncertain impact of the COVID crisis on the economy and the government's fiscal position; (2) estimated the fiscal space for continued priority crisis spending and recovery measures; (3) assessed the government's financing needs; and (4) enhanced transparency and accountability by providing a proper presentation and accounting of COVID-19- related fiscal responses, including off-budget measures.

3. Achieved macroeconomic performance in 2021 and their future impact on the economy

Macroeconomic policy makers around the world starting from January 2020 faced an exceptional situation that demanded an urgent response to support economies in dealing with the consequences of the crisis caused by the COVID-19 virus. Following the crisis, the Government of North Macedonia made an attempt to keep stable macroeconomic performance as much as it can to keep the economy stable, knowing that it is functioning in a not familiar and unpredictable environment caused by the pandemic.

¹⁰ <https://vlada.mk/budzet>

Namely, the conditions imposed by the pandemic with the closure of borders, limited movement, reduced economic activity had a negative impact on every macroeconomic variable (GDP, public expenditures (G), overall taxes (T), private consumption (C), savings and investment (I), the balance of payments (exports, X, and imports, IM) and inflation rate). In these circumstances, it was and still is vital for the Governments to take and create unrushed and properly tailored measures according to the needs of the economy in order to maintain the stability of the economy and keep economic activity alive. However, despite the efforts made, the performance of the Government of North Macedonia, judging by the realized economic indicators we can say that at some point the Government failed to accomplish her duty. We can't say the same and for NBRNM that accomplish her duty to be the guardian of the monetary stability in the country as she was in the previous years.

Table No. 4. Basic economic indicators for the period 2018 – 2021

Basic economic indicators	Annual changes, in%				
	2018	2019	2020	2021 (Q1)	2021 vis a vis 2020 %
Real sector					
Gross domestic product (GDP)	2.90%	3.20%	4.50%	4.1%	-8.89%
Inflation rate	1.50%	0.80%	1.20%	1.5%	25%
Unemployment rate	20.7%	17.30%	16.40%	15.8%	-3.66%
External sector					
Current account balance (% of GDP)	-0.10%	-3.30%	-3.50%	2.9%	-182.86%
Trade balance (% of GDP)	-16.20%	-17.60%	-16.90%	-17.7%	5.36%
Foreign direct investment (% of GDP)	5.60%	3.20%	1.90%	3.00%	57.89%
Gross external debt (% of GDP)	73.0%	72.70%	80.20%	75.1%	-6.36%
Gross foreign exchange reserves (in millions of EUR)	2,867.1	3,262.60	3,359.90	-	0.03
Fiscal sector					
Budget balance (% of GDP)	-1.8%	-2.00%	-8.10%	-4.9%	-39.51%
Public dept (% of GDP)	48.4%	49.40%	60.20%	62.5%	3.82%
Social sector					
Net wages - real growth (average in%)	4.4%	3.1%	6.5%	1.5%	-76.92%
Banking sector					
Capital adequacy ratio (%)	16.5%	16.30%	16.70%	-	2.45%
Non-performing loans on the non-financial sector / gross loans (%)	5.2%	4.80%	3.40%	-	-29.17%
Liquid assets / total assets (%)	26.7%	26.90%	23.30%	-	-13.38%

Source: 2020 Annual report of NBRM¹¹ and for 2021 figures are from Ministry of finance, March 2021¹²

In the table above are listed basic economic indicator divided into **five sectors (real, external, fiscal, social and banking sector)** released from the Government, Ministry of finance and NBRM. These indicators provide us with insight into the state of an economy and whether it is in expansion or contraction.

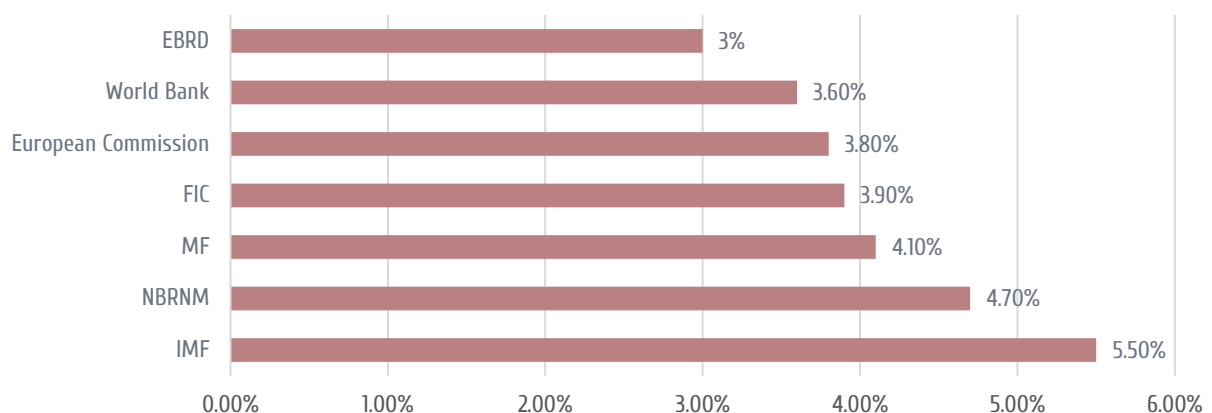
¹¹ [Annual report for 2020 NB.pdf \(nbrm.mk\)](#)

¹² [Basic indicators - finance.gov.mk](#)

- ❖ From the real sector is analysed gross domestic product (GDP), inflation rate and unemployment. Unfortunately, two from three figures, estimated from the Ministry of finance, show week performance.

Gross domestic product (GDP) as indicator shows the complete performance of the country utilizing its escalating or lessening growth rate. The current EBRD forecast for real GDP growth in North Macedonia for 2021 is 3.0%,¹³ but according to other relevant institutions is projected to reach even 5.5% in 2021. This predicted economic growth is estimating that our economy will have an increased capacity to produce goods and services for a certain period, compared to the previous period. Having in mind that GDP is dependent variables that are heavily related and affected by independent variables, such as inflation rate, interest rate and exchange rate, wherein one of the listed variables as inflation in North Macedonia progress is not positive, it remains to be seen does the Government will make the right investments now as a vital part in achieving growth in order to support the recovery when it is urgently needed and foster resilience. Furthermore, the following two fiscal indicators public debt and budget deficit, that has a dominant influence on economic growth and public general revenues, currently represent a burden for the economy and according to that have a negative impact on GDP growth. So, it remains to be seen whether the government will make the right moves to strike a balance that will contribute to stabilizing the economy and economic performance.

Figure No.6. Projection for realized growth for 2021



As we can see, the projection for 2021 is more than optimistic and is in line with the data gathered from other reliable international and domestic financial institutions (Figure No.5). They range from high 5.5% at the IMF to low 3.6% at the World Bank.¹⁴ According to the latest review of the International Monetary Fund of the global economy from January 2021, the crisis will begin to fade in the second half of the year, while the growth potential will increase in the third half, especially with increasing vaccine availability and reducing rigorous measures for social distancing. According to the IMF, the big effect on the crisis will have the policy support from the Government in order to return the trust of investors in the economy. Besides, with the growth of vaccine availability, improved therapies, the increase in the

¹³ [north-macedonia-country-strategy \(I\).pdf](#)

¹⁴ INTERVIEW Fatmir Besimi, 01 March 2021: Corona crisis ends even according to pessimistic scenario, <https://bankarstvo.mk>

number of tests, local transmission is expected to be brought to a low level.¹⁵ So, according to the Ministry of finance in the Republic of North Macedonia, the real GDP is forecast to bounce back by 4.1% in 2021, as domestic demand should rebound once pandemic containment measures are phased out and more people are vaccinated. However, if the Government doesn't achieve the projected economic growth, public revenues would not be realized according to plan, so the deficit could be higher than the projected 4.9% of GDP, which would contribute to the growth of public debt relative to GDP. So, if unfavourable trends continue in 2021 as a result of the health pandemic and the need to combat it, a new package of measures to help the economy will be necessary, which would again mean a burden on public finances. This unfavourable situation can be caused and by the impossibility of the business sector to reshape and return to track. Companies that experience unique challenges, not covered by specific government policies, should continue to seek advice from local governments. Many governments have introduced fiscal stimulus and assistance programs for small businesses and sectors, such as tourism and hospitality, which have been severely impacted. Unfortunately, these measures are not part of the government programme in 2021.

Moreover, according to the data of the State Statistical Office, in 2020, the labour force in North Macedonia numbered 950.858 persons, of which 794.909 were employed, while 155.949 were unemployed persons. *The unemployment rate for 2020 was 16,4% with a tendency to fall to 15,8% in 2021*, is a positive sign for the economy. Still, due to the lack of census in our country, we can't confirm does this prediction for a fall in the unemployment rate is the result of the emigration of young people from their country of birth to seek employment abroad or is the result of government measures. However, North Macedonia has the highest unemployment rate comparing with other EU countries. The countries for which unemployment data are available for the second and third quarters of 2020, only for two of them is observed larger decline in unemployment rate compared with North Macedonia, those are Montenegro and Lithuania. This indicates that government measures were not properly designed and targeted in previous years especially if we know that unemployment in our country is characterized as structural unemployment that is a much more severe type of unemployment that often results in long-term unemployment of workers.¹⁶ While shocking news is coming and for the treatment of the employed persons from the side of the companies that were using the government measures. Namely, the director of PRO in May 2021, declared that a total of 181 employers misused 196,000 euros of financial government assistance to pay salaries for February or March and 753 workers were left without their salary. 157 of them did not pay their salary for one month, and 24 for the two months (February and March 2021). The companies received warnings, and the PRO announces forced collection if they do not pay their salaries within the specified deadline.¹⁷ This speaks of the lack of control by the inspection services from PRO over the control of the spending of state money.

Furthermore, the government through the policy of overspending in order to keep liquidity and economic activity alive is causing the inflation rate to grow but simultaneously and the falling of unemployment. Namely, the fall in the unemployment rate can point to a strong economy, but can also predict rising

¹⁵ International Monetary Fund <https://www.imf.org/en/Publications/WEO>

¹⁶ [Statistics | Eurostat \(europa.eu\)](https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&code=sdg_8_8_1)

¹⁷ [The bosses are still making fun of the workers, over 700 workers were left without a salary this year - National Television \(alfa.mk\)](https://www.alfamk.mk/news/700-voznici-ne-patit-svoju-platu-za-februar-i-mart-2021)

inflation, as is the case in our country. Maintaining a balance between inflation and unemployment has led economists to use the Phillips curve to adjust monetary or fiscal policy. Because the Phillips Curve for a given economy show us an explicit level of inflation for a given unemployment rate and vice versa, it should be possible to aim for a balance between the desired levels of inflation and unemployment.

Furthermore, with the economic measures taken, the government tried to ensure the sustainability of domestic economic activities and jobs, recovery of certain activities, stability of social transfers, and stimulation of public consumption. As we said before the Government only partly succeeded to ensure the fulfilment of these objectives. The fact that in the first quartal of 2021 the inflation was raising as a substitute for a small percentage fall of unemployment, is testifying for the economic downturn that will follow and the fall of the standard of living of the citizens in our country. Right away after the crisis started, especially when it had its peak, the unemployment raised and as of February 28, 2021, 18,266 unemployed persons¹⁸ were registered based on employment inflow, for which the termination of the compulsory social insurance was registered in the period after March 11, 2020, i.e. in the period of the crisis caused by the Covid-19 virus. Also, through the data obtained from the Employment Agency, we find out that the number of unemployed persons in January 2020, before the onset of the crisis was 104,409, while that number as of February was 159,608. which represents a 53% increase in the number of unemployed persons.

A worrying fact represents a high rate of unemployment especially among youth that are cause for brain drain. The official statistics of North Macedonia show that around 132.000 people emigrated from North Macedonia, while the unofficial statistics show a much higher number. From the research made from global analytics and advice firm Gallup, the **Potential Net Migration Index (PNMI)** the brain drain in RNM, is highest compared with the other countries in the region, (only country with the worse position is Albania) with 30% of the adult population and 52% of the youth thinking about leaving the country if having the chance. The common motives for emigration are low level of institutional quality and functionality, high expenses of the business regulation, the uncertainty of the market as the strongest factor that influences the emigration, especially among young and highly educated people.¹⁹

The third real indicator, *the inflation rate*, also signifies a disturbing circumstance, because judging by the prices of basic products is spiralling out of control. This is really frustrating especially when inflation really starts to pick up and salaries doesn't follow. Namely, nobody wants to pay more for the same items at the market if they're not making more money to keep up with it. According to the forecasts of the IMF, the inflation rate in 2021 is expected to reach 2.2%, which is the highest inflation rate measured for a couple of last years in North Macedonia. While the projections on the ground are even far below the forecasts. According to the NBRNM, the negative trend will continue, and at the end of the year all segments of GDP will fall, except public spending, which is necessary to protect public health and support the economy. The Deputy Governor of the National Bank of Republic of North Macedonia (NBRNM), at the annual meeting of the Bank, said that the inflation expectations for the next period for the entire region are influenced by the upward changes in the prices of primary products on world markets, which is expected, given trade openness of economies and their import dependence. The Deputy Governor

¹⁸ [Nevrabeteni. lica022021.xls.pdf \(av.gov.mk\)](#)

¹⁹ [Potential Net Migration Index \(gallup.com\)](#)

declared that risks exist, given the uncertain environment, but they are closely monitored by all central banks in the region.²⁰

However, the rise of inflation in the country is not positive evidence if we know that inflation means the increase on a higher level the general price of goods and services in an economy. The inflation rate is usually a key variable that has a significant impact on poverty. Additionally, gross investments will be with negative balance of 13%, is expected both public and foreign direct investments to decrease. Personal consumption decreased by 4%, exports by 11.7%.²¹ On the other hand, the monetary stimulus measures produced and created by the central bank can be a combination of lower interest rates, the issuance of fresh money in circulation and the reserve that commercial banks are required to keep in their vaults in order to boost their liquidity and private sector financing. Furthermore, by putting fresh money into circulation and reducing the required reserve that commercial banks mandatory keep in their currency, liquidity, financial stability and economic recovery are maintained. However, this tool for maintaining liquidity, although it preserves employment at a stable level and stimulates economic activity, is still a double-edged sword, because the relationship between inflation and unemployment is traditionally inversely correlated. Given that inflation and unemployment are two of the most closely monitored economic indicators, it is very important to monitor their impact on the economy. Low inflation and full employment are the foundations of monetary policy for the modern central bank.

- ❖ From [the external sector](#) are analysed current account balance and trade balance, FDI, and gross external debt as % from GDP and gross foreign exchange reserves calculated in millions of EUR.

The trade balance continues to have a negative high rate, from -16.9% for 2020 and the prognoses are that this tempo will continue and in 2021 and will be -17.7% that is an extremely high negative trade balance for the small economy as North Macedonia. Namely, the North Macedonia had the characteristics of an import-dependent country. That was the reason for the regular high trade deficit, which in the last five years amounted to an average annual 24.0 per cent of GDP. Moreover, the import coverage ratio as a share (or percentage) of a country's imports was about 60%. This is a real pity for the country that has so many comparative advantages in many fields especially agriculture and can offer so many quality goods on foreign markets. Regrettable is the situation, that the officials and the Government doesn't provide the necessary measures to allowed progress in this field. As a result of improper allocation of resources over years, nothing has been done to improve the comparative advantage of the domestic companies on foreign markets. Because of this, the country shows stagnation and regression in the field with trade balance even with the countries in the region. Additionally, according to the estimation of OECD, Macedonian currency "MKD" has depreciated around 3%²² since the beginning of the year, signalling a potential capital outflow and rendering international trade and investment decisions more difficult.

Foreign Direct Investment (FDI) helps in accelerating the rate of economic growth, employment, promotes export, an inflow of foreign exchange resource and removes the constraints on a balance of

²⁰ [NBRSM: Domestic inflation will depend on import prices, but no large price pressures are expected Meta.mk](#)

²¹ <https://www.nbrm.mk/ns-newsarticle-finansiski-izvestai-na-narodnata-banka-za-2020-godina-en.nsp>

²² <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-North-Macedonia-archive.pdf>

payment. Unlike the second and third quarters of 2020, when FDI recorded a negative balance, during the fourth quarter of 2020, total direct investments in the country recorded net inflows of 95.3 million euro, as a result of increased investments in intercompany debt and equity (by EUR 145.7 and EUR 19.5 million, respectively), with reduced reinvested profit by 69.9 million euro. In 2020, total direct investments in the country of 239.8 million euro are a result of net inflows based on intercompany debt (128.4 million euro), equity investments (96.7 million euro) and reinvestment of profits (14.8 million euro). The inflow of FDI into the country will largely depend on the speed with which the global pandemic situation steadies. If the period of financial stability and political stabilization start, it will be a positive sign for investors both domestic and foreign.

At the end of December 2020, gross external debt amounted to 8,630 million euro that is 80.2% of GDP and registered a quarterly decrease of 463 million euro or 5.1%, while gross external claims decreased by 711 million euro and amounted to 5,239 million euro (48.7% of GDP). This quarterly change is a result of the decline of private and public debt (by 120 and 119 million euro, respectively). The decline in private debt is explained by the reduced liabilities of fully related entities (by 148 million euro), as opposed to the increased liabilities of the non-banking private sector and private banks (by 14 million euro). Compared to the end of 2019, the gross external debt is higher by 476 million euro, or 5.8% and almost fully reflects the increased public debt (by 465 million euro), and to a lesser extent the growth of private debt (for 11 million euros). The growth of public debt is almost entirely explained by the increased liabilities of the "government" sector (by 473 million euro), amid the falling debt of public banks and public enterprises (by 5 million euro). At the same time, the moderate growth of private debt stems from the increased liabilities of the non-banking private sector and private banks (for 31 and 24 million euro, respectively), as opposed to the reduced liabilities of capital-related entities (by 44 million euro).²³

- ❖ From [the fiscal sector](#) are analysed budget balance, government and public debt. The level of borrowing contributed to the country being moderately indebted to be categorized as highly indebted, given the fact that the latest data on the amount of **public debt** published by the Ministry of Finance of the Republic of North Macedonia confirm that for the first quarter of the year 2021 the public debt as% of GDP rose to 62.5%, which is the highest record of indebtedness registered for the country, with a tendency for further growth. Furthermore, according to the data from the International Monetary Fund (IMF), in almost all European countries (except Norway), there is a high growth of **government debt** in 2020 compared to 2019. In North Macedonia, according to the data presented from the Ministry of finance, besides the public (62.5%) and government debt (54.1%) is increased slightly by 2.9 and 2.3 percentage points, in the first quarter of 2021, respectively. These data suggest the high indebtedness of the country compared to other countries in Europe. In the region, besides Greece, Albania has the highest debt growth of 15.6 percentage points, Slovenia growth of 14.9 percentage points and Croatia 14.5 percentage points debt growth.²⁴ High borrowing needs to be comparable to the Maastricht criteria set in 1993 by the Maastricht Treaty, which consist of five convergence criteria that member states must meet in order to move to a monetary union and adopt the single currency, the euro. Two of them relate to the control of public deficits: the public finance deficit which must not exceed 3% of GDP and the

²³ National Bank of Republic of Macedonia,
https://www.nbrm.mk/content/statistika/Soopstenija/ND%20NP%20MIP/2020/Soopstenie_Dolg_i_MIP_Q4_2020.pdf

²⁴ [Public and government debt in the first quarter within the projections - finance.gov.mk](#)

public debt which must be limited to no more than 60% of GDP. For that reason, economists are always concerned about the trend of borrowing and maintaining budget discipline as well as the purpose and management of debt, its structure, the price of external borrowing which for Republic of North Macedonia is very high compared to other countries in the region but also economic and fiscal constellation in the Republic of North Macedonia.²⁵

With this crisis was avoided one of the biggest mistakes of economic policy since the end of the economic crisis of 2008, when the public investment was reduced due to austerity as a set of economic policies that a government implements in order to control the public sector debt. Increasing the spending of budget funds through public investment is especially important in times of crisis because it is the best measure of fiscal policy to stimulate economic activity when all other market segments are in the process of recovery. Other measures used by the government in these times of recession include targeted fiscal and monetary policy designed to provide economic stimulus to the private sector, an expansionary fiscal and monetary policy that relies on encouraging private sector spending to offset losses on the private sector. Fiscal stimulus measures refer to creating a budget deficit and reducing taxes. *The budget deficit* is justified only in case when is used to stimulate economic activity and reducing taxes as a policy needs to be measured and tailored very carefully in order not to cause more damage than good. However, overspending can't be without its repercussions. Namely, it can lead to the growth of inflation and the fall of unemployment. The second one will return to its previous levels after the crises will be over and inflation stabilised.

- ❖ *The social sector* analysed only *net wages* in the country. As a result of the coronary crisis, all European countries started a policy for raising the minimum wages in order to keep normal economic activity in their countries. This conclusion is gained as evidenced by the data obtained from Eurostat for minimum monthly wages, in all European countries in 2021 compared to the same period in 2011. Still, there are high disproportions between the EU countries in the minimum monthly wages. Namely, in 2021, according to the data gained from Eurostat, the minimum wages in the EU Member States are ranged from €332 per month in Bulgaria to €2.202 per month in Luxembourg, that is making the average annual rate of change to be with the highest 12% in some countries, such as Romania.²⁶ While the situation in Republic of North Macedonia is far worse concerning minimum wage compared with European countries. Although according to the Ministry of Labor and Social Policy in April 2021, the minimum wage increased by 1.7 percent and from April 2021 this gross amount is 247 euros. This data is ranking our country in the last place for the level of the lowest minimum wage not only compared to the European Union countries but also in the region.²⁷
- ❖ *The banking sector* has the good news. Although, the bank profitability has declined noticeably in some EMEs more recently, as economic growth has slowed and loan quality deteriorated still, banking sector in RNM, according to the accomplished performance we can confirm that is stable, liquid and without the possibility of bad performance in the near future. In response to their new operating circumstances,

²⁵ International Monetary Fund <https://www.imf.org/external/index.htm>

²⁶ [Statistics | Eurostat \(europa.eu\)](#)

²⁷ [The minimum wage is increasing, Sunday will be a non-working day, the workers in the shopping centers will have a double wage and a day off | Government of the Republic of Northern Macedonia \(vlada.mk\)](#)

banks have been re-assessing and adjusting their business strategies and models.²⁸ The Macedonian banking system is stable and the revocation of the license of a small bank does not call into question the stability of the system. Also, banks are very liquid and the NBRM with its reserve policy as a monetary policy instrument, which obliges banks and savings houses to allocate funds to the central bank accounts, has very little impact on the policies of commercial banks.

4. Government policies and measures introduced in the business sector

This part of the policy brief focuses primarily on government measures for SME's regards to fiscal policy, monetary policy, and lockdowns as well as government help that was offered to the business sector through the measures that were introduced in 2020. Regrettably, these measures lasted only for a short period of time, and now the economy, according to the position of the Government of Republic of North Macedonia, is in a period of recovery. The business sector remains without particular focus from the government on how to motivate and lead organisations in time of crisis and therefore is feeling the consequences of the crisis. As we will argue below, we focus on the burden that these sectors are bearing and activities that they are obligated to take in order to survive the crisis.

4.1. Government policies taken in the business sector with special attention on SME's

The business sector was heavily impacted, not only by the spread of the coronavirus disease but also through restriction measures that are imposed by the Government to stop the spreading of the coronavirus disease. The first positive for the virus case in our country was reported on 26 February 2020, and right away afterwards the Government proposed the Assembly of the Republic of North Macedonia²⁹ to establish a state of emergency on the territory of the Republic of North Macedonia to prevent the spread of coronavirus, with the specific scenarios taken from the government to deal with the emerged situation. Namely, lockdowns imposed by the government in our country during the period April– June 2020, have forced many companies to close and lay off staff. This was a huge problem for the economy because produced additional unemployment at the same time when the Government is facing rising inflation. Various enterprises were facing, and most of them still are, different issues with a certain degree of losses. Particularly, SME's are facing a variety of problems such as a decrease in demand,

²⁸ <https://www.nbrm.mk/ns-newsarticle-soopstenie-152020.nspk>

²⁹ <https://vlada.mk/node/20588>

supply chain disruptions, cancellation of export orders, raw material shortage, and transportation delays and disruptions, among others. The major victims of COVID-19 in Republic of North Macedonia were the micro, small and medium-sized enterprises (MSMEs) because MSMEs, in comparison to large enterprises, do not possess sufficient resources, especially financial and managerial, and are not prepared for such disruptions likely to go longer than expected.

From the budget analysis, it is evident that the Government through the measures provided an inventory of policy responses to foster SME resilience, especially those sectors that were heavily hit by the pandemic. The business sector assistance was revealed through the Government economic measures to deal with the COVID-19 crisis. The government has adopted four packages of economic assistance to combat the effects on the economy caused by Covid-19. The four aid packages weigh about one billion euros. These measures that were introduced consisted of 106 contained point, from which only 20 were implicitly intended for the business sector in the country. To the end of January 2021, the Government provided the information that as of December 31, 2020, the realization of the covid-19 program is around 279 million euros. From this amount, 141 million euros were given for salary subsidy, 33 million euros for assistance to companies, 49 million euros for payment credit cards and other items, 7 million euros.³⁰

Below are listed only a couple of them, that are analyzed in terms of the effect that they had on the SME's in our country. Namely, from the mentioned measures, only those that refer to direct assistance to the companies are singled out, noting that some of them were only for the period April - June 2020, while the restrictions for movement lasted. Here are listed 6 from 20 measures aimed only at the business sector and SME's: Measure No.8 - Deferment of loans to banks, Measure No.11 - Additional interest-free loans through the Development Bank of Northern Macedonia for companies in a total amount of new 8 million euros, Measure No.12. 50 million euros cheap loans from the Development Bank of the Republic of North Macedonia placed through commercial banks to protect the liquidity of companies, Measure No.20. Subsidizing 50% of contributions for employees in companies in the sectors of tourism, transport and catering and other companies affected by the coronavirus, Measure No.28. New 100 million euros soft loans from the Development Bank of the Republic of North Macedonia and Measure No.36. Support for artisans. of their services and products from 18% to 5% to strengthen their competitiveness in the market. Although the measures were commendable, it is still to be condemned that most of the mentioned measures had a limited period of use and referred only to the period April-June 2020, while the restrictions and restrictions on movement lasted.

Having in mind that, the current health-economic crisis in the country will not end in a short period of time and it will last according to the projection of economic experts at least until the middle of the next year 2022, is very important, the government to continue with the economic measures to help vulnerable sectors in the economy until the total recovery of the economy in our country. This is because the economic crisis will not end at the same time as the health crisis ends, and the economy will need a period of economic recovery. Among the experts from the Economic Chamber of Macedonia, the prevailing assessment is that it is important that the measures of the state are not aimed only at short-term survival of the crisis, but should also contain elements of producing long-term effects to maintain the economic activity of the private sector.³¹ The private sector in our country needs government support because the data show that only a small per cent of the newly created companies survive in the first year after their creation. Also, they are dominant and represent 99.7% of the total number of

³⁰ [How much money from government Covid programs remained unspent? \(slobodnaevropa.mk\)](https://slobodnaevropa.mk)

³¹ The Economic Chamber of Macedonia, October 2020, <https://www.mchamber.mk>

companies that are created in our country and create over 60% of the gross value of production and in one employ over 80% of the labour force. Furthermore, there was speculation that these measures were given selectively, and were aimed only at companies that are close to the ruling government. So, no wonder so many distortions were created on the market, and many companies declared insolvency and started bankruptcy proceedings right away after the repeal of these measures. Namely, one of the extraordinary measures introduced for a period of several months at the proposal of the Ministry of Economy referred to banning companies from going bankrupt. The decision stopped the possibility of submitting a proposal for initiating a preliminary procedure for opening a bankruptcy procedure and opening a bankruptcy procedure of the bankruptcy debtor during the duration of the state of emergency. Also, all initiated procedures, such as a preliminary procedure for opening a bankruptcy procedure and opening a bankruptcy procedure against the bankruptcy debtor, are postponed for the duration of the state of emergency. This only meant postponing the inevitable that began to happen after the repeal of these measures.

Even before the start of the crisis, the government to support domestic companies and create fertile ground for further attraction of FDI, the Government of North Macedonia, introduced "Plan for economic growth", which consists of three pillars³². This plan for the Government's Economic Growth Plan 2018-2021 was adopted in 2017. It consists of three pillars: supporting investment and employment (pillar 1), conquering new markets (pillar 2) and supporting innovation (pillar 3). The first two pillars are operationalized through the Law on Financial Support of Investments (LFSI), adopted in 2018 (and amended in 2019), while the third pillar through the Medium Term Program of the Fund for Innovation and Technological Development (FITD), with estimated (planned) value of about 100 million euros, or about one percent of GDP. The first pillar measures are aimed for general economic development that should be used mainly by all economic operators, the second pillar refers to increasing competitiveness, especially in companies that will conquer new markets and the third pillar is exclusively intended for small and medium enterprises. Of course, to use these measures, companies need to meet certain preconditions. The Economic Growth Plan of the Government of North Macedonia provides state aid to private companies to support investment and employment (pillar 1), conquer new markets (pillar 2) and support innovation (pillar 3). The first two pillars are operationalized through the Law on Financial Support of Investments (LFSI), while the third pillar through the Fund for Innovation and Technological Development (FITD).

Regrettably, if we judge according to the data from the current account deficit, macedonian companies, or are not using the measures introduced from three pillars or the actions are not properly targeted. Namely, analyse of the trade balance showed a negative tempo of export that is not changed from the moment of independency of our country. This data is speaking and for competitive advantages of our companies. A substantial trade deficit weakens domestic industries and decreases job opportunities. Macedonian companies rely on imports that leave a country vulnerable to economic downturns. While currency devaluations, make an import more costly. This situation in our country additionally stimulates inflation. From the 10 countries with whom our country has trade relations, in six of those ten countries (Germany, Greece, Hungary, Belgium, the Netherlands and Croatia), the surveyed entrepreneurs said negatively about their confidence in business developments in 2021. These six countries together have a share of 58.1% in the total export of the country. The entrepreneurs surveyed from the other four countries (Bulgaria, Italy, Romania and Serbia) are optimistic and have more confidence compared to 2021. They have a combined share of 13% in the total export of the country. As it can be concluded, the

³² <https://vlada.mk/PlanEkonoskiRast>

companies in the countries whose markets end up with more than half of our exports are cautious and have a pessimistic attitude for the next year.

In this crisis, the basic losses of our country as dependent on import are: first, lockdown measures in many countries, as well as in our, brought global mobility and transportation in a standby position and with this disrupted highly interdependent global supply chains, depressing the demand for oil and minerals. Second, closure of businesses due to restrictions in movement, as well as fall of income due to loss of jobs or assets, depresses the global demand for manufactured goods, which are based on raw materials. Third, the COVID-19 outbreak in commodity-producing countries has led to closures of some production branches and at the same time with disrupted export of these commodities. Fourth, uncertainty has led to massive outflows of capital from emerging markets towards "safe markets". These listed factors have been shown to contribute to large disparities in the economy of the country and cause consequences for businesses, that can't be easily overcome.

Increase of the supply and demand of domestic products, which will lower the dependence of the national economy on the world current happenings and the import of final products by: subsidizing domestic production of strategic goods and services as a replacement for the same or similar products which are now imported; increasing the competitiveness of domestic goods and services as a condition for the promotion of their export through the mentioned cheaper alternative sources of energy, subsidizing part of the cost of strategic goods and services and those that are found to have a comparative advantage over the same or similar products in neighbouring countries and/or other foreign trade partners of the country; increasing competitiveness of the domestic goods and services as a prerequisite for their export.

5. Conclusion

In conclusion, although the Government took all necessary interventions to keep the economy alive, through budget support for financing the planned activities, we can say that it only partly succeeded in its goals. From the analysis, we can conclude that most of the measures were not adequately allocated and therefore did not stimulate the economic recovery. Moreover, this resulted in disapproval and nonacceptance of the government measures by the general public. According to the opposite parties, the unreasonable spending for the financing of the planned activities contributed to accrued deficits that form national debt which will remain a burden for future generations. The evidence that supports this argument is the dissatisfaction of the business and civil sector that claimed that a borrowed assets were not targeted for the companies that need them the most. Namely in this paper, there is too much evidence to show that all government measures through the budget spending didn't result as it was planned and because unsatisfaction of citizens, business and the civil sector is on a very high level.³³

From the very beginning of the crisis, we can see the failures of the Government to keep up with other countries. In Europe, the first case of coronavirus was reported in France on 24 January 2020³⁴ and afterwards, in the period of one month, affected were all other countries. Our country was no exception. In this regard, right away after one month, from the first reported case in France, and North Macedonia was affected. A situation that in mature countries forced the mobilization of all institutions and bodies and constrained them to intervene with properly targeted measures. Although our Government proposed measures to deal with the pandemic, still, the situation in our country did not go according to the planned scenario and by the end of 2020, when North Macedonia was still fighting the existing virus, in the other European countries' emergence a new wave of the mutant variants of the coronavirus that posed additional risks for the prospects for economic recovery in 2021. Not proper tailored measures were an additional burden for our society that is not rich enough to shield the citizens from the income losses resulting from Covid-19. The reason for this is that our government did not have sufficient credibility in financial markets to borrow heavily, under reasonable prices and with the same conditions as other reach countries. The situation further boosted the creation of a budget deficit.

Another trap for our country was an ineffective and underdeveloped health system. Namely, we have the worst health system in the region and the Ministry of health could not push to the front of the line for coronavirus vaccines. This was one of the reasons why the vaccination process in our country wasn't looking propitious. This unfavourable situation was an aggravating circumstance for economists and scientist in our country. Another proof is that our country is last in the region measured through the percentage of vaccinated population³⁵, allowing disease to spread through any segment of the population, that resulted in unnecessary cases and deaths. Because of this situation, our country is in 6th place for the number of deaths one million population as of May 20, 2021, from Coronavirus. This data is speaking that Governmental machinery was not taking sufficient measures in order to deal with the situation. The first encouraging news about the vaccination progress in our

³³ [Through street protests to the realization of rights \(slobodnaevropa.mk\)](https://www.slobodnaevropa.mk/en/news/through-street-protests-to-the-realization-of-rights)

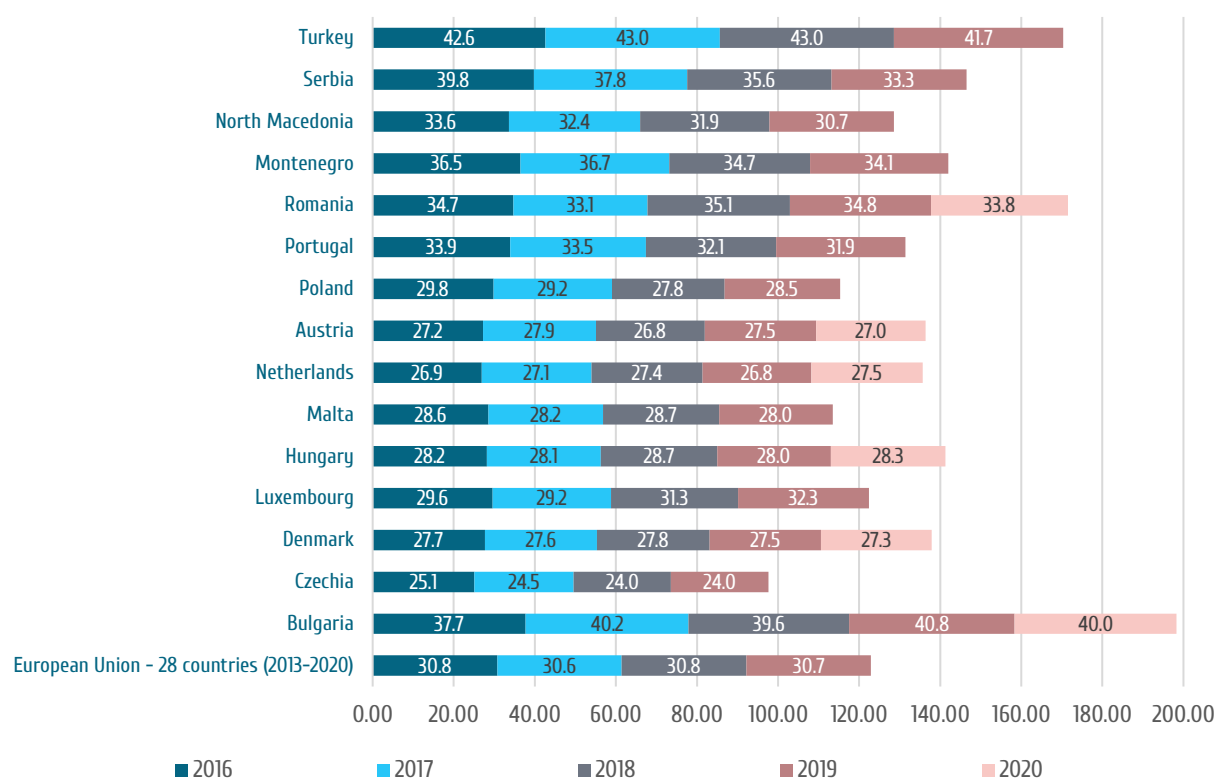
³⁴ <https://www.ecdc.europa.eu/en/covid-19/timeline-ecdc-response>

³⁵ [Poll: Only 50% of citizens want to be vaccinated Northern Macedonia | DW | 02.04.2021](https://www.dw.com/en/poll-only-50-of-citizens-want-to-be-vaccinated-northern-macedonia/a-56844444)

country started in mid of May 2021, when and mass immunization of citizens started.³⁶ Still, even today Republic of North Macedonia is far away from the progress already made in other countries in the region.

Regarding economic inequality, the economist all over the world to show, dispersion of incomes or disproportions in the economy is using the GINI coefficient. It became one of the most frequently used measures of economic disparity. The coefficient can take any values between 0 to 1 (or 0% to 100%). According to the data gathered from Eurostat in a period of 2012 up to 2020 for the North Macedonia the GINI coefficient ranges on average level 34.2 (for the period 2012 up to 2019), a coefficient that ranks the North Macedonia on 15th place in Europe, as a society that is adequate equal³⁷. Still, for 2021 the data show that the GINI coefficient in Republic of North Macedonia raised on the level it was in 2012, and from 30,7% as it was in 2019, now in 2021 is raised on 38%³⁸, that is speaking for the dispersion of incomes, and that poorer are becoming poorer in our country. Countries that have the worst average in Europe are Bulgaria, Romania, Montenegro and Serbia (Figure No.7). Whereby, a coefficient of zero 0% indicates a perfectly equal distribution of income or wealth within a population. A coefficient of one or 100% represents a perfect inequality when one person in a population receives all the income, while other people earn nothing.

Figure No.7 Gini coefficient (scale from 0 to 100%) from 2016 - 2020



Source: [Eurostat - Data Explorer \(europa.eu\)](https://data-explorer.europa.eu/), Last update: 19-05-2021

³⁶ <https://www.dw.com/mk>

³⁷ [Eurostat - Data Explorer \(europa.eu\)](https://data-explorer.europa.eu/)

³⁸ [North Macedonia GINI index, 2017-2020 - knoema.com](https://knoema.com)

Also, from the analysis made we can conclude that additional issues and burden for the economy was unprotected solvency and liquidity of the SME's in our country from the side of the Government. Namely, many companies declared insolvency and started bankruptcy proceedings instantly after the repeal of the measures, is clearly speaking for the fact that economic measures were not properly allocated and distributed. Also, many of the measures taken were overdue, such as the decision to suspend the possibility of submitting a proposal for initiating a preliminary procedure for opening a bankruptcy procedure of the bankruptcy debtor during the state of emergency. Furthermore, the sectors that were heavily attacked from Covid-19 were tourism, transport and services. The travel and transport sector has experienced severe disruptions, for example as a result of travel restrictions and the closure of tourist attractions. Tourism is still heavily affected. Even after the severe lockdown measures have been lifted, the pandemic itself is triggering lasting effects on this sector through risk aversion and a change in preferences. Besides all this, the Government dramatically reduced assets under the program "Measures to deal with the COVID-19 crisis" by as much as 73%. They were aimed at combating the economic crisis through maintaining the liquidity of the sectors heavily disrupted from the pandemic situation especially SMEs, that are still suffering the consequences of the crisis.

Meanwhile the response of the public and opposition parties is critical of the government declaring that the government measures were wrong addressed and didn't give a proper response for the economy. Building a society based on a market economy requires trust in justice and impartiality of institutions, as well as their effectiveness in delivering services. Furthermore, one of the main conditions in the process of creating a functioning market economy is having small and functional public administration capable to cope effectively with the situation that arises from nowhere. In this kind of situation, the country needs institutions that are stable, organised and well prepared but also flexible enough to react to the many societal challenges, open for dialogue with the public, able to introduce new policy solutions and deliver better services. Unfortunately, in North Macedonia public sector collapsed especially the health sector and showed all its shortcomings and profound weaknesses in the structure that were invisible to the public until yesterday. So, the government need to examining access to medicines, personal protective equipment and vaccines and working conditions highlights just some of what is unfunctional and what needs to be fixed in years to come.

On the other hand, the Covid-19 pandemic showed us and some other side, that in the time of crisis there are things that are changing faster than they would be changed in normal circumstances. Namely, given the fact that social distancing has been a key response to the pandemic, it contributed to remote work in almost every sector of the economy in our country. Because of this, countries that were set up for remote work as Netherlands, New Zealand, and Finland, have fared better than others. North Macedonia was far behind other developed countries in the field of digitalisation, but during the pandemic, reorganization and restructuring were more than needed to continue the normal working process. So, we can conclude that the only positive thing from the COVID-19 crises in our country was the acceleration of the digitalization process. Without this, catching up with other developed countries would be a more difficult process for the Republic of North Macedonia and the regions as well, which were lagging before the crisis.

6. Recommendations

Based on the conducted research, the following conclusions and recommendations for improvement can be drawn:

- A. Superior involvement of Public Revenue Office (PRO) through enhanced control, coordination and cooperation to improve monitoring over the implementation of government recommendations to avoid manipulation of the law, and elimination of tax evasion and grey economy. A toolkit that indirectly will lead to improvement of policy strategies of PRO, an institution that needs to represents a tax keeper that guarantees equal right for everyone on the market. This note provides guidance to identify measures that enhance tax progressivity and reduce economic distortions while supporting a green recovery.

Revenue mobilization will be imperative in many countries once the crisis declines. Unfortunately, every year our state loses hundreds of euros of public money due to tax evasion and tax avoidance. As a result, North Macedonia suffers a serious loss of revenue, as well as a dent in the efficiency of tax systems. The fact that the source of revenue has not been enough to create healthy profits, and in this regards the government plans additional spending to be financed through domestic and foreign borrowing, clearly speaks that the government is facing revenue deficiency in the budget, especially the quality ones as personal tax.

On the other hand, businesses find themselves at a competitive disadvantage compared to their counterparts that engage in aggressive tax planning and tax avoidance schemes. Moreover, honest citizens carry a heavier burden, in terms of tax hikes and spending cuts, to compensate for the unpaid taxes of evaders. Fighting tax evasion is therefore essential for fairer and more efficient taxation. A huge role in this regard plays PRO that needs to make the controls in the companies better and more regular for which task need to have professional and non-corrupt staff that is essential for providing integrity standards and returning taxpayers' trust and respect. Because, PRO more than any other institution in the country needs to have a professional and independent staff, with high integrity and moral values, familiar with the code of conduct in their institution. Institution responsible for the collection of taxes in the EU countries already have developed strategies, policies or a system in place to raise the quality and fight corruption. Some of them are :

- A whistle-blower programme for employees who report on integrity cases, corruption etc., including the development of an internal communication plan and measures to guarantee protection.
- Also, taking impartial action from the side of inspectors in PRO, according to the citizen's reports and other stakeholders, without neglection of the cases and their serosity;
- Development of a plan for external communication on ethics. Processes such as internal auditing and procurement should be integrated into the improvement of integrity; one division should coordinate these processes and take responsibility for the whole integrity/ethics programme;
- As the last option, investigation and prosecution of integrity cases, possibly bringing violators before the court, in consideration of the best outcome (punishment, attention in the media, putting an example and experience for future cases)

B. Given the fact that the economic crisis will endure for some time after the end of the pandemic, the Government needs to continue with control of performance of business sector and to provide support for the sectors that will continue to feel consequences from the crisis. A major issue for governments is the extent to which they have the fiscal firepower to protect jobs and economic activity. Namely, in North Macedonia the allocated funds for measures to deal with the COVID-19 crisis, which refers to the amortization of the consequences of the economic crisis caused by factors of non-economic nature, are reduced with a planned budget in 2021 by -73%, compared with the allocated and realised amount for this purpose in 2020. Moreover, assets for economic development are increased only by 11%. This speaks that the Government will continue financially to help companies but with decreased degree. In order to create real economic growth involvement and support of the Government is crucial especially for the companies that will endure feeling the consequences in the upcoming 2022. Although the fact that many companies implemented digital capabilities for the first time, as a matter of survival in the crisis, is a very positive signal. In this regard, our recommendation is Government finance a program that will help companies to seek out and seize the opportunities emerging in the recovery as have done governments in many countries in 2021. Namely, they voted and published a series of policies to provide further support for the elimination of post-pandemic consequences, including:³⁹

- Seeking for changes in strategic decisions, from investments, divestments, restructuring and consumer pricing;
- Subsidies for companies that will implement strategies that will lead to improvement of the digital platforms within their companies that will make the business sector more agile and competitive on the European market. This represents the most effective approach to the digital transformation of our country;
- Offering a profit tax or famous in other countries as full corporate income tax (CIT) deduction for purchasing equipment to manufacture prevention-related supplies. This tax in our country currently is 10%;
- Providing personal tax or famous as individual income tax (IIT) exemptions on bonuses and allowances relevant personnel receive for treating the epidemic;
- Exempting and refunding value-added tax (VAT) for enterprises providing certain services for epidemic control or manufacturing key epidemic-related necessities;
- issuing other policies that encourage public-benefit donations.

Keeping the government measures for the sectors that were adversely impacted by COVID-19 restrictions and will need encouragement and help to overcome the recovery period. During the early recovery period of partial reopening, managers will face some fundamental challenges. One is that consumer behaviour and demand patterns have changed significantly and will continue to do so. Another is that how the economy lurches back to life will differ from country to country and even city to city. For example, consumers may feel comfortable going to restaurants before they will consider getting on a plane or going to sporting events. Early signals of increased consumer demand will likely come suddenly and in clusters. Analyzing these demand signals in real-time and adapting quickly to bring supply chains and services back will be essential for companies to successfully navigate the recovery.

³⁹ [COVID-19 business continuity plan: Five ways to reshape | EY - Global](#)

- C. Although, the Government has developed a National Strategy for SME's (2018-2023)⁴⁰ brought in March 2018, under the title "Competitive small and medium enterprises as drivers of inclusive economic growth", until now we did not have seen progress made in this field. On the other hand, to be successful in the international market the companies should create and upgrade competitiveness at home. Otherwise, when RNM will enter on the European market the Macedonian companies face failure as a result of not possible to combat competition on the European market. To address these challenges, business leaders will need to set an ambitious digital agenda and deliver it quickly. There are some elements that managers can take in order to react quickly to the need of the customers and to keep their business developing faster than it was even before the crisis. Because many companies have survived through the adoption of a plan to use innovations adopted during the pandemic to drive revenue and generate new opportunities as the economy recovers. And the government also needs clear agenda to help business sector to return to the track after covid. Here are some suggestions for the business sector in which the government and other institutions can play a big role⁴¹:
- New technologies and digital platforms. Digital efforts to catch customer expectations. Namely one of the things is that for many retailers, this will include creating a seamless e-commerce experience, enabling customers to complete everything they need to do online, from initial research and purchase to service and returns;
 - With the support of Municipalities to provide to the local businesses' professional development or capacity-building initiatives and alternative service models or business models
 - Government support for covid-19 business recovery grant ideas;
 - Initiatives from government or civil sector through grants for providing local-business-to-local-business collaboration;
 - With the support of Municipalities to provide planning application support for businesses wanting to relocate or expand
- D. Continuing with aggressive improvement in reforming public administration. Modern and efficient public administration as a precondition and driver for all processes in society. Public administration employees and officials should adopt a citizen-oriented approach to the delivery of public services, which identifies the interests and needs of citizens as the guiding criteria for designing and delivering services, rather than the interests and needs of the service provider.⁴² This concept, accepted by the EU, argues that in determining the public services to be provided and the manner of their delivery, the needs of citizens should be taken into account. Finally, the Government in RNM special attention needs to put on reform of her health system. Positive news in this regard is that the Government finally after the crisis started realised that our country needs a new and advanced clinic center that will be similar to the modern clinics in the world. So, for salute is the huge investment for construction of a new Clinical Center "Mother Teresa" in Skopje. Hopefully, this will create preservation of medical staff and will be stimulation for permanent staff in the hospitals. As well this will boost information technology sophistication in health care, researches and practice of high-quality expertise.

⁴⁰ [Strategija za MSP – finalna verzija 03 04 2018 .pdf \(economy.gov.mk\)](#)

⁴¹ Covid-19 Business Recovery Grants, 2021, [microsoft word – d20-444381 covid-19 business recovery grant guidelines final \(003\).docx \(geelongaustralia.com.au\)](#)

⁴² Center for Change Management, 2018, "Analysis Of The Modalities For Establishing Training Academy For Administrative Servants"

- E. Stabilization of public debt and budget deficit. This will require the Government to go slowly on raising taxes or cutting spending quickly to stabilise the debt to desired GDP level. The fiscal correction which would be required to stabilise public finances will be less if a faster recovery can be achieved. This will require pushing and stimulating export and market stabilization in order for companies to feel secure on the market. Furthermore, the Government must focus on public investments, particularly those aimed at boosting research, development spending and productivity growth. Many economists in the world have recommended that governments need to redirect budget assets into greening the economy. Not only will this stimulate growth in sectors for the future, it will also help address the climate crisis.

7. References

1. World Economic Forum, The Global Competitiveness Report, "How Countries are Performing on the Road to Recovery" 2021, [WEF_TheGlobalCompetitivenessReport2020.pdf \(weforum.org\)](https://www.weforum.org/reports/the-global-competitiveness-report-2021)
2. The Economic Chamber of Macedonia, October 2020, <https://www.mchamber.mk/>
3. McKinsey & Company (2021), From surviving to thriving: Reimagining the post-COVID-19 return <https://www.mckinsey.com/>
4. Министерство за финансии, КВАРТАЛЕН ЕКОНОМСКИ ИЗВЕШТАЈ - четврти квартал 2020 година - <https://finance.gov.mk/>
5. BBC News (2021), "Coronavirus: Worst economic crisis since 1930s depression, IMF says"
6. Државен завод за статистика, (2021), <https://www.stat.gov.mk/>
7. Министерство за финансии, Дополнет предлог буџет на Република Северна Македонија за 2021 година, https://finance.gov.mk
8. Министерство за финансии, Дополнет предлог буџет на Република Северна Македонија за 2020 година, https://finance.gov.mk
9. National Bank of Republic of North Macedonia, Annual Report for 2020, [Annual report for 2020 NB.pdf \(nbrm.mk\)](https://nrbm.mk/Annual-report-for-2020-NB.pdf)
10. Министерство за финансии, Основни индикатори за 2021, [Basic indicators - finance.gov.mk](https://finance.gov.mk/)
11. International Monetary Fund <https://www.imf.org/en/Publications/WEO>
12. EUROSTAT Data, [Statistics | Eurostat \(europa.eu\)](https://ec.europa.eu/eurostat/)
13. GALLUP, [Potential Net Migration Index \(gallup.com\)](https://www.gallup.com/)
14. OECD, Crisis in North Macedonia, <https://www.oecd.org/south-east-europe/COVID-19-Crisis-in-North-Macedonia-archive.pdf>
15. International Monetary Fund, IMF "Budgeting in a Crisis: Guidance for Preparing the 2021 Budget", [en-special-series-on-covid-19-budgeting-in-a-crisis-guidance-on-preparing-the-2021-budget \(1\).pdf](https://www.imf.org/en/Special-Series-on-COVID-19/Budgeting-in-a-Crisis-Guidance-on-Preparing-the-2021-Budget-1)
16. Mc Kinsey and company "The recovery will be digital", August 2020, [the-next-normal-the-recovery-will-be-digital.pdf \(mckinsey.com\)](https://www.mckinsey.com/~/media/mckinsey/insights/futureofwork/2020/08/the-recovery-will-be-digital.pdf)

