

ECONOMIC CONSEQUENCES AND RECOVERY PROCESSES FROM COVID-19 IN NORTH MACEDONIA

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Introduction

When the COVID-19 pandemic broke out in late 2019, it sparked an unparalleled worldwide crisis that changed healthcare systems, economy, and cultures all around the world. In an effort to stop the virus's spread, governments responded by enacting stringent containment measures like travel bans, lockdowns, and social isolation. These steps caused serious economic disruptions that would last for years, even though they were essential to handling the public health emergency. The entire scope of the pandemic's economic effects is now better understood in 2024, after the initial health crisis has passed. Significant employment losses, changed company methods, and redesigned trade and investment patterns have all had an impact on the global economy and continue to do so.

Sharp declines in GDP were a defining feature of the pandemic's early phases, especially in nations that depended largely on services, tourism, and international supply networks. The consequences were severe and immediate for North Macedonia, a tiny, open economy with pre-existing weaknesses. Production drastically slowed, businesses were forced to close, and financial markets became more volatile (Sulejmani, 2020). A decrease in household expenditure, a reduction in business investment, and a downturn in international trade were all consequences of the ensuing economic shock (OECD, 2020). Governments worldwide are still battling the pandemic's long-term repercussions on employment, social welfare, and economic stability, despite the fact that the virus's direct health effects have mostly subsided.

The dynamic nature of the climate and the scarcity of real-time data in the initial months of the crisis have made it difficult to fully quantify the economic impact of COVID-19. The final results varied depending on a number of circumstances, but initial estimates indicated that each month of stringent containment measures may lead to a 2-percentage-point drop in annual GDP growth. Among these were the length of lockdowns, the degree of vulnerability in important industries, and the success of monetary and fiscal measures intended to stabilize economies

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(OECD, 2020). According to the COVID-19 Economic Stimulus Index (CESI), which emphasized the noteworthy attempts of 166 nations to lessen the economic impact, fiscal and monetary reactions were prevalent (Elgin et al., 2020). As nations continued to manage the crisis, confronting particular difficulties based on their degree of development and governmental response, economic uncertainty remained notwithstanding these measures.

The epidemic caused a severe economic shock in North Macedonia, exacerbating preexisting vulnerabilities. including in many other nations, North Macedonia's GDP shrank rapidly, unemployment increased dramatically, and important industries including manufacturing, services, and tourism were severely disrupted. The foundation of the economy, small and medium-sized businesses (SMEs), were especially badly affected, finding it difficult to continue operating in the face of falling sales and growing operating expenses (International Labour Organization, 2020). Due to travel restrictions and social distancing measures, demand was substantially reduced in a number of industries, including the tourist, hospitality, and aviation sectors. Furthermore, North Macedonia's and other financial markets were not immune, as share values fell in reaction to the increased volatility and uncertainty. Both the demand side (consumption and investment) and the supply side (production of goods and services) were impacted by the economic unrest brought on by COVID-19 (International Labour Organization, 2020). It became clear that the epidemic would have a long-lasting effect on labor markets, corporate practices, and global economic institutions as North Macedonia and the rest of the globe moved from short-term crisis management to long-term recovery.

Even in 2024, as the globe continues to recover and adjust, it is still crucial to comprehend the economic effects of COVID-19. The pandemic sped up trends toward remote labor, digitization, and the creation of new company resilience strategies by causing structural changes in the global economy. It also emphasized how vulnerable global supply chains are and how some industries and groups are disproportionately affected by economic shocks. In addition to highlighting preexisting economic vulnerabilities, the pandemic offered North Macedonia reform opportunities, especially in fields like workforce development, social protection, and digital infrastructure.

It is important to look into COVID-19's economic effects and recovery procedures now for a number of reasons. First of all, it provides insightful information about how resilient certain economic sectors are and how they can adjust to upcoming crises. Second, it clarifies how successful government actions are, both in terms of short-term assistance and long-term recovery plans. Lastly, policymakers can learn important lessons from the recovery paths of nations like North Macedonia about how to create more resilient economies that can

endure shocks from around the world in the future. The epidemic highlighted the necessity of coordinated responses to crises that transcend national borders and exposed the interdependence of the world's economies.

1. Related Research

Many studies have been conducted on the global economic impacts of the COVID-19 pandemic, with an emphasis on economies that are particularly vulnerable, such as North Macedonia. Numerous studies have discussed the pandemic's significant effects on national and international economy, highlighting the fact that no sphere of society has been spared. North Macedonia's economy, which is mostly dependent on commerce, tourism, and remittances, was especially impacted by international lockdowns and the ensuing economic downturn, according to Spaseska et al. (2020).

Fiti (2020) draws attention to the difficulties caused by North Macedonia's constrained financial resources and argues that budget funds should be reallocated to assist the most impacted companies. Similar to this, Bexheti (2020) contends that the government had limited space for further public debt due to budgetary restrictions, indicating that operational costs needed to be reduced in order to manage the crisis. These results suggest that pre-existing structural vulnerabilities in the nation's fiscal system have been made visible by the pandemic.

Furthermore, Osmani (2021) looked at the pandemic's wider effects on the labor market and found that unemployment had significantly increased, especially in the travel, hospitality, and retail industries. The foundation of North Macedonia's economy, small and medium-sized businesses (SMEs), have been particularly susceptible to the financial strain brought on by falling sales and liquidity problems, according to research.

More research is necessary to improve our comprehension of the COVID-19 pandemic's economic effects on North Macedonia, especially with relation to labor market patterns and governmental initiatives. A thorough analysis of the pandemic's unemployment trends is given by Drangovska (2022), who emphasizes how some industries, such as IT and agriculture, took in displaced workers from more severely affected industries, like manufacturing and tourism. Despite overall job losses in conventional sectors, this sectoral transition and government assistance for impacted industries helped to gradually reduce unemployment. Additionally, Drangovska (2022) points out that temporary contracts and informal work have a greater effect in lowering official unemployment rates, despite the fact that these arrangements highlight issues with job quality and financial security.

Similarly, Antovska-Mitev and Drangovska (2021) look at the policy actions meant to keep employment levels stable and stabilize the labor market during the crisis. Their research assesses how well fiscal and economic stimulus policies

mitigate employment losses, especially in SMEs that were negatively affected by decreased demand and liquidity problems. In order to improve resilience to external shocks, they contend that the pandemic has expedited the need for structural reforms. They suggest that future policy initiatives concentrate on tackling systemic vulnerabilities and promoting employment in more robust industries.

The next section of this chapter, which gives a brief overview of North Macedonia's economic history, builds on this body of research by placing the pandemic's consequences within the nation's already established economic trajectory.

2. Brief Review of Economic Development of North Macedonia

North Macedonia is a small landlocked country in Southeast Europe that has experienced significant economic developments since gaining independence in 1991.

High unemployment, unstable economies, and the requirement for extensive structural changes were only a few of the difficulties that came with the transition from a centrally planned to a market-oriented economy. The nation has made great strides in stabilizing its economy, drawing in foreign capital, and integrating into international markets throughout the years. In order to promote growth and boost competitiveness, efforts have been made to modernize the economy through infrastructure upgrades and regulatory changes.

The success of these reforms was proved by North Macedonia's economic performance, which showed consistent development in the years preceding the COVID-19 pandemic. Key industries like manufacturing, services, and agriculture propelled the nation's average annual GDP growth rate of almost 3.5% between 2015 and 2019. The government's emphasis on trade relations, budgetary consolidation, and ease of doing business boosted economic activity in a number of industries and encouraged foreign direct investment (FDI). A era of relative stability and hope for the nation's economic future was marked by GDP growth of 3.6% by 2019 (World Bank, 2020).

North Macedonia's economy is varied, with major contributions from a range of industries. One of the main forces behind economic expansion has been the manufacturing sector, specifically the creation of electronics, automobile parts, and textiles. Another important area that contributes to GDP and employment is the services industry, which includes retail, banking, and tourism. Even though it is less prevalent, agriculture is still crucial to rural jobs and food security. But even with these improvements, the nation had a number of economic problems prior to the pandemic. Sustainable growth was continuously hampered by high unemployment rates, especially among young people, enduring income disparity, and regional differences. The nation also suffered from systemic problems like

poor infrastructure, corruption, and a weak judicial system, all of which impeded future investment and economic growth.

North Macedonia implemented a number of economic changes to boost resilience and promote sustainable growth in order to overcome these challenges. Integration with the European Union (EU) received a lot of attention, and the nation adapted its laws and norms to comply with EU regulations. To improve institutional capacity and foster a more welcoming business environment, this required significant reforms in the areas of economic regulation, the judiciary, and governance. The government created free economic zones, provided investment incentives, and expedited bureaucratic procedures as part of its plan to encourage foreign investment. These measures helped to spur FDI and the development of new industries.

2.1. Trends in key economic indicators

The economy of North Macedonia has grown and faced difficulties to differing degrees over time, impacted by both internal and external influences. Key economic metrics, including GDP growth, inflation, unemployment, remittances, and trade performance throughout various time periods, are highlighted in the analysis that follows.

Table 1
The Economy of North Macedonia's Economic Metrics

Average values per periods	1997-2001	2001-2003	2004-2007	2008-2009	2010-2013	2014-2019	2020-2023
GDP growth (annual %)	2.13	0.22	5.25	2.56	2.04	3.03	0.77
Personal remittances, received (% of GDP)	1.95	2.71	3.85	4.08	3.95	3.07	3.44
Inflation, consumer prices (annual %)	2.47	2.79	1.39	3.80	2.88	0.46	7.00
Unemployment, total (% of total labor force) (national estimate)	33.12	33.05	36.53	33.14	31.19	23.40	15.62
Current account balance (% of GDP)	-5.05	-6.51	-4.54	-9.48	-2.38	-1.38	-2.81
Exports of goods and services (BoP, current US\$)	24.50	28.40	29.87	40.95	40.74	48.50	61.50
Imports of goods and services (BoP, current US\$)	45.71	46.36	47.46	58.37	61.72	65.44	75.19
Foreign direct investment, net inflows (% of GDP)	5.04	5.97	5.70	4.47	3.81	3.58	3.75
Foreign direct investment, net outflows (% of GDP)	0.16	0.29	0.26	0.45	1.00	0.50	0.55
Foreign direct investment, net (% of GDP) authors' calculation	4.88	5.68	5.44	4.02	2.81	3.07	3.21

Note: World Bank, 2024.

Influenced by both internal and external economic factors, the patterns in North Macedonia's primary economic indicators show both times of expansion and significant difficulties. Although North Macedonia's GDP growth rates have fluctuated greatly, the mid-2000s, when structural reforms and economic stabilization were prevalent, saw the greatest annual growth rate, 5.25 percent. But in the early 2000s, growth slowed dramatically, averaging just 0.22%, mostly as a result of domestic adjustments and regional instability. Stable macroeconomic policies and rising foreign investment helped the economy grow by almost 3% on average between 2014 and 2019. However, the global economic slowdown brought on by COVID-19 caused economic growth to drop sharply to an average of 0.77% between 2020 and 2023.

The GDP of North Macedonia depends heavily on personal remittances, which have been steadily rising. The highest average, 4.08% of GDP, was recorded in 2008–2009, when households found remittances especially useful due to global financial uncertainty. Remittances, which have always surpassed 3% of GDP despite a minor decline in recent years, offer a reliable source of income and help to counteract economic volatility.

Over the years, North Macedonia's inflation has stayed largely under control, with consumer prices often ranging between two and three percent, with the exception of some highs. Due to supply chain interruptions brought on by the pandemic and rising demand for specific goods and services, the greatest inflation rate, 7%, was recorded between 2020 and 2023. Due to the efficient monetary policy that targeted exchange rates and kept prices low, inflation was previously well-contained, with the lowest annual average, 0.46%, occurring between 2014 and 2019.

Over time, the unemployment rate—a recurring problem—has gradually improved. Unemployment peaked at 36.53% between 2004 and 2007 and averaged over 30% during the late 1990s and early 2000s. However, unemployment decreased to an average of 23.4% from 2014 and 2019 and then to 15.62% in the most recent period due to focused government measures and foreign investment. Even though North Macedonia's unemployment rate is still high when compared to other countries in the region, this progress shows the country's attempts to solve labor market issues.

Due to its structural reliance on imports to cover its domestic requirements, North Macedonia has historically had a negative current account balance. The 2008–2009 global financial crisis had the biggest deficit, -9.48% of GDP, highlighting the vulnerabilities associated with global finance and commerce. However, in recent years, the deficit has decreased, averaging -2.81% between 2020 and 2023, indicating some stabilization in trade patterns. Exports and imports have grown significantly over time, according to trade data. As a result of

more domestic consumption and greater integration into international markets, imports have also expanded, with exports rising from an average of \$24.5 billion in the late 1990s to \$61.5 billion in recent years.

Although they have fluctuated over time, foreign direct investment (FDI) inflows have been crucial to North Macedonia's economic growth. After peaking at 5.97% of GDP in the early 2000s, net inflows have since fallen to an average of 3.75% in recent years. Similar patterns may be seen in net foreign direct investment (FDI), which takes outflows into account. This highlights the nation's reliance on foreign funding, which has varied according to regional and international economic situations.

2.2. The economic journey

Since gaining its independence, North Macedonia has experienced substantial economic changes that have been marked by periods of expansion, crisis, and recovery. Every era, from the early transition difficulties in the late 1990s to the most recent difficulties brought on by the COVID-19 pandemic, illustrates the nation's changing economic situation and the tenacity of its citizens. The trajectory of FDI inflows, GDP growth, unemployment rates, and the crucial role of personal remittances have all been influenced by the interaction of domestic policy, regional dynamics, and global economic trends. Analyzing North Macedonia's present economic situation and possibilities for the future requires an understanding of these historical backgrounds.

- **1997-2001: Early Transition Struggles**

The country's early shift from a centrally planned to a market-oriented economy took place between 1997 and 2001. Political unrest, regional conflicts, and structural inefficiencies all contributed to the economy's severe difficulties throughout these years. The 1999 Kosovo crisis and the sluggish pace of economic reforms were the reasons for the comparatively low average GDP growth of 2.13%. Another significant barrier to progress during this time was the high unemployment rate, which averaged 33.12%. Notwithstanding these obstacles, personal remittances started to become more significant, contributing 1.95% of GDP and offering many households vital support. As the government concentrated on keeping prices stable, inflation stayed low at 2.47%.

- **2001-2003: Impact of Internal Conflict**

Because of the military conflict in 2001, there was further economic volatility during this time. Due to the economic effects of the conflict and the ensuing political unpredictability, GDP growth fell precipitously to an average of 0.22%. With a high rate of 33.05%, unemployment did not significantly decline. Nonetheless, personal remittances rose to 2.71% of GDP, underscoring the

significance of diaspora assistance in difficult economic times. Average inflation was 2.79%, little higher than the prior period but still under control considering the difficult conditions. The nation's fiscal capacity was severely stressed by the internal strife, which resulted in a stall in economic recovery and a decrease in foreign investment.

- **2004-2007: Post-Conflict Recovery and Growth**

North Macedonia had a period of recovery after the conflict ended, with average GDP growth of 5.25%. This era was marked by measures intended to stabilize the macroeconomic framework, improve the business climate, and draw in foreign direct investment (FDI). The economy appeared to be growing, especially in the manufacturing and services sectors, but unemployment remained a major problem, averaging 36.53%. Personal remittances rose to 3.85% of GDP, indicating a sustained reliance on foreign income. Thanks to careful monetary policy, inflation remained low at 1.39%. Increased integration into global markets and improved regional stability helped the economy and set the nation up for future expansion.

- **2008-2009: Global Financial Crisis Impact**

The economy of North Macedonia was severely impacted by the worldwide financial crisis of 2008–2009. The nation went through a brief recession in 2009, and GDP growth fell to an average of 2.56%. A decrease in the demand for exports, especially in the textile and metal industries, which were major drivers of the nation's economic activity, was a major factor in the economic slowdown. Personal remittances continued to provide a safety net for many people, staying steady at 4.08% of GDP despite the recession. As a result of rising global commodity prices, inflation increased to an average of 3.80% throughout this time. Even while it was still high, unemployment started to significantly decrease, averaging 33.14%. The crisis made clear how susceptible North Macedonia's economy is to outside shocks and how much more economic

- **2010-2013: Modest Recovery Amid Eurozone Uncertainty**

With GDP growth averaging 2.04%, North Macedonia's economy started to rebound in the years after the global financial crisis. However, because of its economic and financial ties with European nations, the nation was impacted by the Eurozone debt crisis, making the recovery difficult. Even though it somewhat fell to an average of 31.19%, unemployment remained high. Throughout this time, personal remittances were essential, continuing to provide a steady 3.95% of GDP. Despite outside uncertainty, inflation stayed mild at 2.88%, suggesting relative price stability. Although the government concentrated on structural changes and fiscal reduction, the possibility for rapid growth was constrained by

the sluggish recovery in important export markets.

- **2014-2019: Steady Growth and Structural Reforms**

A more consistent and stable growth trajectory was observed between 2014 and 2019, with GDP growth averaging 3.03% over this time. The government made more of an effort during this time to modernize infrastructure, draw in foreign investment, and improve the economic climate. Important industries like trade, services, and manufacturing made major contributions to the expansion. Although still significant, personal remittances fell little to 3.07% of GDP, indicating a move toward more domestic growth sources. Averaging only 0.46%, inflation stayed incredibly low during this time due to steady prices and positive global commodities trends. As the government put in place active labor market policies and job development programs, unemployment significantly decreased, falling to an average of 23.40%. Notwithstanding these encouraging developments, the economy continued to encounter political uncertainty and the need for deeper structural reforms.

- **2020-2023: The COVID-19 Pandemic and Economic Disruption**

GDP growth in North Macedonia was significantly slowed by the COVID-19 epidemic, averaging only 0.77% over this time frame. The pandemic severely strained national finances, hampered trade, and decreased domestic consumption. Although the average unemployment rate decreased to 15.62 percent, the pandemic caused job losses, especially in the travel, retail, and hospitality industries. Due to the diaspora's sustained assistance to families during the crisis, personal remittances climbed marginally to 3.44% of GDP. However, supply chain disruptions and rising global food and energy prices caused inflation to spike to 7.00%. The pandemic brought to light the necessity for increased economic resilience and diversification as well as North Macedonia's economy's susceptibility to shocks from around the world.

3. COVID-19 Impact in North Macedonia

The COVID-19 pandemic had a major effect on North Macedonia, which was one of the most severely affected nations in the region. The virus quickly spread over the world, and on February 26, 2020, the first confirmed case had occurred in North Macedonia. Health officials acted quickly to stop the spread, enforcing harsh regulations that included halting instruction, prohibiting public meetings, closing recreational centers, and limiting travel. Many businesses had to temporarily close, and airports were closed to all flights except those necessary for survival. After a period of relative containment, the number of new cases per day peaked at 107 by April 2020, thanks to these actions that helped restrict the number of cases in the early months.

Nonetheless, the economic impact of the pandemic was severe, upsetting the pace of prosperity that North Macedonia had established in the preceding years. Global trade restrictions, disruptions in the supply chain, and changes in consumer behavior caused a significant slowdown in the economy, resulting in a dramatic decline in GDP and an increase in unemployment. Some industries saw sharp drops, while others showed resiliency, in part because of government initiatives. Economic stimulus programs, such as aid for impacted companies and improvements in healthcare, were crucial in reducing immediate financial losses and have started to set the groundwork for a recovery (Drangovska & Antovska-Mitev, 2021).

Table 2
COVID-10 Statistics for Selected Countries in the Region

	Total Cases	Total Cases/1M population	Total Deaths	Total Deaths/1M pop
North Macedonia	350,567	168,436	9976	4793
Bulgaria	1,339,851	195,753	38,748	5,661
Montenegro	296,542	472,238	4,532	2,846
Serbia	2,615,054	302,213	18,057	2,087
Albania	334,863	116,825	3,605	1,258
Bosnia and Herzegovina	403,615	124,215	16,388	5,044

Note. <https://www.worldometers.info/coronavirus/> [13.10.2024]

COVID-19 data for North Macedonia and its neighbors (Table 1) show the pandemic's toll, with North Macedonia having one of the highest regional mortality rates per capita. These numbers demonstrate both the achievements and lingering difficulties of North Macedonia's response, underscoring the pandemic's twin effects on public health and economic stability.

4. Economic Consequences of COVID-19

The economy of North Macedonia, which is mostly dependent on EU trade and investment, has been severely impacted by the COVID-19 outbreak. Nine of its ten biggest export markets—Germany, Greece, Britain, Italy, China, Serbia, Bulgaria, Romania, and Belgium—were among those worst impacted by the

pandemic (Gjorgjioska, 2020), and over half of its exports are aimed at Germany (OECD, 2020). This led to a -0.2% decline in overall export growth in 2020. Significant reductions of about 11.5% were experienced by the manufacturing, construction, tourism, trade, and real estate sectors (World Bank, 2020). Due to its heavy reliance on goods like food and industrial inputs from badly damaged European markets, the economy also struggled with imports (Gjorgjioska, 2020).

Manufacturing, tourism, and small and medium-sized businesses (SMEs) have been the most severely impacted domestic markets. SMEs have historically made up 60% of imports and 40% of exports, but they encountered significant difficulties during the crisis (Gjorgjioska, 2020). Production in manufacturing fell by 2%. According to a Finance Think (2020) study, state-mandated shutdowns and a decline in sales caused major harm to many businesses, with 43.1% and 41.5% of respondents identifying these as the main problems. Export-focused businesses faced significant challenges, with numerous orders being canceled as a result of shipping problems or declines in foreign demand. The corporations themselves did not identify these reasons as key contributors to the economic crisis, despite the fact that many employees took sick leave or required childcare because of school closures.

Furthermore, the vulnerability of local labor markets have been emphasized. During the pandemic, countries with high proportions of self-employment and informal and temporary employment had more severe job losses, particularly in the absence of strong social protection networks. The Western Balkans' employment rate increased from 42.7% in 2018 and 36.9% in 2012 to 44.3% at the end of 2019 (Zulfiu, 2020).

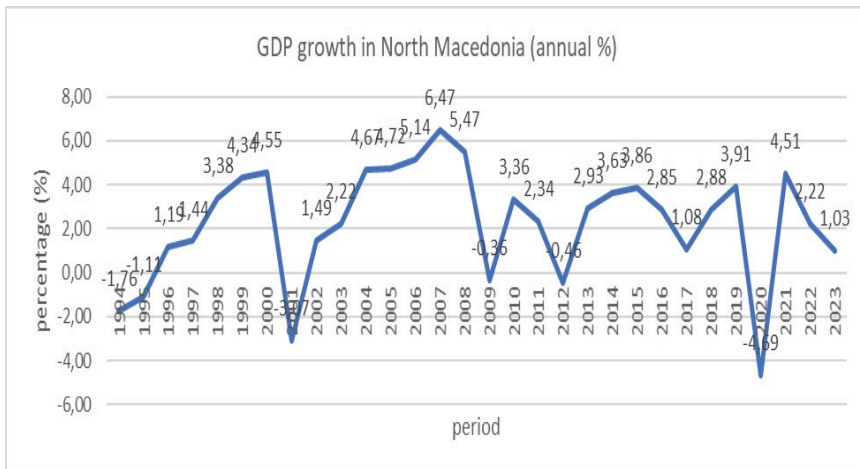
The subsequent sections will examine the precise implications of the pandemic on North Macedonia's GDP growth, inflation, labor market, and unemployment in light of these broad economic repercussions. They will then look at the effects on important industries such manufacturing, tourism, trade, and SMEs.

4.1. The impact on GDP growth

With a GDP growth rate of 3.9% in 2019, the highest since 2015, North Macedonia was enjoying consistent economic growth prior to the pandemic (Graph 1). Agriculture, which provided 0.5 percentage points, and the wholesale and retail trade sector, which contributed 1.5 percentage points, were the primary drivers of this rise. Gross investments were the main driver of demand growth, indicating a positive business climate and a rise in economic activity.

Graph 1

Annual Real GDP Growth Rate, in Percentage (%), in the Republic of North Macedonia



Note. World Bank, 2024.

However, an unexpected economic shock was brought on by the start of the COVID-19 pandemic in early 2020. Economic activity fell significantly as a result of the strict lockdown regulations and worldwide disruptions. The World Bank reports that North Macedonia experienced its worst recession since 2001 in 2020, with a 6.1% GDP decline. This loss was most noticeable in the second quarter, when the poor international climate and the restrictive measures intended to stop the virus’s spread caused real GDP to drop by 16.4% (SSO, 2021). Important industries, including construction, services, and industry, suffered significant setbacks. With contractions of 5.9% in the third quarter and 3.8% in the fourth, the fall in economic activity slowed in the second half of 2020. Alongside these developments, there was a slow rebound in investment and export activity as well as a rise in government spending to lessen the pandemic’s effects.

The Macedonian economy started to improve by 2021, growing at a rate of 4.5%. Growing investments and robust government-led construction projects were the main drivers of this resurgence. A major factor in this recovery was the services sector, specifically trade, ICT, tourism, and transportation. The tourism industry, which had been severely affected by the pandemic, had not yet recovered to its pre-pandemic levels despite the encouraging growth trajectory.

External factors started to put strain on North Macedonia’s growth as the world economy changed. Geopolitical difficulties, such as the conflict in Ukraine, exacerbated the pandemic’s effects on the economy in 2022 (Drangovska, 2022).

The recovery process was made more difficult by the expected consequences of the conflict in Ukraine, an energy crisis, and inflationary pressures.

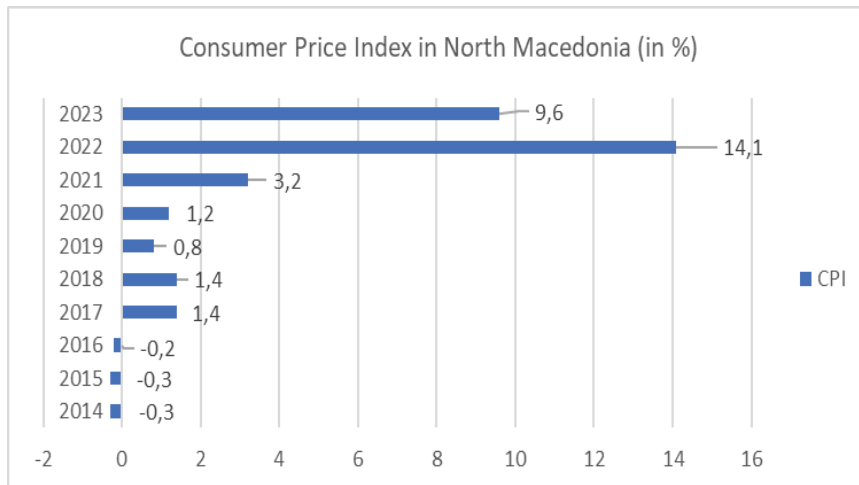
A modest 1.3% GDP growth was recorded in North Macedonia in 2023. Persistent inflation, sectoral variety, and lingering global economic uncertainty all contributed to this sluggish recovery. While some industries showed signs of recovery and resilience, others—especially those most affected by the pandemic—kept up their struggles.

4.2. The impact on inflation

North Macedonia's inflation rate was modest and comparatively consistent in the years preceding the COVID-19 pandemic. Low inflation rates among trading partners and muted internal demand pressures were cited as the reasons for this stability. The country's poverty rate has decreased as a result of the low inflation environment. The start of the COVID-19 pandemic in 2020, however, drastically halted this pattern. Inflation rates decreased as a result of the crisis's impact on domestic demand and the decline in global oil and commodity prices. Inflation in consumer prices averaged 1.2% in 2020 (Graph 2).

Graph 2

Consumer Price Index in Republic of North Macedonia, in Percentage (%)



Note. SSO, 2024

Inflation significantly increased in the second half of 2021, averaging 3.2%. Rising gasoline, energy, and food prices—especially edible oil—were the main causes of this surge, which reflected global price increases. Global supply shortages and market uncertainty for food and energy exacerbated inflationary pressures, resulting in unusually high inflation rates in the first half of 2022.

In North Macedonia, as in other parts of the world, supply-side forces were the main drivers of inflation. Notably, the conflict in Ukraine and the economic sanctions placed on Russia made the dramatic rise in food and energy costs much worse. Price increases for other goods and services started to spread as a result of these ongoing pressures, which raised predictions of inflation even further. The consumer price index increased 16.5% in July 2022 over the same period the year before. Prices for housing, gas, and electricity increased by 15.6%, transportation prices increased by 33%, and the food sector increased by 22.7% (SSO 2022a). Rising food and energy costs were the main drivers of the 14.1% average inflation rate from January to December 2022. The government's proposal to raise the minimum wage by double digits in March 2022 further aggravated this inflationary climate.

The National Bank of the Republic of North Macedonia (NBRM) tightened monetary policy in response to the growing rate of inflation by raising interest rates and progressively removing market liquidity. The goal of this tightening was to keep inflation expectations low. To lessen the inflationary pressures on firms and consumers, fiscal policies were also put into place in addition to monetary measures (Drangovska, 2022). As a result of these actions, the high inflation of 2022 eventually decreased, reaching 9.6% in 2023.

4.3. The impact on public debt

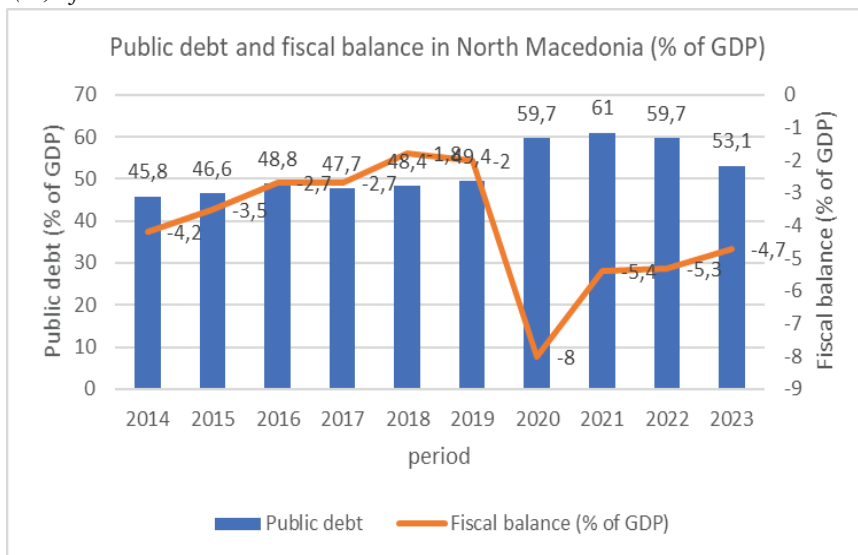
North Macedonia's fiscal deficit as a percentage of GDP was trending downward prior to the COVID-19 pandemic. Nonetheless, the government responded to the pandemic by enacting a number of policies meant to lessen the crisis' detrimental effects on the economy. The public and publicly guaranteed debt increased to 61% of GDP in 2020 as a result of these actions, which amounted to 2.5% of GDP. Compared to the pre-pandemic level of 49.2% in 2019, this indicated a noteworthy increase of over 11 percentage points.

From -2.1% of GDP in 2019 to -8.3% of GDP in 2020, the fiscal deficit doubled. The primary cause of this dramatic increase was a 1% drop in overall budget revenues brought on by a dip in VAT and excise collections. Budget spending increased by more than 5% at the same time due to an increase in social contributions and containment measure expenses. Public and publicly guaranteed debt leveled down in 2021, staying nearly constant at 59.7% of GDP, a minor decrease of 1.3 percentage points from 2019, but still far higher than pre-crisis levels.

Budget revenues rose 15.3% in 2021 as pandemic restrictions were gradually lifted. Compared to the over 14% growth in the previous year, current expenditures increased by 2.9%. In 2021, the general budget deficit was 5.4% of GDP, less than the 6.5% target (Graph 3).

Graph 3

Public Debt and Fiscal Balance of the Republic of North Macedonia, in Percentage (%) of GDP



Note. Ministry of Finance (2023)

Nonetheless, it is anticipated that the protracted shocks from the epidemic and the conflict in Ukraine will continue to present negative risks to state finances in the years to come. In response to these persistent issues, the Supplementary Budget was amended in July 2022. In light of the ongoing energy and price crisis, the 2022 Supplementary Budget sought to safeguard corporate sector liquidity and living standards. In comparison to the original budget projections, the modifications increased the estimated overall budget revenues by 2.9% to MKD 245.8 billion. The expected total expenditures were 5.9% higher than the original projection, coming in at MKD 288.5 billion.

In response to the COVID-19 epidemic and the energy crisis, an additional MKD 25 million was allotted to the infrastructural, environmental, and health sectors. The estimated MKD 32.1 billion was allocated for capital expenditures, which included funding for the renovation and reconstruction of public health equipment, as well as upgrades to childcare, education, social protection, and road and rail infrastructure.

Weak fiscal impetus caused the budget deficit to drop to -4.7 percentage points in 2023, a 0.5 percentage point decrease from 2022. More substantial reductions are expected in 2024. Although it was earlier anticipated that public and publicly guaranteed debt would rise over the next several years, reaching 64.3% of GDP in 2023 and 64.1% in 2024, it managed to drop to 53.1% in 2024 and is expected

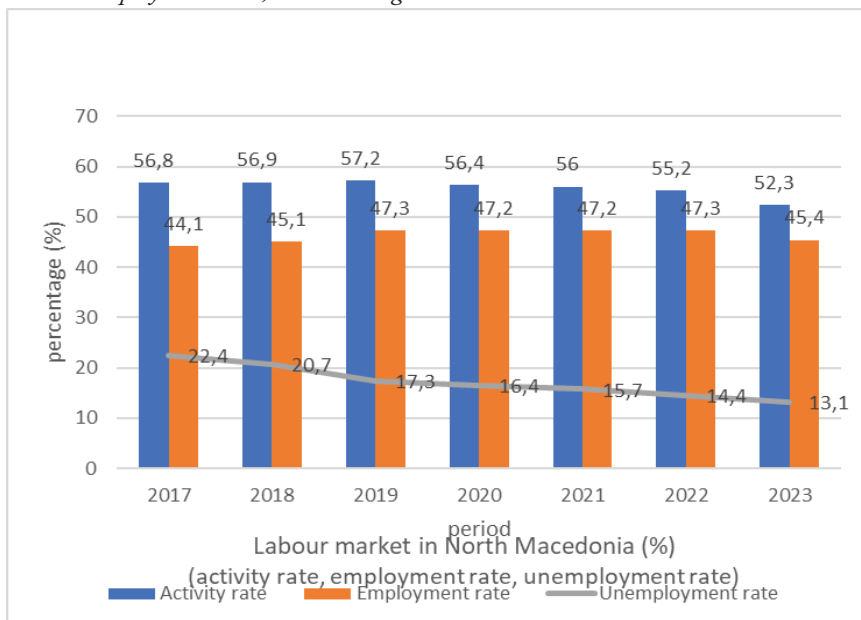
to decline in 2024 (Ministry of Finance, 2022a).

4.4. The impact on the labour market

The labor market began to improve in 2019, the year before the virus extended to North Macedonia. The employment rate climbed to 47.3%, up 2.2 percentage points from the prior year (45.1%), while the activity rate increased by 0.3 percentage points from 2018. As a result, the unemployment rate dropped to 17.3%, which is a record low (Graph 4). Manufacturing, administrative services, transportation and storage, and marketing accounted for the majority of the new jobs produced. Wages kept rising, with the largest gains seen in the construction, education, health, and transportation and storage sectors. However, the pattern of declining productivity and rising wages, especially in labor-intensive industries, prompted questions about the economy’s total productivity (Drangovska, 2022).

Graph 4

Labour Market in Republic of North Macedonia (Activity Rate, Employment rate and Unemployment Rate) in Percentage



Note. SSO, 2024

The COVID-19 pandemic’s start in 2020 had a major negative impact on North Macedonia’s labor economy. Improvements were noticeable in the first quarter of 2020, as the employment and activity rates rose to 48.1% and 57.4%, respectively, while the unemployment rate marginally decreased to 16.2%. However, the unemployment rate rose to 16.7% during the second quarter’s crisis

peak, when many lockdown measures were implemented and many economic activities were temporarily suspended, representing a 0.5 percentage point increase over the first quarter (SSO, 2022b).

The impact was lessened by the government's introduction of employment assistance payments and work retention subsidies, which caused the unemployment rate to slightly decline to 16.5% in the third quarter and then to 16.1% in the fourth. The unemployment rate decreased to 16.4%, which is 0.9 percentage points lower than in 2019, but remaining mostly stable. However, this apparent gain was really caused by a decline in the activity rate, which dropped by 0.8 percentage points from 2019 to 2020, rather than a rise in the employment rate. This suggests that the pandemic reduced the number of persons actively looking for work. Male workers were disproportionately impacted relative to female workers, and the largest job losses happened in industries where short-term employment contracts were common.

The labor market started to slowly revive in 2021. All quarters saw a decline in the unemployment rate, which at the end of 2021 was down 0.7 percentage points from 2020. On the other hand, the activity rate dropped by 0.4 percentage points, suggesting that the labor market is trending negatively. There was no change in the employment rate from the prior time frame. In 2021, the government kept up its support initiatives to lessen the impact of the crisis on the labor market. Changes in labor legislation that increased hourly pay for Sunday and holiday work made wage pressures even more pronounced.

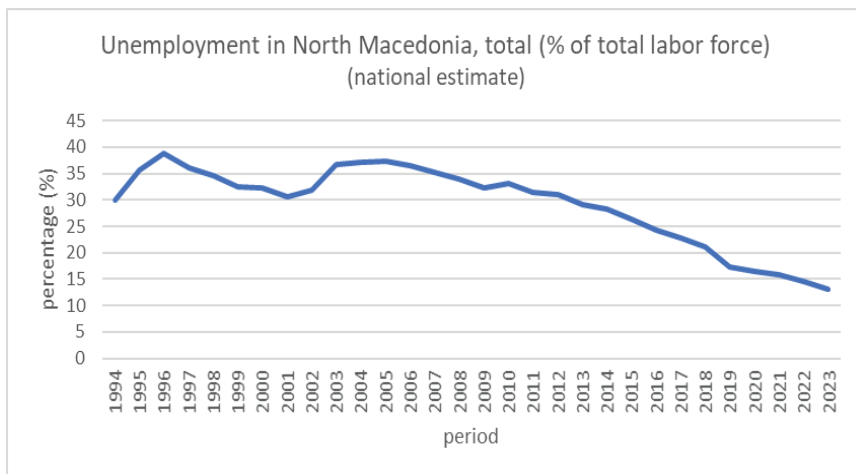
The labor market faced further difficulties as a result of the energy crisis and the ongoing conflict in Ukraine. The government raised the minimum wage by 18.5% and instituted annual indexation of the minimum wage in respect to the consumer price index and average pay growth as COVID-19 policies were replaced with programs aimed at the most energy-vulnerable households and businesses. Through subsidized support programs, the government compensated businesses for rising labor expenses, which increased the nation's debt. The labor market only slowly improved despite significant government financial assistance; in the first quarter of 2022, the unemployment rate dropped to 14.8%, a 0.4 percentage point decrease from the previous quarter of 2021. However, a falling activity rate (down 0.4 percentage points from the fourth quarter of 2021) was the cause of this decline rather than an increase in the employment rate. At 55.2%, the activity rate was still lower than it was before the pandemic. While the activity rate continued to decline, reaching 13.1% in 2023, the employment level fell to 45.2%.

After a rather high 17.3% in 2019, the unemployment rate dropped to 16.4% in 2020 (Graph 5). Particularly noticeable job losses occurred in industries including manufacturing, tourism, and hospitality. However, some of

the displaced workforce was absorbed by new jobs that arose in more resilient industries like IT and agriculture. Because fewer people were actively looking for work as a result of many workers leaving the job market owing to health issues and economic uncertainty, the labor force participation rate also decreased. The unemployment rate steadily declined in the ensuing years, falling to 15.7% in 2021, 14.4% in 2022, and 13.1% in 2023. Along with the economy’s gradual recovery and adaptation, this graph also shows the effects of government policies that supported specific industries and helped to stabilize employment. The economy’s structural shifts, which included a partial move toward temporary or informal work arrangements, also helped to lower the official unemployment rate while drawing attention to persistent issues with worker stability and job quality.

Graph 5

Unemployment Rate in the Republic of North Macedonia, Total (% of Total Labor Force)



Note. SSO, 2024

Global labor markets were significantly impacted by the COVID-19 epidemic, and North Macedonia was no exception. Significant shifts in labor market dynamics and unemployment rates were brought about by the pandemic’s economic disruptions, underscoring both short-term difficulties and long-term ramifications.

Data from the State Statistical Office (Table 3) showed notable trends in the number of unemployed people by their primary sources of income from 2017 to 2022:

Table 3*Unemployed by Main Sources of Livelihood, Annual*

	2017	2018	2019	2020	2021	2022
Total	213564	198569	166363	155949	147917	116045
Wage/pension of members of the household	155999	140294	124211	105710	98655	73899
Financial support from relatives or other persons not members of the household	16017	17259	11926	11540	7975	8688
Financial support from relatives or other persons members of the household	7912	8377	7301	6758	4922	5917
Occasional work abroad	547	:	580	:	590	569
Recipient of redundancy benefits/dismissed from work	848	1986	1107	1502	1185	1582
Social assistance	22060	19573	13361	22037	26964	20035

Note. SSO, 2024

In 2022, there were 116,045 unemployed people, a considerable drop from the 213,564 in 2017, suggesting that the labor economy was improving overall. Wages or pensions from household members were the primary source of income for the unemployed, however this amount decreased from 155,999 in 2017 to 73,899 in 2022. This decline points to a decline in the financial stability of households. Assistance from household members steadily declined from 7,912 to 5,917, while support from relatives who did not reside in the family first rose before declining. Although it varied, occasional work overseas stayed modest, with 569 reported in 2022. Redundancy benefits recipients increased from 848 in 2017 to 1,582 in 2022, underscoring the effects of job losses during the epidemic. Due to the pandemic's economic impact, the number of people receiving social assistance rose from 22,060 in 2017 to 26,964 in 2021 before falling to 20,035 in 2022.

4.5. Sectoral impacts

Different areas of North Macedonia's economy were affected by the COVID-19 epidemic in different ways, which reflects the variety of economic activities and their vulnerability to outside interruptions. The main sectoral effects of the pandemic are examined in this section, along with how different industries

dealt with and adjusted to the financial difficulties.

4.5.1. Tourism and hospitality

An essential part of North Macedonia's economy, the tourism and hotel industry was among the most severely affected by the COVID-19 pandemic, suffering from hitherto unheard-of interruptions. This sector's revenue fell precipitously; estimates show that it fell by more than 70% at the height of the crisis. Lockdowns around the country and prohibitions on international travel severely reduced the number of visitors, which resulted in a dramatic decline in hospitality services. Given that tourism is a major contributor to the GDP and jobs of the country, the effects were especially significant. According to data, travel and tourist earnings as a share of GDP fell from 6.6% in 2019 to 4.8% in 2020 before slightly increasing to 5.6% in 2021. During the 2020–2022 epidemic, North Macedonia had a decline in foreign visitors. This loss had a negative impact on the national budget even if it was not as great as other regional nations. Skopje and the Southwest region were particularly hard hit, with the loss being most noticeable in the food and beverage, retail, and leisure and recreation sectors (Velichkovska et al., 2023).

This drop in revenue caused severe financial difficulties for numerous hotels, eateries, and travel agencies, which resulted in their temporary or permanent closure. The recession had a knock-on effect that hurt associated sectors including transportation and local companies that depend on tourism revenue. The tourism industry launched a number of rehabilitation initiatives in response to these difficulties with the goal of stabilizing the business. While measures to encourage domestic travel were given priority in order to lessen the losses brought on by limits on international travel, health and safety procedures were put in place to guarantee the welfare of both visitors and employees. There were early indications of recovery in the sector, with tourism activities gradually beginning to revive as vaccination rates rose and travel restrictions started to loosen. Even with these early gains, the industry is still navigating the changing market environment, so the long-term recovery trajectory is still unclear.

4.5.2. Manufacturing

During the COVID-19 pandemic, North Macedonia's manufacturing sector faced a wide range of challenging challenges that had a mixed effect on its overall performance. On the one hand, the industry experienced severe disruptions as a result of global supply chain disruptions that impacted production schedules and raised raw material costs. Because of their dependence on global supply chains, important industries like textiles and car parts were especially at risk. These interruptions caused further operational inefficiencies by delaying manufacturing schedules and straining relationships with suppliers.

The manufacturing industry proved to be remarkably resilient and adaptable in spite of these challenges. To lessen their reliance on foreign suppliers, many companies changed course and increased domestic production while diversifying their supply chains. Some manufacturers were able to continue operating during the epidemic and lessen the impact of worldwide interruptions because to this strategic change. Additionally, more money was spent on digital technologies, which improved productivity and allowed for remote operations. Businesses started implementing automated procedures and sophisticated manufacturing techniques, which helped to lower expenses and streamline operations. Additionally, the industry saw a recovery as overseas markets started to reopen, despite the fact that the epidemic initially caused a drop in the demand for exports worldwide. With the recovery of important trading partners, demand for manufactured products began to increase in the second half of 2021, making this rebound especially noticeable. By streamlining their production procedures and reacting quickly to shifting market conditions, manufacturers were able to take advantage of this resurgence in demand. During this difficult time, industrial companies' ability to quickly adapt became essential to their survival and expansion.

4.5.3. Agriculture

Unlike other industries, North Macedonia's agriculture industry was remarkably resilient during the COVID-19 epidemic, continuing to play a crucial role in supplying jobs and guaranteeing food security, especially in rural regions. Despite a number of logistical difficulties brought on by supply chain and transportation interruptions, agricultural production levels held steady, indicating the sector's resilience to outside shocks.

This resiliency was greatly aided by the government's emphasis on agricultural supply chains. The government lessened the negative impact of the epidemic on agricultural output by providing farmers with targeted aid and making investments in vital infrastructure. During a time of increased uncertainty, these steps guaranteed that farmers had the resources they needed to carry on with their businesses, ensuring a steady supply of food for the country. In addition to helping the farmers, this proactive strategy reaffirmed the value of the agriculture industry as a key pillar of the economy.

Furthermore, the agriculture sector's flexibility played a major role in maintaining its stability throughout the recession. As situations changed, farmers were able to adapt their methods, such as by using creative farming methods and streamlining production procedures. This flexibility was essential for sustaining production levels and satisfying the needs of nearby people, who were becoming more dependent on domestic food sources as global trade was disrupted.

It is impossible to overestimate the importance of agriculture to nearby

populations. Some of the economic strains caused by the pandemic were lessened in large part by the sector's ability to maintain jobs and provide livelihoods in rural areas. The farm industry continued to be a reliable source of income for many households, which helped to maintain the nation's general economic resilience even as metropolitan regions saw increasing unemployment and financial distress.

4.5.4. Services

The COVID-19 pandemic caused significant disruptions to North Macedonia's services industry, which includes a variety of industries like retail, finance, and healthcare. Lockdowns and social distancing tactics put retail establishments in particular under a lot of strain because they decreased foot traffic. Many businesses experienced significant financial difficulty as a result of the drop in client visits, which led to lower sales. Many retail companies responded to these difficulties by switching to online sales channels in order to keep up with the changing preferences of their customers, who prioritized online purchasing above traditional in-store visits.

The demand for alternative financial products and digital banking solutions increased concurrently in the financial services industry. Financial institutions improved their digital products as a result of firms and individuals looking for solutions to manage assets and transactions in a setting that was changing quickly. This change not only lessened some of the pandemic's immediate effects but also hastened the financial ecosystem's move to a more digitally-focused environment, which could have long-term effects on customer behavior and service provision in the industry.

In the meanwhile, the pandemic put the healthcare industry under previously unheard-of operational and demand strains. As they attempted to handle the flood of COVID-19 patients while continuing to provide necessary services for other medical requirements, health facilities were under pressure. In order to successfully respond to the crisis and sustain ongoing recovery efforts, this situation required considerable investments in healthcare services and infrastructure. In order to increase capacity and resilience in the face of future health emergencies, the pandemic brought to light the need of strong healthcare systems and the necessity of ongoing investment.

4.5.5. Information and communication technology (ICT)

During the COVID-19 pandemic, North Macedonia's information and communication technology (ICT) industry saw rapid expansion and increased awareness, making it a crucial actor. As businesses and consumers increasingly looked to technology for answers in a fast changing environment, the crisis highlighted the critical need for strong digital infrastructure. The ICT industry saw a significant expansion as a result of the increased demand for online learning

environments, remote work tools, and other digital services.

In particular, there was notable expansion in sectors including digital communication, e-commerce, and cloud computing. Businesses that offered dependable digital solutions were well-positioned to prosper as a result of the shift towards remote labor. In addition to highlighting the industry's critical role in ensuring business continuity during the pandemic, this spike in demand for ICT services also demonstrated the sector's significance for the overall economy.

Additionally, investments in infrastructure and technology supported the growth of the ICT sector. By fostering economic resilience, these investments enabled the industry to innovate and adjust to the difficulties posed by the pandemic. By facilitating digital transformation and improving connectivity, the ICT industry supported recovery efforts throughout the economy while other industries found it difficult to handle disruptions.

5. Government Responses and Policy Measures

In response to the profound economic challenges posed by the COVID-19 pandemic, the North Macedonian government implemented a range of policy measures aimed at mitigating the impact on businesses, individuals, and the overall economy.

The measures introduced in North Macedonia were part of a broader regional response in the Western Balkans, aligning with policies adopted by EU countries while accounting for the unique economic conditions in the region (World Bank, 2020). Most of these measures were focused on formal firms and workers, with wage subsidies being contingent on maintaining registered employees. However, the prevalence of informal work and self-employment in the Western Balkans meant that these groups often received limited support (World Bank, 2020).

Table 4

Overview of Fiscal and Monetary Measures in North Macedonia

Country	Fiscal and Trade-related	Monetary and Financial	Social Assistance
North Macedonia	<ul style="list-style-type: none"> - Reduction of interest and para-fiscal charges. - Temporary suspension of PIT payments and advance CIT payments for taxpayers earning from self-employment. - Reduced interest rates on tax arrears and overpayments. - Support to protect jobs: direct cash transfers to companies that fulfill criteria. - Temporary prohibition on initiating bankruptcy proceedings. 	<ul style="list-style-type: none"> - Reduction of the base Central Bank (CB) interest rate from 2% to a historic low of 1.75%. - Temporary changes to loan terms. - Zero interest rate loans for SMEs provided through the Development Bank. - Temporary freeze of NPL reclassification. 	<ul style="list-style-type: none"> - Cash benefit for citizens who have lost their jobs (50% of the average employee's salary). - Temporary relaxation of the criteria for applying for social assistance. - Exemption from rent for the beneficiaries of social housing. - Subsidies for social contributions to eligible companies in tourism, transport, catering, and other affected sectors.

Note. World Bank, 2020; Zulfu, 2020.

Policymakers' response to this extreme and unique crisis was marked by the adoption of broad monetary and fiscal policies that were in line with the state of the economy. In order to boost economic activity, central banks around the world—including the National Bank of the Republic of Macedonia (NBRM)—mainly used unorthodox monetary policy tools, like sharp interest rate cuts and quantitative easing.

In particular, the reference interest rate was lowered by the NBRM from 2.25% prior to the start of the epidemic to a record low of 1.25% by March 2021. The goal of this cut was to persuade commercial banks to loosen their lending requirements and provide new loans with reduced interest rates. In addition, the NBRM reinstated the non-standard reserve requirement measure as one of numerous economic-supporting policies. As a result, banks were able to lower the reserve requirements for newly granted and modified loans to the most impacted businesses.

The fiscal actions listed in Table 4 demonstrate a robust response from the government. This included cash transfers to businesses to save jobs, temporary suspensions of some tax payments, and direct monetary incentives for residents who lost their jobs. These budgetary measures helped to significantly raise public debt and budget deficits, a pattern seen in many pandemic-affected nations.

6. Economic Stimulus Packages

The COVID-19 pandemic has caused serious problems for North Macedonia's economy, forcing the government to step in and enact considerable fiscal measures. Four different anti-COVID-19 economic packages were approved by the government in 2020. These packages were carefully crafted to mitigate the adverse economic and social effects on businesses and residents alike. These packages, which targeted particular economic sectors and social segments, were put into place in response to the crisis's differing intensities (Finance.gov.mk, 2020). The administration introduced four help packages in 2020 and two in 2021, for a total of six support packages approved to fight the problem. These packages largely focused on enabling residents to retain their jobs, assisting companies, and providing a favorable climate for recovery from the COVID-19 crisis (Drangovska, 2022).

- **First Package: Supporting Citizens' Standards**

The primary goal of the first economic package, which was revealed on March 18, 2020, was to assist the most vulnerable members of society. The package, which had a budget of about €12.2 million, was designed to give low-income households and people who had lost their employment because of the pandemic immediate financial support. Of this budget, about €11 million was used, with

a focus on providing needy populations with direct financial help. In order to maintain basic living conditions during these extraordinary times, the initiatives included cash transfers to low-income households and subsidies for those who lost their jobs as a result of the pandemic.

In addition to addressing the financial difficulties encountered by businesses, this first set of policies was designed to improve the financial stability of the populace. The package included a job-retention program that offered direct financial assistance to companies whose yearly turnover rate was less than 30%. Under this program, businesses received subsidies equal to the minimum wage per employee, provided they continued to employ the same number of people for two months after the subsidy period ended. Additionally, it provided a supplementary subsidy that covered half of the social contributions made by workers in the industries most affected, such as transportation, hospitality, and tourism.

Thousands of homes received vital support during a very crucial time, despite the package's delays in financial assistance distribution drawing criticism. The government's acknowledgment of the urgent necessity to alleviate economic hardship and preserve social stability in the face of the continued health crisis was demonstrated by the initial relief measures.

- **Second Package: Boosting Private Sector Recovery**

The second package, which was unveiled on April 30, 2020, built on the first efforts and was a more all-encompassing reaction with a specific focus on employment preservation and private sector stabilization. This package included pay subsidies that covered a significant amount of employee salaries for companies who kept their employees, along with a €332.9 million cash commitment. The goal was to persuade businesses to continue operating amid the slump without laying off employees. The package also includes low-interest loans and targeted grants for the industries most impacted by the pandemic, such as transportation, hospitality, and tourism, which were among the hardest hit (OECD, 2021). Approximately 40,000 jobs had been maintained by the end of 2020 as a result of the measures included in this package, demonstrating its efficacy in maintaining job stability during a turbulent time. Some industries, however, nevertheless faced major obstacles, underscoring the necessity of continuous assistance and flexible strategies to guarantee long-term sustainability.

- **Third Package: Ensuring Fiscal and Financial Stability**

The third economic package, which the government unveiled in July 2020, was centered on maintaining budgetary stability while still offering financial assistance to individuals and companies. With €106.9 million set aside for corporate help and €229.3 million aimed at individual people, this €350 million package

included a range of aid initiatives. Notably, a large amount of the money was set aside for public investment initiatives meant to boost the economy by building infrastructure (IMF, 2021). But just €121 million had been distributed by the end of 2020, demonstrating that administrative hold-ups in funding distribution prevented prompt assistance for people in need. Calls for better coordination and streamlined procedures to increase response in future crises arose as a result of these delays, which cast doubt on the government's ability to carry out emergency actions quickly and efficiently.

- **Fourth Package: Direct Financial Assistance for Employment and Consumption**

The fourth economic package, which was unveiled in September 2020, was purposefully created to boost individuals' social and financial stability while promoting spending during a difficult time. This package, which had a significant budget of €472.1 million, was designed to give vital assistance to both individuals and enterprises. By the end of the year, about 73% of the funds, or €343 million, had been successfully executed.

Financial aid for wage payments was one of the main elements of this plan, which was designed to protect jobs in the final quarter of 2020. This program was especially crucial since it gave companies that were having serious operational difficulties a lifeline, allowing them to stabilize their staff and keep workers in the face of economic uncertainty. In order to guarantee that those who were disproportionately impacted by the pandemic received the support they required, the package also included targeted aid for the most vulnerable groups. The fourth package included grants for industries that were particularly affected by the crisis in addition to direct cash aid for salaries. During a period of economic hardship, these subsidies were crucial for assisting companies in their recovery and continued operations. The government increased the fiscal facilities available to businesses by reducing or eliminating parafiscal duties in an effort to further lessen the financial strain on them. In addition to lowering operating expenses for companies, this step made it easier for local banks and overseas international organizations to offer soft loans, creating a more complete financial support network to aid in recovery efforts.

A total of about €1 billion was committed financially by the North Macedonian government through the four economic packages it undertook. The allocations were organized as follows: the third package was worth €350 million, the fourth package was worth €470 million, and the first and second packages were each expected to cost €180 million. Independent investigations, however, showed that by the end of 2020, only about €278.65 million, or just 28% of the original estimates, had been successfully distributed as financial aid to residents

and enterprises (Osmani, 2021).

This notable disparity between the actual amount of funds realized and the intended financial commitment underscores the difficulties and complications involved in carrying out major support measures amid a worldwide crisis. This gap can be attributed to a number of causes, including the unprecedented nature of the epidemic, logistical challenges, and bureaucratic delays that made it difficult to quickly implement such large-scale programs. It's also important to note that this computation did not include the sums associated with bank loans offered by commercial banks and foreign financial institutions that had extended payback terms and attractive interest rates because there was insufficient verifiable information.

6.1. Continuing support in 2021

In order to promote economic recovery after the pandemic, the North Macedonian government introduced two more support packages in 2021 as part of its ongoing anti-COVID economic efforts. The fifth package, at €160 million, contained 29 measures aimed at boosting economic recovery efforts and improving liquidity. The sixth package, which was worth €17.8 million, on the other hand, was aimed at stopping the virus's spread while also helping sectors that were still having difficulties as a result of the pandemic.

The Ministry of Finance also launched a Recovery and Growth Acceleration Financing Plan, which aims to boost the economy in the future by funding green projects, the digital economy, and inclusive prosperity. This strategy is to keep the public debt below 60% of GDP while achieving a medium-term economic growth rate of 5% per year (Ministry of Finance, 2022).

The negative impacts of the epidemic on the economy and society were considerably lessened by the government's economic reaction. According to analyses, the economic activity decline may have been far greater without these efforts, possibly worsening by 2.3 percentage points. In particular, the fiscal boost contained the 2020 GDP decrease, which was previously estimated to be -8.4%. Remarkably, private consumption also fell less sharply than anticipated, falling just -2.7% as opposed to the anticipated -11.8% (Drangovska, 2022).

6.2. Addressing new challenges

An energy crisis, growing food costs, and the geopolitical ramifications of Russia's invasion of Ukraine were among the additional difficulties North Macedonia faced as the crisis developed. Due to its small size and open economy, North Macedonia was greatly impacted by new developments in global food and energy commodities markets. The effects increased at the end of 2021 and peaked in early 2022, but they were less noticeable in 2021.

In July 2021, the government lowered the tax rate on home electricity supply from 18% to 5% in an effort to lessen the immediate effects of growing energy prices. In December 2021, the prices of some commodities were also fixed. With an estimated cost of €400 million, a complete set of 26 measures was implemented by March 2022 to boost economic activity and protect living standards. The entire amount allotted to reducing price shocks, when paired with earlier initiatives, was around €615 million (Ministry of Finance, 2022).

The government also raised pensions and the minimum wage as part of these policies. New anti-crisis measures were put into effect once the Supplementary Budget was approved (Drangovska, 2022).

A new model of targeted actions that complied with the suggestions of global financial institutions such as the European Commission, World Bank, and IMF was required due to the changing circumstances. Protecting vulnerable populations, making sure resources are distributed fairly, and pursuing fiscal consolidation to preserve public debt stability and increase economic resilience were the three key objectives of this new strategy (Drangovska, 2022).

7. Recovery Processes and Policy Recommendations

North Macedonia must undertake efficient recovery procedures to regain economic stability and promote long-term prosperity as it negotiates the COVID-19 pandemic's aftermath. In order to improve resilience and promote sustained economic recovery, this section lists the main recovery procedures that have been used, assesses their efficacy, and offers policy recommendations.

7.1. Recovery processes

The government's recovery plan has prioritized economic reconstruction projects. To boost the economy and generate employment, large investments in infrastructure development—especially in the areas of public facilities, digital infrastructure, and transportation—have been given top priority. In addition to increasing economic growth, these projects are anticipated to increase national connection.

Recovery has also been greatly aided by focused assistance for the hardest-hit industries, particularly travel and hospitality. To assist these industries in recovering from the losses sustained during the epidemic, financial assistance, advertising campaigns, and customized adaption plans have been put into place.

The government has also made progress in encouraging investment in technical breakthroughs, acknowledging the significance of innovation and digitization. In order to ensure that the economy can adjust to changing market needs, efforts to advance e-commerce and improve digital skills are essential components of this recovery strategy.

These economic initiatives have been supplemented by social and employment support programs. Programs for job creation that boost entrepreneurship and provide new job opportunities have become a top priority. For the purpose of creating jobs and boosting the economy, initiatives aimed at supporting startups and small enterprises are essential.

In order to handle the changing dynamics of the labor market, investments in education and skill development are also required. The government wants to make the transition easier for people who lose their jobs by giving workers the skills they need for new sectors.

In the process of recovery, the healthcare system's fortification has also been essential. The goal of investments in healthcare services and infrastructure is to increase the ability to manage future medical emergencies. This entails making investments in preventive care, increasing access to healthcare, and upgrading hospital infrastructure. In order to preserve public health and stop future outbreaks, ongoing public health initiatives—such as immunization campaigns and health education programs—are crucial.

7.2. Policy recommendations

Implementing efficient recovery procedures is a critical job for North Macedonia as it navigates the COVID-19 pandemic's aftermath in order to restore economic stability and promote long-term growth. A number of policy ideas are put out in order to guarantee a strong recovery and foster future resilience.

- First, it is crucial to encourage economic diversification. North Macedonia can concentrate on promoting investments in technology, green energy, and other developing industries by lowering its dependency on weak sectors. This would help create a more resilient and balanced economy.
- Promoting research and development (R&D) and innovation is essential for boosting competitiveness and economic growth. A vibrant business climate can be created by putting regulations into place that encourage innovation centers, assist new companies, and support cooperative research projects.
- Another important suggestion is to improve labor market regulations. Increasing labor market flexibility will make it easier to adapt to shifting industry demands and work schedules. The changing demands of the labor market will be better met by policies that support skills development, flexible work schedules, and remote work.
- To further give people impacted by economic upheavals a sense of security, social protection measures such as social safety nets and unemployment payments must be strengthened.

- Supporting disadvantaged people requires comprehensive social policy. It is equally crucial to invest in sustainable development. Long-term growth can be achieved while maintaining environmental stewardship by supporting green economic projects. A more robust and sustainable economy will result from policies that promote sustainable agriculture, green energy, and environmental preservation. Additionally, encouraging circular economy principles like resource efficiency and waste minimization can lessen the impact on the environment while opening up new economic prospects.
- An equitable recovery requires promoting sectoral and regional equity. To ensure balanced growth, targeted measures that promote underprivileged areas and alleviate regional inequities are crucial. This objective will be accomplished with the aid of investments in lagging regions' infrastructure, education, and economic development.
- The effects of upcoming shocks can also be lessened by creating sector-specific policies to improve resilience and flexibility. In this sense, it will be critical to prioritize funding for industries with significant development potential and strategic significance.
- Given the ongoing recovery, policy interventions need to be calibrated and targeted effectively to promote resource reallocation and limit economic scarring, while also being adaptable enough to change with the economic recovery's stages. Policymakers in North Macedonia should give the following factors top priority in the upcoming time frame, taking into account the current threats of new virus varieties and the developing difficulties of stagflation:
- For important projects in areas like energy, health, transportation, municipal infrastructure, and the environment, the government should create an efficient capital investment strategy that blends public and private funding. These initiatives will accelerate income convergence and promote growth as part of the economy's green and digital transformation.
- Another goal is to enhance public investment management (PIM). At the moment, governance flaws make public investments less effective. The advantages of more investments could be maximized while lowering financial risks by improving the laws and procedures controlling public investments.
- The budget should include the necessary funding to lessen the effects of the energy and health crises, as well as to ensure budgetary sustainability and spur economic expansion. This can be accomplished by reducing unnecessary and ineffective expenses, enhancing corporate sector innovation

and competitiveness assistance, and guaranteeing adequate funds for social transfers. From a revenue perspective, actions to address corruption and the informal sector, such as the issuance of “green” bonds as a new source of financing, could create more revenue.

- Reforming tax laws is necessary to improve public finances and achieve more rapid, equitable, and sustainable growth. Due to the increasing problems, budget planning and policy priorities need to be more consistent, and budgetary discipline needs to be strengthened. It will be essential to increase efforts against tax evasion and the informal economy and to increase tax collections by expanding the tax base in a non-regressive way.
- During this difficult time, accountability and openness in public spending are essential. Transparency measures should be put in place, such as disclosing monies related to the energy crisis and COVID-19. Competitive procedures should be used to award contracts, and in order to guarantee public monitoring, the contracts that are awarded must be published.
- To maintain stability and guarantee medium-term price stability, monetary policy should act decisively. Any increase in interest rates should be gradual, accompanied by a moderate tightening cycle and complementing measures meant to stabilize inflation expectations and restore confidence, as price shocks are still rather large and growth prospects are still unclear.
- The government should rationalize state aid to address budgetary sustainability while providing targeted support to the domestic economy, concentrating on the most impacted sectors and vulnerable households, due to limited fiscal space.
- Financial instruments should be introduced through the Development Bank of North Macedonia to fund investments in energy efficiency and renewable energy for small and medium-sized businesses (SMEs) in response to rising energy prices. By taking these steps, the business sector would be better equipped to handle the difficulties brought on by growing energy prices and the green transition process would go more quickly.
- The COVID-19 pandemic’s detrimental impacts are gradually being reversed in the labor market. In order to increase employment rates, action plans, programs, and training initiatives must be developed in light of the high young unemployment rate.
- Last but not least, since institutions are essential to attaining long-term development, focus should be shifted to institutional reforms, with particular emphasis on the rule of law, regulatory frameworks, anti-corruption initiatives, judiciary enhancements, and boosting the effectiveness and capacity of public institutions.

North Macedonia may overcome the difficulties of post-pandemic recovery and create the framework for a more robust and sustainable economic future by heeding these suggestions (Drangovska, 2022).

Conclusion

North Macedonia's economic environment has been drastically altered by the COVID-19 epidemic, which has caused serious difficulties in a number of industries and affected GDP growth, unemployment rates, and fiscal health. This chapter provides a comprehensive analysis of these economic ramifications, stressing the pandemic's complex effects and evaluating the success of government initiatives aimed at lessening them.

With a reported GDP fall of roughly 6.1% in 2020, North Macedonia saw a historic drop in GDP. Critical sectors like trade, transportation, tourism, and exports were hardest hit by this downturn, which was especially noticeable in the real sector. Lockdowns across the country and the pandemic's disruption of global supply networks resulted in a startling 41% drop in investment levels. Although there was a modest 0.2% drop in the unemployment rate, this figure hides the underlying labor market unrest, as many people were deterred from looking for work by the state of the economy.

The pandemic's financial effects were just as severe. A record -8.3% of GDP was the budget deficit, highlighting the combined difficulties caused by the pandemic and ongoing financial strains, including the need to repay a 500 million euro loan. The administration attempted to enact four different fiscal and economic stimulus packages, but by the end of 2020, the total worth of these measures was just 28% of what was anticipated. The primary cause of this underperformance was the central budget's lack of liquidity, which made it more difficult for the government to offer impacted households and sectors all-encompassing assistance.

The pandemic caused a wider social crisis that had a significant impact on education and human capital in addition to the economic one. The situation of young people in the workforce was made worse by the closing of educational institutions, which reduced their chances of finding long-term employment and made poverty and income disparity worse. Years of progress were reversed when many citizens experienced a drop in income and an increase in acute poverty. The psychological toll of the epidemic also showed up as a rise in domestic violence and mental health issues, underscoring the crisis's widespread impacts that go beyond simple economic indicators.

The government responded to these difficulties by implementing a number of fiscal and monetary expansionary measures meant to lessen the impact on the economy. Although some respite was brought about by these actions, the state debt increased to 60% of GDP as a result. North Macedonia's economic recovery

attempts have been further stretched by the pandemic's accumulating issues and the ensuing geopolitical tensions, including the war in Ukraine. This has increased the likelihood of stagflation, which is defined by low growth and high inflation.

This chapter's study highlights the need for North Macedonia to implement a medium-term recovery plan that extends beyond short-term assistance. Systemic changes intended to improve fiscal stability and economic resilience must be the main focus of sustained efforts. Navigating the recovery process, which is probably going to be hampered by the continued energy crisis and other global issues, will require international cooperation and more investment from international financial institutions.

North Macedonia needs to reevaluate its fiscal and customary policies in order to promote a strong recovery. This includes increasing the financial liquidity of businesses and providing incentives for technical innovation and merit-based pay increases. To give the national economy the means to endure future crises and unanticipated shocks, a long-term strategic framework is necessary.

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