

---

## THE IMPACT OF THE PANDEMIC (COVID-19) ON THE ECONOMY, WITH SPECIAL EMPHASIS ON THE REPUBLIC OF NORTH MACEDONIA

**Neritan Turkeshi**

University “Mother Teresa”-Skopje, RNM, neritan.turkeshi@unt.edu.mk

**Bujamin Bela**

University “Mother Teresa”-Skopje, RNM, bujamin.bela@unt.edu.mk

**Abstract:** COVID-19, as an important and unpredicted event, will have a negative impact both nationally and globally, where beside destroying the social order, it has also destroyed the economy, creating an economic collapse and great loss of human life.

Many people have lost their job, or their monthly or yearly income has been halved.

As a result, the unemployment rate has risen throughout the global economy. In the United States, the percentage of unemployed has reached 10.4%, according to the International Monetary Fund (IMF), signaling an economic shock. The global economy suffered its biggest blow since The Great Depression in the second trimester, since the COVID-19 pandemic destroyed the consumer and business budget.

The COVID-19 crisis has launched a digitalization impulse in North Macedonia (and globally) which will last and present challenges, but also will provide new opportunities in the economy, education, and other fields of the society. The main challenge is to ensure that all groups of society will have access to and will benefit from the digitalization process.

As a result of the corona virus pandemic and the closing of businesses, a big part of the population has become unemployed. This has led to a significant increase in the number of people registered as unemployed at employment offices.

As known, unemployment is the biggest problem these days, because, as we can see, a great number of people are now unemployed, especially in these difficult pandemic days.

The slow economic growth does not provide the creation of new jobs. Unemployment comes in big dimensions and is considered as the biggest economical issue of the country, it presents an economical problem, but as a result of this issue, many other issues come into sight.

**Keywords:** impact of Covid 19, economic development, economy, unemployment

### 1. THE POSITIVE SIDES OF THE ECONOMY DURING THE PANDEMIC

While most sectors in the economy are experiencing losses and are fighting to survive because of the crisis caused by the corona virus, North Macedonia has seen an increase in e-commerce.

The analysis of the E-Commerce Association shows that the citizens of North Macedonia in the first three months of this year have spent 28,9 million euros in e-commerce, and 10,1 million euros in March alone.

This represents an increase of 17,9 million euros (61,5 percent) compared to the first three months of 2019. Data shows that e-commerce in March of this year grew by 99 percent compared to March of last year.

The corona virus pandemic has changed the habits of domestic customers, who have shifted most of their online shopping to domestic e-commerce instead of the foreign one. The implications for this, of course, are the closing of the borders and the complexity that has emerged with the delays in delivery of foreign-purchased products, as well as the fear of ordering products that originated mainly from countries that were infected with the COVID-19 virus.

According to the analysis, 59,4 percent of card transactions were made in online commerce in the country, while 40,6 percent of the transactions were made in the foreign online commerce.

### 2. THE NEGATIVE SIDES OF THE ECONOMY DURING THE PANDEMIC

The negative impact on the economy caused by the crisis became more visible with time, and the economic consequences are not as favorable neither now, nor in the short term. Because of a considerable decrease and imbalance on both the supply and demand sides, economies were faced with major shocks and weakened the resilience of economic entities. While the demand for products and certain services dramatically increased (medical equipment, connecting platforms, electronic payment etc.), for others (tourism and catering, automobilism, etc.), the demand significantly decreased.

In the same time, suppliers cannot meet the increased demand for the certain products and services. The transport sector faces serious difficulties because of the security precautions recently imposed by every country, which shows the critical dependence on a globalized economy. Today's production is highly dependent on transport and trade as the product requires parts produced in different countries.

All these have affected and will continue to affect the development of the Macedonian economy. There are additional specifics that require strong commitment of all stakeholders to overcome the situation. As a small developing country, North Macedonia struggles with limited financial resources. With the existing high public debt, the possibilities for urgent economic measures aimed at supporting companies/the economy are very limited. The state budget revenues will not be enough to satisfy the demands on the expenditure side and of course this situation leads to a larger budget deficit than it initially was planned. The population is not resistant to financial crises, knowing the low levels of income in previous times. This situation can again bring more citizens at risk of poverty. Moreover, stakeholders will refrain from buying and investing, so economic growth will be negative, or at best it will remain at the same level. Since this crisis will be an extraordinary lesson for the economy and society, the new ways of doing business must be exploited with high importance as well as the impact of digitalization within the new reality of work.

### **3. THE SECTORS THAT HAVE BEEN MOST AFFECTED BY THE COVID-19 PANDEMIC**

The impact of the Covid-19 crisis on the economy of North Macedonia is expected to be felt not only in the services sector, but also in the manufacturing sector, especially for durable goods, clothing, and textiles. These two production sub-sectors also have the highest number of employees, as well as higher annual expenditures for wages compared to the others sectors affected.

Retail trade of non-vital items, with a high number of employees, amounting to about 70 percent of those employed in the sector of durable goods, will also be severely affected as a result of the closure of the activity. The contribution of the most affected sectors (sensitive or closed) to the overall level of employment and wage bill is in: clothing, textile and durable goods firms together account for just over 20 percent of the total number of employees reported in 2016. From 396.770 which is the total number of the country's labor force, 10.6 percent are employed in the clothing and textile industry, while 10 percent are employed in the durable goods industry. In addition, 6.9 percent are employed in the non-vital goods trade, and 6.5 percent in food, travel, and accommodation services. This shows that the economy of North Macedonia is exposed to the crisis through several sectors.

One of the concerns, is the fact that the most affected firms have less than 50 employees, which makes them even more exposed to the crisis. The total annual wage bill for the clothing and textile industry is 244 million euros. Even though the durable goods industry ranks second in terms of the number of employees, it ranks first as one of the most affected sectors, in terms of wages, with a total wage bill amounting to 131.5 million euros.

The total amount of food, travel, and accommodation services together is 60 million euros. All potentially vulnerable sectors make up almost a third of the country's annual wage bill.

### **4. THE CONSEQUENCES THAT COVID-19 HAS BROUGHT TO THE WORLD ECONOMY!**

The degree of damage in the economy will depend on many factors, such as the steps that the authorities will take to improve the health situation and how much economic support governments are willing to provide during the immediate impact of the epidemic and its aftermath. COVID-19 might cost 1 trillion dollars to the world economy during 2020. "We predict a slowdown in the global economy to less than two percent this year, and that would probably cost 1 trillion dollars, compared to what people were forecasting in September", said Richard Kozul-Wright, President, UNCTAD.

China's example showed that the economy in this situation heads toward general decline, which made Chinese exports drop by 17.2%, automobile sales by 80% in the first two months of the year alone. According to researcher Khan A.H the world is facing the perspective of a deep and sustained global recession. "Chinese GDP will drop by a few percentage points. EU will lose around two percentage points, and USA will lose between one and one and a half percent. With falling oil prices, oil-producing economies are already experiencing economic downturns. The direct and indirect effects of COVID-19 will exacerbate this trend". OECD forecasted that COVID-19 will lower the global growth of GDP by half a percentage point for 2020 (from 2.9 to 2.4 percent). Bloomberg Economics warns that the GDP growth over the full year could drop to zero in a worst case pandemic scenario.

### **5. THE DANGERS POSED BY THE PANDEMIC IN WESTERN BALKANS AND NORTH MACEDONIA!**

The situation can worsen even more. The main danger for the Western Balkans is that along with a complicated social and political environment, a prolonged pandemic combined with a deeper recession in the EU may make it increasingly difficult to manage the economic crisis that will unfold. In addition to rising human and social costs, a longer pandemic would reinforce the spread of global effects through trade, finance, and of goods channels.

Its extension would also intensify investor risk averse behavior and consequently borrowing costs, which would have significant fiscal costs for the Western Balkan countries that have high external debt to GDP ratios.

Unfavorable exchange rate developments may further increase debt service costs. The upcoming waves of COVID-19 outbursts that require isolation will further raise economic uncertainty, as well as economic and social costs. In addition to pressure on fiscal and external accounts, there is a risk that measures responding to the socio-economic crisis will not be effective in the new context of social distancing, the imperfect rate of use of online government services and disruptions in the functioning of public administrations. North Macedonia and Serbia have postponed their spring parliamentary elections; in BH, Kosovo, and Montenegro, political instability can add to the already high level of uncertainty and cause many problems for governments' ability to respond.

### **5.1. The role of businesses during the pandemic in the Republic of North Macedonia**

The crisis has already heavily affected businesses in North Macedonia. According to the Finance Think Institute questionnaire, around 41.5 percent of businesses were forced to close their activity because of the restrictive measures, and 43.1 percent had suppositions regarding a considerable decline in incomes. The impact on micro firms was particularly strong, where the share of respondents who were forced to close the activity is 8 percentage point above average and those with a significant decline in income is 12 points higher. However, the Economic Chamber survey presents that 72 percent of the respondents weren't thinking of closing down their company, while 21 percent were thinking of a partial closure of activity.

Supply-side shocks such as job constraints or lack of raw material were not major barriers for businesses. According to the Economic Chamber, only 19 percent of firms have applied compulsory leave for their employees and only 0.8 percent have evicted employees. This result does not match the reported decrease in income while the firms face lack of liquidity and inability to obtain bank loans. It is possible that firms will find it difficult to dismiss employees, unless the survey was unclear. However, one of the first measures the government has taken is the salary subsidy program. According to the Finance Think Institute survey only 13.8 percent of firms have faced problems in securing raw material. According to the Fund for Innovation and Technological Development survey, supply chains are not considered as major risk factors, being reported by only 39 percent of businesses.

## **6. THE IMPACT OF THE PANDEMIC WITH EMPHASIS ON THE ECONOMY OF NORTH MACEDONIA**

A study was conducted in North Macedonia on the effects caused by COVID-19 in the tourism and catering sector with recommendations for addressing the economic effects. The research was conducted by the Economic Chamber of North Macedonia, the Economic Chamber of North-West Macedonia, MASIT - ICT Chamber of Commerce, and Macedonian Chambers of Commerce.

The study shows that during the period August-September arrangements are being massively canceled, while there is a drastic decrease in the number of foreign tourists in the country.

The majority of tourism and catering companies would need at least six months to a year to recuperate, if the COVID-19 pandemic comes to an end by the end of the year.

The study predicts two scenarios. According to the first scenario, if the crisis ends by the end of this year, (2020), depending on the effectiveness of the measures that are to be taken, 2000 to 12 000 people would be made redundant, while the decline in tourism will be close to 200 million dollars or over 50% of the planned forecasts and based on this, recovery from the crisis would occur in 2023.

According to the second scenario, if the crisis continues after 2020, 4000 to 20 000 jobs will be lost, the decrease will be over 80% and recovery would occur in 2027. Almost 100% of hotels have cancelled arrangements for April, May, June, while in July there is canceling of group reservations in 89 percent of hotels, in August 69% of hotels, in September 50% of hotels, while cancellations have also been made for December of this year, and January 2021.

In order to improve the situation in the tourism sector, the study shows that the stimulation of domestic tourism is needed, while presenting special subsidized arrangements and conducting strong campaigns to encourage domestic tourism.

Artisans are also affected by the COVID-19 crisis; the real situation reflects the situation on the field. One of the most visited places by tourists that visit Skopje is the Old Bazaar of the city, where craftsmen say that for several months now they have been on the verge of survival, and that they can only last for another month and a half. Afterwards, if the situation does not change, they say that they will be forced to close their shops, just like the majority of the shops in the bazaar. Data from the State Statistical Office shows that the number of tourists has drastically decreased. In May 2020, 838 tourists visited the country, a rate 99,2 percent smaller compared to the same period of last year.

## 7. CONCLUSION

The emergency health crisis caused by the COVID-19 has directly affected the labor market in almost all the countries in the world. The movement restriction has caused a drastic decline in business activities on one hand, and the complete closure of many industries has left many employees jobless. But, the easing of restrictive measures and the gradual opening of business activities does not imply an immediate return to the pre-pandemic situation. Firstly, not all economic activities are expected to open immediately. Secondly, not all activities that will open will have the same demand for the provision of goods or services. And thirdly, the post-pandemic world might demand new economic activities and services which also require new skillsets. On the other hand, the pandemic situation could have been used to test some new social protection policies. With an accurate calculation of the financial cost, some of the measures taken could be translated into long-term government policies. Enterprises that register new workers with one-year contracts could have financial support from the state as support for their contribution to the formalization of the economy. Employees who have been employed for a certain period could have the right to a monthly allowance in the event of a job loss. Finally, the labor market may not be the same as it was before the pandemic. Therefore, the post-pandemic period may present a new beginning for many public policies, including those of social welfare.

A lot of jobs with low wages and abilities, especially those provided by small companies, will not return after the recovery and normalization of the situation. The changes in needs, a lot of which are accelerated by the economic upheaval caused by the pandemic, will change the future composition of the GDP. The distribution of services in the economy will continue to grow.

After many weeks of isolation, job evictions, tragic loss of lives, and the closing of most of the global economy, radical uncertainty is the best way to describe this historic moment. Will businesses reopen and will jobs be restored? Will we travel again? Will the outflow of money from central banks and governments be enough to prevent a deep and long recession? These are some of the main questions that come to mind during these hard days. It is safe to say: The pandemic will lead to permanent political and economic changes that will become visible later on.

## LITERATURE

- Фити, Т., & Филиповски, В. (2004). *Основи на микроекономија* –Економски fakultet, Skopje.
- Turkeshi, N. (2016). *Banking economy*”, FON University, Shkup
- Turkeshi, N. (2020). *“Marketing”*, Mother Teresa University, Skopje
- <http://pubdocs.worldbank.org/en/876501588143423927/RER-17-Outlook-ALB.pdf>;
- <http://pubdocs.worldbank.org/en/496311590709947974/RER-Health-May-21-for-typset-ALB.pdf>;
- <https://www.e4e.mk/wp-content/uploads/2020/07/Ndikimi-i-COVID-19-n%C3%AB-sistemin-ZhAP-ATP.pdf>;
- <https://www.worldometers.info/coronavirus/>;
- <https://mvr.gov.mk/kategorija/covid19>;
- <https://marketing365.mk/covid-19-makedonskata-ekonomija-predizvici-i-predlozi-za-namaluvanje-na-ekonomskite-posledici/>;
- [www.SETimes.com](http://www.SETimes.com) – “Globalization and free economy”