



## **Weekly Briefing**

**North Macedonia economy briefing:**  
**The economic contagion of COVID 19 - early shocks and measures**  
**Adela Gjorgjioska**


### **China-CEE Institute**

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 [office@china-cee.eu](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

## The economic contagion of COVID 19 - early shocks and measures

In parallel to the spread of the corona virus itself, March was marked by a growing fear of the spreading economic contagion caused by the severed flow of goods and people and the stalled economy. Although the specific impact that will be suffered by the macedonian economy is yet to be seen, it is widely anticipated that it will be severe.

The restricted movement aimed at curbing the spread of the virus in the first instance impacted on the hospitality and the services sector. The tourism associations have reported that 70,000 jobs have been threatened in this sector.<sup>1</sup> Many other small and medium businesses have already closed their operations. This includes food/farmers markets, shopping malls, coffee shops, restaurants, and micro and small businesses such as hairdressers and beauty salons. Only pharmacies, super markets and smaller grocery shops remain open across the country.

Moreover, the structure of the Macedonian economy, which is highly dependent on exports to European virus-hit countries,<sup>2</sup> has made it particularly vulnerable to the economic side effects of Covid 19.<sup>3</sup> Nine out of ten of its biggest export markets are countries in which the virus is rapidly spreading and which have also imposed high restrictions: Germany, Greece, Britain, Italy, China, Serbia, Bulgaria, Romania and Belgium.<sup>4</sup> In view of this, it is to be expected that the exports will drop. Similarly, problems will also be faced with the imports, which can cause severe problems in light of the high dependence on materials such as food and livestock as well as basic materials needed for industrial production processes which are usually imported also from the worst-hit markets in Europe.<sup>5</sup> In recent years on average 40% of exports and 60% of imports have been conducted through small and medium enterprises, which have been the worst hit in the crisis. This means that the crisis poses threats also to the trade deficit, which has been mostly covered by the exports, an important category in the balance of

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<sup>1</sup> "There are no dilemmas, the coronavirus will have dramatic impact on the economy" available at: [https://meta.mk/nema-dilemi-korona-virusot-%D1%9Ce-ima-dramaticchni-poslediczi-vrz-ekonomi%D1%98ata/?fbclid=IwAR1ZSPVmlYtTTTTcE49sMsn1DAQnDXv\\_A617GWgMwqRrf835Gdl58xMqedTY](https://meta.mk/nema-dilemi-korona-virusot-%D1%9Ce-ima-dramaticchni-poslediczi-vrz-ekonomi%D1%98ata/?fbclid=IwAR1ZSPVmlYtTTTTcE49sMsn1DAQnDXv_A617GWgMwqRrf835Gdl58xMqedTY)

<sup>2</sup> 82 per cent of the country's exports are intended for European countries

<sup>3</sup> Ibid

<sup>4</sup> "North Macedonia's businesses fear pandemic's economic shockwaves" available at: <https://balkaninsight.com/2020/03/18/north-macedonias-businesses-fear-pandemics-economic-shockwaves/>

<sup>5</sup> 82 per cent of the country's exports are intended for European countries

payments.<sup>6</sup> Additional problem is faced by the slowed down transport of goods, with delays faced at borders despite the fact that the transport of goods is exempt from the usual travel bans that countries in Europe and the Balkan region have put in place.<sup>7</sup>

### **Calls for state interventionism**

Already at the beginning of March the “Business Confederation of Macedonia” issued a warning to the Government stating that the coronavirus will cause sharp falls in the hospitality and tourism sectors, the industry, the allround supply chain and it will reduce the confidence in the goods and services causing a fall in the consumer confidence: “COVID-19 has spread everywhere around the world without an exception. We need to be realistic and to clearly understand that Macedonia will also be a part of the global socio-economic family. We will not be an exception that will be by-passed. The government, and all involved institutions and other stakeholders cannot afford to wait and should take all necessary precautions.”<sup>8</sup> In response, the technical Prime Minister Oliver Spasovski said that “the government will take steps to alleviate the economy which is under strain from the coronavirus crisis...”.<sup>9</sup> Moreover he informed that the Government has already held meetings with the Governor of the National Bank and representatives of the Chambers of Commerce, in order to consider all the fiscal implications. Finally, he announced that the governmental economics team will soon start with direct assistance for the economy, especially for the most affected sectors”.<sup>10</sup>

### **Initial support measures**

The first support measures were announced in the third week of March. At a press conference held on the 18th of March, Deputy Prime Minister in charge of Economic Affairs Mila Carovska, Finance Minister Nina Angelovska, Minister of Economy Kreshnik Bekteshi and Governor of the National Bank of the Republic of North Macedonia Anita Angelovska-Bezaska announced the initial support measures aimed at supporting the hardest hit sectors of tourism, transport, catering and other affected companies.

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<sup>6</sup> “The economy faced by the coronavirus and the concept of neoliberalism” available at: <https://rabotnik.com.mk/%D0%B5%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D0%B8%D1%98%D0%B0%D1%82%D0%B0-%D0%B2%D0%BE-%D0%B5%D0%BA-%D0%BD%D0%B0-%D0%BA%D0%BE%D1%80%D0%BE%D0%BD%D0%B0-%D0%BA%D1%80%D0%B8%D0%B7%D0%B0%D1%82%D0%B0-%D0%B8-%D0%BA/>

<sup>7</sup> Ibid

<sup>8</sup> “The corona virus will cause a fall in the industry in Macedonia” available at: <https://www.mkd.mk/makedonija/ekonomija/koronavirusot-predizvikuva-pad-vo-industrijata-i-vo-makedonija-predupreduva>

<sup>9</sup> “The government will help the business sector” available at: <https://republika.mk/vesti/ekonomija/spasovski-vladata-kje-mu-pomogne-na-biznis-sektorot/>

<sup>10</sup> Ibid

The first measure relates to the provision of direct financial assistance (€ 5.7 million made available by the country's Development Bank) to support the liquidity of micro, small and medium sized companies whose economic activity has been most affected. According to it, depending on the number of employees, companies can receive interest-free loans from 3 to 30 thousand euros, with a grace period of 6 months and a repayment period of 2 years. The second announced measure refers to a subsidy on employee contributions of up to 50% of the average salary paid in 2019 aimed to support the sectors of tourism, transport, catering and other affected companies for the months of April, May and June of 2020. The third announced measure is an exemption from corporate income tax for companies from the transport, tourism, hospitality, and other affected companies. Fourthly, the Ministry of Economy announced that all the funds (74 million denars or 1,2 million euros) earmarked for development, promotion and support of tourism will be reallocated to the Tourism Fund in order to compensate the tourist economy for overcoming the crisis in accordance with the number of employees.<sup>11</sup>

Finally, the Minister of Economy Bekteshi informed that a decision was made to freeze the prices of basic foodstuffs, such as bread, salt, oil, milk and dairy products, eggs, flour, meat, pasta, medicines and disinfectants. Nonetheless, concerns have been raised in light of the fact that many of these are products that the country needs to import, which means that their prices cannot be frozen without additional strains on the budget.

### **Monetary measures**

The Central bank announced its decision to decrease the basic interest rate by 0.25 percentage points to 1.75 per cent. "This decrease should dampen down the price of credit through the banks. This will allow the sustainability of the credit cycle and soften the effects of the negative shock to the domestic economy, especially the liquidity of the corporate sector," the central bank explained. Moreover, the Governor added that other measures are explored, some to stimulate banks to support the hardest-hit sectors in the economy (for instance through easing the conditions for loan restructuring of the most affected sectors), through changes to some of the monetary instruments and through changes to the regulatory requirements".<sup>12</sup>

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<sup>11</sup>"Initial sets of measures for aiding the economy" available at <https://vlada.mk/node/20578>

<sup>12</sup> Ibid

## **Other proposals**

On the 22nd of March, at a SDSM Party press conference, former Prime Minister Zoran Zaev presented SDSM's set of measures to protect the coronavirus-hit economy. The proposal included the following measures: 1) All officials to receive minimum salaries (of 14,500 denars) for the months of April and May (This category includes lawmakers, the prime minister, deputy prime ministers, ministers, heads of sectors, judges and prosecutors and all public sector employees) Zaev noted that the measure will not apply to doctors and health workers, to police and soldiers and to everyone who is directly engaged in dealing with the outbreak; 2) A monetary compensation in the amount of 50% of the average net salary for those who lost their jobs in the aftermath of the coronavirus crisis; 3) A minimum salary in April and May for people working in the media, athletes and artists among others; 4) A three month delay in paying interest rates; 5) Additional payment of energy compensation for welfare beneficiaries, or 7000 denars for every household with jobless people or people. (for the budgetary cost of 6,3 million euros); 6) 14,500 denars in minimum salary for April and May from the state budget for employees in private companies affected by the crisis (a measure with a projected budgetary cost of 120 million euros).<sup>13</sup>

The announced measures were subject to many criticisms. The first criticism related to the fact that they were announced by a leader of a political party at a party press conference, which was viewed as a populist step aimed to win party points for the SDSM. The second criticism focused on the proposals for cuts in the salaries in the public sector, which numbers over 100,000 employees. Economic experts have warned that these cuts will further affect consumer confidence and will reduce the already lowered demand, thus causing adverse effects on the economy as a whole.<sup>14</sup> Whether the Government will adopt some or all of these measures will become clear by the end of march or the beginning of april. Nonetheless, it is highly expected that a large share of the measures will be adopted, in view of the fact that they were proposed by the leader of the political party who remains in control of the state in spite of the fact that a Technical government is in place.

In order to deal with the consequences of the coronavirus crisis, the state has announced plans to seek loans from international financial institutions. On the 21st of March it was announced that the Ministry of Finance had already requested approval for the loans from the government. Reportedly, loans will be requested from the International Monetary Fund to the

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<sup>13</sup> "Zaev presents a set of measures to protect coronavirus hit economy" available at: <https://mia.mk/zaev-presents-sdsm-s-set-of-measures-to-protect-coronavirus-hit-economy/?lang=en>

<sup>14</sup> "Simplified economy in the times of coronavirus " available at: <https://www.signal.mk/kolumna-poednostavena-ekonomija-vo-vreme-na-korona/>

value of 87 million euros, from the World Bank to the value of between 100 and 120 million euros and from foreign commercial banks to the value of 400 million euros.<sup>15</sup> With the current public debt at 48,9% of GDP or 5.540,9 million euros,<sup>16</sup> this has amplified concerns about the over-indebtedness of the country and the long-term implications this will have over the economy.

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<sup>15</sup> "The state will request loans from international financial institutions and commercial banks" available at <https://www.24.mk/details/drzhavata-kje-se-zadolzhuva-kaj-me-unarodnite-finansiski-institucii-i-komercijalni-banki>

<sup>16</sup> Public debt available at: <https://javendolg.open.finance.gov.mk/en#con-debt>