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North Macedonia economy briefing: Economic developments in 2020

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Economic developments in 2020

By and large economic forecasts for 2020 were rendered obsolete by the coronavirus pandemic. Not only were policy makers confronted with a public health emergency but they also faced a great economic challenge. Whilst it is early to predict the full extent of the economic aftershock of the pandemic itself, it is nonetheless possible to assess the various economic responses taken, the logic that guided them as well as their short to medium term cost-effectiveness.

In the Macedonian context, the coronavirus pandemic brought about new challenges to the already fragile and stagnant economy. In 2020, it was expected that the GDP would rise to 4,2% from the rate of 3,3% marked in 2019. Instead, by the end of 2020 it was projected that the annual real GDP growth in the country will be -5.0%. This is the biggest drop since the country's independence in 1991. By way of comparison, during the economic crisis in 2009, GDP dropped only by -0,4%. The biggest fall of -3,1% was observed in 2001, as a consequence of an armed conflict. The GDP rate fluctuated throughout 2020 in reaction to the global and regional macroeconomic trends which impacted both exports and imports, but also in response to the specific fiscal measures taken by the Government in response to the pandemic. According to the State Statistical Office, GDP growth was 0,2% in the first quarter, -12.7 % in the second quarter and -3,3% in the third quarter of 2020.[1] This volatility is reflective of the trajectory of the coronavirus pandemic. The sharpest decline, which was experienced in the second quarter of the year can be attributed to two main factors. Firstly, this was the period when both nationally and internationally the priority was placed on the early mitigation of the pandemic. This meant strict restrictions on movement aimed at curbing the spread of the virus, which resulted in the closure or slow-down of almost all economic activity. The hospitality, tourism and services sectors suffered the first heavy blow as small and medium businesses, food/farmers markets, shopping malls, coffee shops, restaurants, and micro and small businesses were closed across the country. What is more, the high dependence of the Macedonian economy on imports from and exports to the European virus-hit countries made it particularly vulnerable to the

[1] http://www.stat.gov.mk/PrikaziSoopstenie.aspx?rbrtxt=31

economic side effects of Covid 19. Namely, nine out of ten of its biggest export markets are countries in which the virus was spreading rapidly and which have also imposed high restrictions during the second quarter of 2020: Germany, Greece, Britain, Italy, China, Serbia, Bulgaria, Romania and Belgium.

At the end of March, the Ministry of Finance announced that in order to counter the economic consequences of the pandemic, loans had been requested from the International Monetary Fund to the 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.[2] In the months that followed the loans translated into Government economic (stimulus) packages. In an attempt to mitigate against economic consequences of Covid19 the Government passed four such packages, the total costs of which exceeded 1 billion euros.[3]

The first two economic packages were announced on the 19th and the 31st of March respectively. Their combined cost is estimated to be around 200 million euros. Primarily they have been directed towards improving the liquidity of firms worst affected by the coronavirus and preventing a sharp rise in unemployment. The first economic package included a subsidy on employee contributions of up to 50% of the average salary paid in 2019 aimed to support the most severely affected sectors of tourism, transport, catering and other corona-affected companies for the months of April, May and June of 2020. The second set of measures included a state subsidy offered to companies in order to cover the minimum wage of 14,500 denars (around 240 euros) for all employees affected by the crisis, as well as all sportsmen, artists and independent business owners such as hairdressers, beauticians, craftsmen and farmers.

On May 17th, the government adopted a third economic package worth €355mn in response to the coronavirus pandemic. In comparison to the first two packages (of about €200mn), which were aimed at immediate relief towards saving jobs due to the lockdown measures, the third package had been described as "direct assistance to citizens and businesses

[2] "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

[3] https://vlada.mk/node/22629

to offset the consequences of the coronavirus (COVID-19) pandemic"[4] It consisted of three funding categories: the distribution of means of payment to the population in order to encourage the consumption of local goods and services; direct support for the economy; and an aid for the agrarian sector in the country. However, the measures in this package proved to focus on one-off financial assistance, which was able to offer only temporary and insufficient financial support for regular citizens. Moreover, the package was criticized due to its disproportionate favoring of businesses over regular citizens; it allocated three times more funds to businesses compared to citizens, as well as the fact that interest-free loans are made available to businesses but not to individual citizens.

The fourth and largest package was announced on the 27th of September. Including 31 measures it amounted to a total cost of 470 million euros. According to the Prime Minister the stimulus package was aimed at revitalising the economy by supporting businesses and individuals affected by the coronavirus pandemic. "The new stimulus package is a continuation of the previous three packages aiming to ensure economic sustainability," said the Prime Minister.[5] The package included wage subsidies for October, November and December for 83,000 employees in companies affected by the crisis. Furthermore, some 5,726 single parents, 182,271 retirees, 85,108 unemployed, 520 artists and cultural workers, as well as all citizens over 64 years of age who do not receive a pension or social benefits will receive 6,000 denars ($113.4/97.5 euro) each. It also provided new low interest loans worth a total of 100 million euro to local companies through the Development Bank of North Macedonia. Moreover, it included subsidies and grants for the tourism and hospitality industries.

The fiscal policy adopted by the Government in response to the pandemic was criticised due to three main reasons. Firstly, it was criticised because it offered only ad-hoc and temporary support to businesses and individuals affected by the crisis. Secondly, it was criticised due to its apparent disproportionate favoring of large businesses (including foreign companies) over small businesses and regular citizens. Thirdly, it was criticised due to its huge implications for the country's public debt, which rose from 48,9% in 2019 to 59,5% of GDP in 2020. This in

[4] https://vlada.mk/node/21424

[5] https://vlada.mk/node/22629

turn raised concerns over the long term economic consequences of the fiscal measures taken in 2020. However, such concerns did not seem to be shared by the Government.

At a joint press conference held on the 11th of November, Prime Minister Zoran Zaev and Minister of Finance Fatmir Besimi presented the draft-Budget for 2021, which projected a GDP growth of 4,1% in 2021, revenues at EUR 3,45 billion and expenditures at EUR 4,02 billion, a budget deficit of 4,9% of the GDP and capital investments at EUR 374 million.[6] It is difficult to justify the optimism of such forecasts in the context of the continuing pandemic, its long-term economic consequences of Covid19, but also the structure of the Macedonian economy and the periodic cycles of modern capitalism. Thus, it is likely that the forecasts are based on planned large scale privatisations some of which have already been hinted at by the Government. For instance, there have been mentions of possible private-public partnerships for several large state-owned companies including the Post office, the Railways, as well as the factories “Eurokompozit”, “Kolska” and “TEC Negotino”.

The combination of the global, regional as well as domestic consequences of Covid19 resulted in a turbulent year for the Macedonian economy. The Government attempted to navigate these uncharted waters by introducing four economic stimulus packages, incurring a cost of 1 billion euros and a rise in the public debt by nearly 11% in only 1 year. Whilst the economic packages did have a short ameliorating effect on the economy, the large debt which they incurred as well as the way in which they were distributed raised concerns for their medium to long term implications over the country’s economic recovery. What is more, the medium to long term effects of these measures are likely to be dependent on developments in Europe – due to strong banking and trade ties, but also due to the diminished capacity of the state to plan, coordinate and stimulate the economy as a whole.

[6] https://vlada.mk/node/23163