Demographic And Economic Perspectives Of Macedonia

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Abstract

As in any developing country, the demographic and economic development is equally important for Macedonia. Not only the two types of development are mutually related in Macedonia, but what is a little worrisome is that they over the past years have manifested imbalance in their own development in the country. European Union invests financial and strategic resources to merge development on regional level rather than only on local level within its borders. Application of the Cohesion Policy as a strategic tool goes in favour of more balanced development within the whole territory of the EU. The EU will be taken as an indicator and example path for Macedonia considering the fact that EU continuously works on minimizing the demographic and economic differences within its borders.

Key words: Macedonia, EU, demographic development, economic development, cohesion policy
JEL Classification:

INTRODUCTION

According to the State Statistical Office of the Republic of Macedonia (SSORM, 2014), Republic of Macedonia has got 2,067.471 inhabitants, and the population density is 80.4 people per km². As far as the aging of the population, in 2014 the share of the young population in total population number (0-14 years) is represented by 16.8%, while the share of the elderly population in total population number (65 and over) is represented by 12.5%.

Great part of the variation in increase and decrease in the number of the total population in Macedonia occurs mostly due to the internal migration process that exists in the country. These processes automatically affect the disproportion of the natural population in the country.

Regarding to the economy, since 2000, Macedonia has made improvement of its economic status by implementing reforms in the field of public investments, manufacturing, wholesale and retail. The most significant economic growth was observed in the period from 2002 to 2008 reaching 4.3% of GDP growth in average terms. After 2008, the GDP growth in Macedonia shows cyclical character.

DEMOGRAPHIC AND ECONOMIC INDICATORS

Today, Macedonia faces the challenge to increase the employment and to decrease the unemployment, as well as to improve the living standards of its citizens across the country. Unequal dispersion of population and economic activities causes social and economic inequality in the country. Differences can be seen through several demographic and economic indicators like:

• Population growth,
• Population age category (15-64),

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• GDP per capita growth,
• Employment rate by age categories (20-64) and
• Unemployment rate.

Demographic indicators are significantly necessary to be taken into account for analysis since more of developing countries in the world like Macedonia show inconsistent economic development. Presence of any demographic disproportion automatically reflects difference in economic composition of the country and vice versa.

Comparative Analysis of Demographic and Economic Development in Macedonia and the EU

Regional balance and development are as much important for Macedonia as they are for the EU. Following demographic and economic indicators in the research should give a clearer picture of the economic and social status of Macedonia in recent years and now, as well as guidelines for potential future trend. The EU has already had an experience in facing regional differences within its borders, and experience in dealing with them. Economic changes, social changes and geographic location cause most of the regional differences in the EU.  

Figure 1. Population Growth in Macedonia and the EU (annual %)

Figure 1 shows tremendous increase in population growth in Macedonia from 1990 to 2000. Most of the growth from 1990 till 2000 was due to the natural population growth in the country. But, reaching the highest peak certainly didn’t mean that the country would follow this upward line. On contrary, after 2000, the country faced a slight decline in population growth till 2007. Migration outside the country played its role as one of the biggest factors for such decline. Also, the decrease in the birth rate had contributed as a factor. Decrease or increase in population growth is often a reflection of the economic situation in the country. Increase in economic growth produces increase in population growth, and vice versa. Another decline in population growth was evident in 2013. Unemployment, low income levels, decline in birth rates, ageing population, migration from rural and less urban areas to the major city, migration outside the country’s borders can be listed as factors that contributed for

the decline. Large regional differences and internal migration are taking primacy as such factors in the past 2-3 years.

Population growth in the EU on annual level has got cyclical character with great variation especially in the time period from 2011 to 2015. These dramatic population changes can seriously impact on developments among the regions mostly because of the migration of working age population category. Low incomes, low employment and high unemployment in rural and less urban areas are mainly the reasons why people move from these areas to urban, city areas. Working age population has got a great part in creation of demographic composition or decomposition in the EU. Labour productivity and educational level of the working age population determines to what extent demographic oscillation will occur in certain region within the Union. 2013 was marked as a year with the highest percentage of population growth in the EU which is also a result of the influx of people who migrate to the EU. These people originate from countries outside the EU borders. Increase of the number of ageing population is another factor with contribution for population decline in the EU. According to the future projections of World Bank on population trends, in the following years’ population growth in the EU will have flat direction with expected decline after 2025.

Figure 2. Population Age Category (15-64) in Macedonia and the EU (% of total)

Source: The World Bank, World development indicators (official website).

Population age category from 15 to 64 is defined as a labour force. It is the driving force of the economy in each country. According to Figure 2, Macedonia hasn’t got evident changes due to this demographic indicator. But, what is more important is the share of employed and share of unemployed people regarding this working age category. Allocation of the country’s financial and social investment in human capital will determine whether regional differences in the country will be of large or small quantity.

Unlike Macedonia, the European Union shows a slight decrease in population age category from 15 to 64. Such decrease is likely to cause decomposition of the regional growth. The level of labour productivity, engagement in private and public sector, income levels, social security will determine whether there will be a rise in the working labour force in the EU in the future. What must not be allowed is an outflow of this demographic category at the expense of increased ageing population. If it happens, it will withdraw serious social and economic differences among the regions in the Union.

Taking into account the applied demographic indicators for Macedonia and the EU, it can be said that demographic changes can be placed in the category of driving factor for bridging or increasing the

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differences between different areas. The EU shows awareness for the importance of population growth and participation of the labour force for regional balance. Macedonia is yet to be faced with dealing this demographic challenge in the following years.

Figure 3. GDP Per Capita Growth in Macedonia and the EU (annual %)

![GDP Per Capita Growth in Macedonia and the EU](image)


After its independence in 1991, Macedonia had positive effects of GDP growth with annual percentage results above zero. As it is shown in Figure 3, the country started the 21st century with positive trend of GDP per capita growth till 2008 when it started to decline due to the world economic crises. In 2009, Macedonia faced negative consequences caused by the global economic recession which resulted with value of GDP growth below zero. Some improvements in direction of increase in GDP were tracked in 2010 and 2011, while 2012 was registered as a year with decline. GDP growth showed positive trends in 2013 due to increased industrial production and investments by the institutional sectors. Till 2015, this economic indicator in Macedonia maintained on a track of a steady growth.

Figure 3 also shows that **GDP growth per capita** as an indicator was pretty stable over the previous decade in the EU. This century was evident by its smooth decline ending 2009 with dramatic decline regarding the economic and financial world crises. The cyclical character of the GDP per capita growth in the EU is a result of its unequal increase and decrease among different regions in the Union. Those regions which showed increased GDP before the crises had decreased GDP after the crises, and vice versa. ⁶

When comparing Macedonia and the EU in terms of GDP per capita growth, it is evident that after the world economic and financial crises in 2008, the EU managed to achieve faster growth in GDP terms and still manages to maintain as positive rate. For sure, this is positive signal that economy and productivity in the Union is in growth. In the case of Macedonia, the country had one more serious decline of GDP in 2012. GDP per capita is one of the most important economic indicators for each country. As it divides gross domestic product in the country with the number of the people in each country, positive or negative data indicates whether people in the country enjoy high or low living standards. Low level of disposable incomes of its residents can be one of the factors for such decline of GDP per capita in Macedonia.

Rate of employment is an important economic indicator which shows whether the economic productivity in a country is set on high or low level. Citizens spend their consumption basket depending on their personal income. High or low consumer spending measures the level of employment. The greater the consumption, the higher the employment rate, and vice versa. Whether employment is great or not at a certain period of time may depend on cyclical economic developments in the country. On long term, employment is stable or unstable depending on government’s strategies and measures. Population age category from 20 to 64 is considered as a credible research sample for employment measurement in each country.

Figure 4. Rate of Employment by Age Group 20-64 in Macedonia and the EU (% of total)

Source: The World Bank, World development indicators (official website).

Macedonia as a developing country has got a constant challenge to increase its employment. According to Figure 4, there was an evident rise in employment from 2006 with 43.9% to 2008 with 46.3%. This tendency lasted till 2009 with the highest 47.9% when the rate of employment showed slightly stagnation in terms of the growing trend since 2006. The year 2008 marked the great global financial and economic crisis. Potential threat for Macedonia from the crisis was loss of jobs in the country that were created as a result of the influx of foreign investments, as well as potential threat as a result of the serious decline in foreign demand for domestic production. The domino effect of the job cuts threatened to create social disparities along with economic ones too. In the years after the crisis, Macedonia managed to keep the employment rate with slightly increase from 2013 to 2015. One fact that has to be taken into consideration is that this increase in employment rate was measured on a smaller number of the total population in Macedonia due to the external migration to foreign countries throughout the past years and today.

Unlike Macedonia, the EU faced the economic and financial crisis in a different way. Financial recession through the collapse of the banking sector caused serious consequences in the EU economy. Like the case in Macedonia, the years from 2006 to 2008 were marked with rise in employment rate from 68.9% to 70.3%. In the years following the 2008, the crisis caused evident decline in employment rate. This downward trend lasted till 2013 with the rate of employment of 68.4%. Before and after the crisis, different countries within the EU showed different results regarding the labour market, i.e. different rate of employment. Sustainability of the employment rate in the EU will depend mostly on the vulnerability of each of the economies within its boundaries in terms of dealing with possible future global economic and financial shocks.
Figure 5. Rate of Unemployment in Macedonia and the EU (% of total)

Rate of unemployment has got bigger influence on the social and economic development of each country. Higher unemployment causes higher poverty and lower GDP per capita, and vice versa. Unemployment occurs not only as a result of certain economic recession, but also as a reflection of the underused labour market. Rate of unemployment is known as a lagging indicator as it takes longer period of time to recover after some recession, i.e. to start to decline. Underused labour market may indicate that the country must work on implementing measures to stimulate creation of new jobs in the regions that were neglected or forgotten for a longer period. Economic activity of each country must not be concentrated around one main region or a city.

As it can be seen in Figure 5, Macedonia faced the biggest percentage of unemployment rate in 2005 reaching 37.3%. This situation affected economy regarding the goods and services that could not be produced in demanding quantity. Also, it had direct impact on the residents through the loss of their personal income and weakening of their purchasing power. During the crisis in 2008, the unemployment rate was still at high level with 33.8% far below the average rate in the EU at that point totalled 7%. Significant decrease was recorded in 2013 with 28.67%. The decrease might be a result of the policy measures for employment taken by the authorities, but also as a result of the unengaged labour force. Great part of the labour force in Macedonia was and still is not used in its full capacity. Principles of capitalism require fewer workers to produce the same or greater quantity of wealth for the companies. In these circumstances there is a risk for the country if it continues with a trend of minimum wages and greater profits. The risk lies mostly in the increase of the unemployed labour force that will eventually decide to work abroad. Decreased living standard is the main factor for such decision.

Unlike Macedonia, the EU showed different economic behaviour regarding the rate of unemployment. The lowest rate was marked in 2008 with 7%. The world crisis caused increase in unemployment from 2009 but that was understandable because the crisis had direct impact on the overall economy in the EU. A reason plus for the continuous increase in unemployment until 2013 despite the effects of the economic recession, was the influx of working age people from countries outside the EU borders in the EU.

COHESION POLICY

Cohesion policy is the main regional policy of the European Union in its efforts to diminish the gap that exists among EU regions in social, economic and territorial terms. This policy has got the aim to
improve the quality life and well-being of the EU regions. It is estimated that European Union spends approximately 1/3 of its budget for: reducing disparities between the regions, restructuring the industrial areas with economic decline and boosting the rural areas with agricultural decline. The end result is to develop competitive regions, to create new jobs positions and to accelerate the economic growth.

Implementation of Cohesion Policy in Macedonia

In order to improve well-being in the country, to raise employment, income satisfaction, enable sustainable economic and social growth, as well as to obtain overall environmental quality, Macedonia needs this type of Policy as instrument for accomplishing these goals of interest for the state and its residents.

Macedonia can benefit from this Policy in several ways:
• Facilitating the implementation of policy for capital infrastructure,
• Educational improvement,
• Encouraging business environment for SMEs,
• Support for domestic production,
• Increasing exports of domestic products to foreign markets,
• Promoting and increasing jobs.

In achieving the above mentioned benefits, Macedonia needs to be supported by the EU. It will be much easier if the country is a member of the EU. But, not less important is to strive for quicker approach to the EU so that funding in bigger quantities can be available for their use.

Successful Experiences

The Czech Republic is a recent example for the implementation of this policy. With support of the EU funds, the Cohesion Policy made structural reforms and left positive impact on the macroeconomic development of the country. Improvements were made in several spheres (European Regional Development Fund, 2014): 8

• Positive impact on GDP and reducing unemployment,
• Significant creation of new jobs,
• Product innovations and entrepreneurship improvements and
• Research and development.

During the first frame period of two years (2004-2006), The Czech Republic was planned with 62 billion CZK, while the second time period from 2007 to 2013 the country was marked with financial assistance of 585 billion CZK. This type of support made significant positive impact on the GDP increasing and unemployment declining in the country.

Creation of new jobs was one of the crucial benefits from Cohesion Policy and EU funds. The period 2004-2006 was marked with around 46,000 newly created jobs. In the following period 2007-2013 this number rose to 82,400. More than 75,000 jobs were created as a result of the Funds’ support, and the rest 7,000 as a result of the positive effects brought by the Cohesion Policy.

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The success of the Czech Republic economy is largely based on product innovation and entrepreneurship improvements. From 2004 till 2013, the Structural Funds were active in financing projects with main purpose to improve business climate and to simplify processes in administration. 1/3 of the projects on product innovation were covered with financial support by the Structural Funds. Great progress was also achieved in the field of entrepreneurship with reinvigoration of start up businesses and projects with co-financing.

Part of the EU Structural Funds was used for improvements in the sector of research and development, such as: private and public sector cooperation, development of research centres improvement of operating conditions in the business sector and better educational and research structure in universities across the country.

CONCLUSION

Macedonia has got a rate of population growth which is affected by the degree of external migration. Each year, more and more people search their better existence’s future outside the country’s borders. Although it is a small country, better living conditions in parts of the country that are neglected today should be created in order to break the densely populated urban areas, as well as to make its current residents feel economically and socially comfortable.

Long term unemployment is a serious threat to economic and social stability of the country, especially when the rate of unemployment in Macedonia is above the average rate of unemployment present in the European Union. The EU should serve as a benchmark for Macedonia for further action by the state towards reducing unemployment. With future economic balance between different parts in the country, the unemployment rate should move in declining direction.

Macedonia has got highly educated and skilled workforce which must not be forgotten by the authorities. The level of personal incomes must be classified according to the level of education and level of expertise. Due to the existence of high unemployment on the labour market in the country, highly educated and skilled employees are often put in position with no opportunity to choose for their level of income. In order to cut the operating costs of the company, employers very often employ those who would accept to work for lower incomes. In addition to such economic misbalance, employees can easily decide to look for their better perspectives outside Macedonia.

Adequate implementation of the Cohesion policy by the country, along with the standardization of the country with the EU principles for faster EU entry, can significantly contribute for improving the overall economic and social status of the citizens.

REFERENCES