

HOW ECONOMIC TURBULENCE AFFECTS ENTREPRENEURSHIP: A DESCRIPTIVE ANALYSIS DURING COVID-19 AND RUSSIAN- UKRAINIAN WAR

Rejhan SULEJMAN ¹

^{1*} Faculty of Business Administration, University of Tetova
*Corresponding author e-mail: rejhan.sulejman@unite.edu.mk

Abstract

Today SMEs are the driving force in business entities. In North Macedonia 99% of companies are SMEs and they play an important role in the labor market and the economic development. However, they are usually most vulnerable to external environmental factors. Since 2020, SMEs have faced many economic turbulences that were caused mainly by the pandemic and then by the Russian-Ukrainian war. The different measures given by the World Health Organization made a rapid decline on the aggregate demand, risking the liquidity of SMEs. With the hope that the recovery period was near, SMEs had to face another economic turbulence and that was the consequences of the Russian-Ukrainian war, and the confrontation of the West and Russia, with the trade restrictions which increased inflation and magnified the existing issues in the economy.

The objective of this paper is to better understand how the pandemic and the Ukrainian war have influenced the SMEs in North Macedonia. The paper will use a descriptive analysis of secondary data for the period 2018-2023 from Agency for Promotion of Entrepreneurship in North Macedonia, National Bank of Republic of North Macedonia and State Statistical Office. Through this analysis we identify how the development of SMEs has been through the years, and which companies were mostly affected by the turbulences.

Keywords: SME; North Macedonia; Covid-19, Ukrainian war, economic turbulence

1. Introduction

The corona virus Covid-19 and the Russian - Ukrainian war triggered economic turbulence worldwide, which significantly impacted SMEs around the world including SMEs in North Macedonia.

In the first quarter of 2020, the corona virus Covid-19 was spread rapidly all around the globe. This was the biggest challenge that the world had seen since World War Two, by bringing health crisis and unprecedented socio-economic crisis (Svrtinov et al., 2020). According to Philip Kotler (2009), our world is an increasingly interconnected, interdependent global world which makes at ease the “butterfly effect” to occur. Because of the health crises countries were forced to shut down to slow down the contagion (Svrtinov et. Al, 2009), but on the other side these actions brought a sharp decline on the aggregate demand, which disturbed the SMEs mostly by causing them a liquidity crisis. The end of the pandemic was “welcomed” by the Russian - Ukrainian war, which disturbed even further the economy by initiating inflation and energy crises and increasing the pressure for survival of SMEs.

Literature review

Small and medium-sized enterprises represent the main driving force of the economy, which significantly contributes to the creation of GDP, generates a large share of employment,

encourages innovation and contributes to economic growth. In North Macedonia, 99% of all enterprises are classified as SMEs.

The COVID-19 pandemic had a considerable impact on SMEs, particularly in the form of liquidity crises. Given their dominance in the business landscape, SMEs in North Macedonia were among the most affected by the pandemic, facing severe financial strain and operational disruptions (APPRM, 2022).

In North Macedonia the first Covid-19 cases were registered in March 2020, and immediately a state of emergency was declared by the President. This state of emergency was extended several times throughout the year (Jovanov, 2022). Many countries including North Macedonia enforced strict social measures (Svrtinov et al., 2020), however these measures had a socio-economic impact. The social measures caused a sharp decline in the aggregate demand, and made the firms face a sharp drop in sales. Between September 2019 to September 2020 firms faced an average sales decline of about 30%, and by October 2020, almost 70% of firms had experienced liquidity shortages. The ability to meet their financial obligations was put to risk because of the liquidity shortages (Jolevski and Madzarevic-Sujster, 2022).

Even though in spring 2021 the crisis Covid-19 was underway, many companies were still dealing with declining sales revenue (Jolevski and Madzarevic-Sujster, 2022).

After the pandemic Covid-19, the world including North Macedonia were put to a recovery mode. However, in the beginning of 2022 because of the Russian - Ukrainian war, another political and economic tremor occurred. The tensions of the West with Russia escalated by putting trade restrictions which triggered an increase of inflation and intensifying the existing economic issues (Prohorovs, 2022). European economies such as Germany where most notably affected by the trade restrictions, since Germany is heavily relied on Russian gas. North Macedonia has weak direct economic ties with Ukraine or Russia, with no more than 2.5% of foreign trade. North Macedonia was mostly affected with inflation indirectly, through the rising prices of key food and energy products. Some medium companies were able to invest in electricity production facilities however some small or micro companies did not embrace a specific strategy (Petreski, 2024).

Methodology

For this paper quantitative research of secondary data is established. The secondary data for North Macedonia were accumulated from the State Statistical Office, Agency for Promotion of Entrepreneurship in North Macedonia (APPRM), and National Bank of North Macedonia. Through a descriptive analysis, we define how the pandemic Covid-19 and Russian – Ukrainian war have impacted the development of SMEs in North Macedonia for the period 2018 – 2023.

Discussion of results

Firstly, the GDP and Inflation for the period 2018-2023 was analyzed. From Figure 1. we can see that as in other countries, the global pandemic had a clear effect on the economy of North Macedonia.

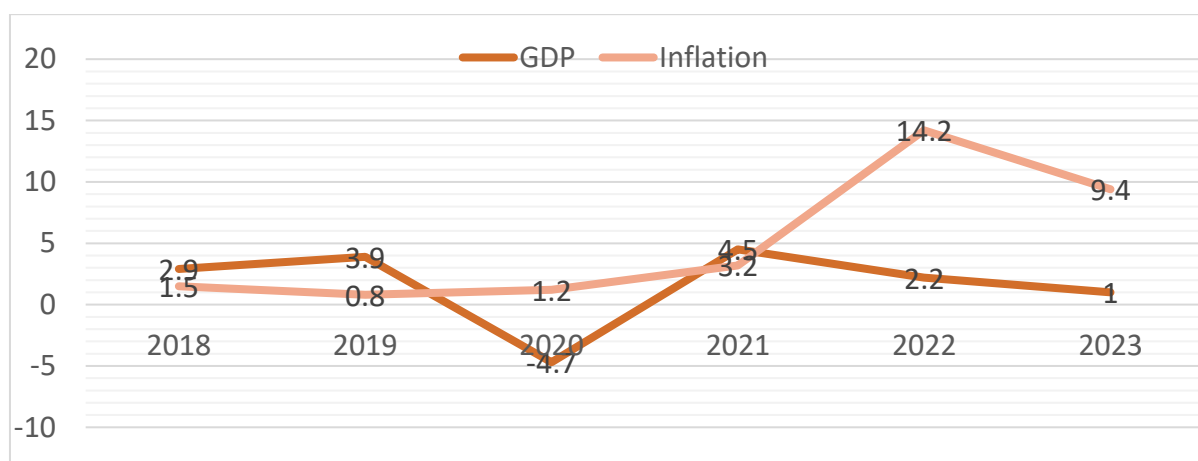


Figure 1. GDP and Inflation 2018 - 2023
Source: National Bank of Republic of North Macedonia

Even though economic growth in North Macedonia was relatively slow in 2018 and 2019, a significant decline in GDP was observed in 2020 with an annual decline of 4.9%. This sharp decline was mainly caused in the second quarter of 2020, where GDP declined by 14.9% (APPRM, 2020). According to the literature review this downturn was mostly challenged by the negative shifts in demand (Jolevski and Madzarevic-Sujster, 2022).

Despite the economic challenges the inflation rates during this period have remained relatively stable with 0.8% in 2019 and 1.2% in 2020. In 2021, GDP growth reached 4.5%, suggesting that the government measures enabled business to adapt rapidly to the new functioning conditions.

In 2022, the global economy was hit by another major shock i.e. the Russia – Ukraine war, which further slowed down the economic growth in North Macedonia, reducing GDP growth to 2.2%. The main contributin factors were the energy crisis and imported inflation, which increased to 14.2%. This was the highest inflation that the Macedonian economy had seen since 1990s (Petreski, 2024).

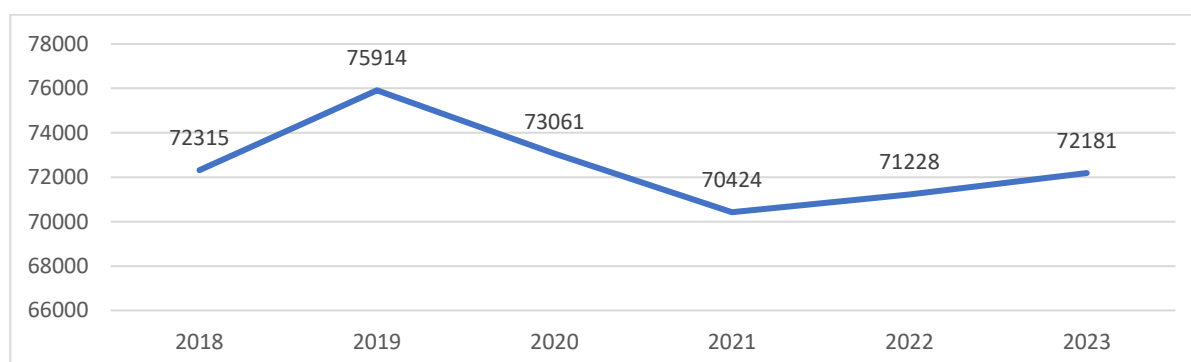


Figure 2. Total Active Enterprises by Number of Employees 2018 - 2023
Source: State Statistical Office of North Macedonia

According to Figure 2, the number of active enterprises in North Macedonia increased by 3599 from 2018 to 2019. However, this positive trend was reversed in 2020, with a decrease of 2853 active companies. The decline continued in 2021, with an additional reduction of 2637 enterprises. This trend likely reflects the economic impact of the COVID-19 pandemic, including negative changes in demand and a decline in GDP, which may have led to the closure of many businesses unable to withstand the economic downturn.

However, despite the slow GDP growth of 2.2% in 2022 and 1% in 2023, the number of active enterprises started to increase by 804 active entities in 2022 and by an additional 903 in 2023. This can indicate that the economic consequences of the Russian-Ukrainian war and the resulting inflation did not hinder business activity, on the contrary the continued increase in active enterprises suggests an entrepreneurial drive and optimism among business owners.

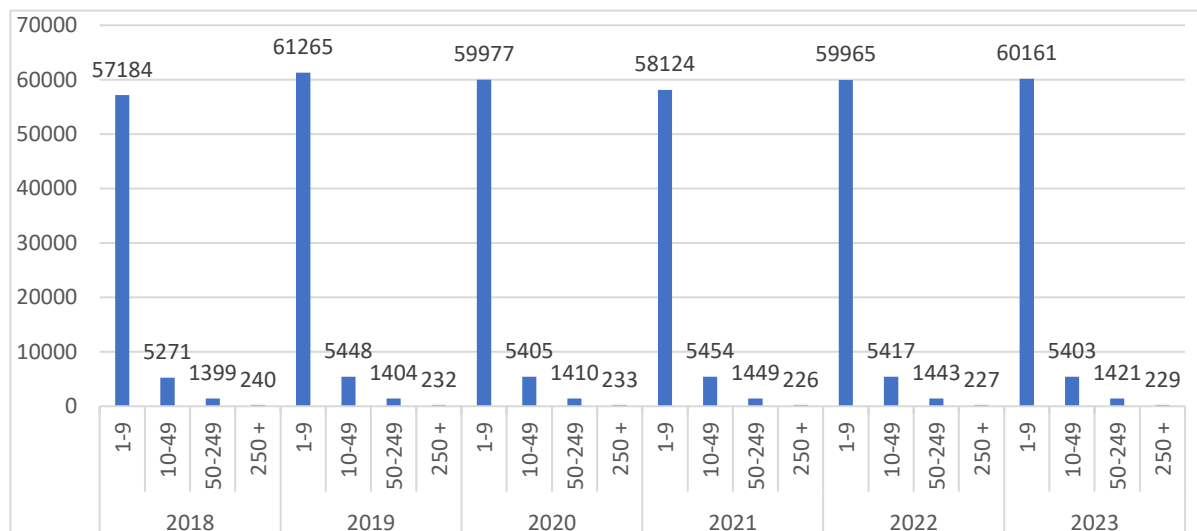


Figure 3. Active Enterprises by Number of Employees 2018 – 2023
Source: State Statistical Office of North Macedonia – Makstat database

Most active enterprises in North Macedonia are micro-enterprises, defined as businesses with 1–9 employees. These are followed by small enterprises (10–49 employees), medium enterprises (50–249 employees), and large enterprises with more than 250 employees.

Figure 3 supports the trend shown in Figure 2, where the number of SMEs increased between 2018 and 2019. However, when SMEs are classified by size, it becomes evident that in 2020 there was a decline in the number of active micro and small enterprises, while medium-sized enterprises experienced a slight increase. In 2021, the number of micro-enterprises continued to decline, whereas small and medium-sized enterprises recorded growth. This may indicate that some small enterprises expanded and were reclassified as medium enterprises due to an increase in their workforce.

During the 2022–2023 period, the number of enterprises increased across all size classifications, suggesting a broader recovery and growth phase.

According to Figure 3 we can conclude that despite the potential for some businesses to transition from micro to small enterprises, micro companies were the most affected by the Covid-19 pandemic. The negative impacts faced by these businesses included a significant decline in turnover and overall operations, affecting 94.1% of enterprises, along with a lack of liquidity of 5.9% (OEMVP, 2021).

Figure 4. Number of Active Enterprises by Sector 2018 - 2023

	2018	2019	2020	2021	2022	2023
Total	72315	75914	73061	70424	71228	72181
Agriculture, forestry and fishing	2546	2605	2414	2342	2287	2189
Mining and quarrying	205	221	201	205	193	192
Manufacturing	8033	8362	8011	7778	7873	7816

Electricity, gas, steam and air conditioning supply	186	224	198	249	342	452
Water supply, sewerage, waste management and remediation activities	250	260	248	257	271	281
Construction	4938	5270	5263	5441	5659	5804
Wholesale and retail trade; repair of motor vehicles and motorcycles	22950	23140	22191	21869	21621	21440
Transportation and storage	5667	5780	5625	5493	5513	5525
Accommodation and food service activities	4597	4777	4694	4704	4765	4886
Information and communication	1856	2041	2069	2330	2553	2767
Financial and insurance activities	448	470	473	441	437	455
Real estate activities	575	645	608	704	737	760
Professional, scientific and technical activities	7261	7636	7651	7846	8065	8354
Administrative and support service activities	1752	1962	1856	1492	1595	1719
Public administration and defense; compulsory social security	264	264	260	272	282	285
Education	1222	1289	1277	1254	1280	1306
Human health and social work activities	3357	3241	3304	3399	3355	3417
Arts, entertainment and recreation	1404	1753	1655	1028	1056	1132
Other service activities	4804	5974	5063	3320	3344	3401

Source: State Statistical Office of North Macedonia – Makstat database

Figure 4 shows the number of active enterprises by sector through the years 2018-2023. Most active enterprises are in the wholesale and retail sectors; repair of motor vehicles and motorcycles, followed by professional, scientific and technical activities and then by manufacturing. Considering that most companies in North Macedonia are SMEs, it can indicate that many wholesale and retail enterprises are classified as SMEs. In the Republic of Macedonia, the participation of SMEs in the creation of added value in the activity of wholesale and retail trade and repair of motor vehicles is more pronounced (84.4%) (APPRM, 2023). Since 2019, the active enterprises in the wholesale and retail sectors experienced a gradual decrease from 23140 in 2019 to 21440 in 2023, which may be attributed to changes in consumer behavior triggered by the Covid-19 pandemic as well as the inflationary pressures that followed. The Accommodation and food Services sector, which is predominantly composed of small and medium-sized enterprises contributing 100% of the added value, experienced a notable decline during the COVID-19 pandemic. However, by 2023, the sector not only recovered but slightly surpassed its pre-pandemic level, increasing from 4,777 in 2019 to 4,886 in 2023.

From the analysis, we can conclude that the overall number of active companies has declined slightly, reflecting the impacts of COVID-19 and economic shocks such as the Russian-Ukrainian war. Despite these challenges, certain industries have continued to grow, highlighting areas of resilience and potential for future economic recovery.

Conclusion

In recent years, the global economy, including that of North Macedonia, has faced significant turbulence primarily driven by health and geopolitical crises. Since 99% of companies in North Macedonia are classified as SMEs, the purpose of this paper was to provide a descriptive analysis of SME development in the country from 2018 to 2023.

From the descriptive analysis, it can be concluded that while COVID-19 negatively affected North Macedonia's GDP, the economy managed a relatively quick recovery. The pandemic triggered significant disruptions across many sectors, particularly impacting micro and small enterprises through decreased sales, liquidity shortages and operational challenges. These effects contributed to a decline in the total number of active enterprises in the period 2020-2021. However, the data showed that the SME sector gradually started to recover in 2022 pointing to the increase of entrepreneurial spirit and adaptation to changing economic conditions.

The sectoral analysis from 2018 to 2023 highlights the critical role of SMEs in North Macedonia's economy, particularly within the wholesale and retail trade, as well as accommodation and food services. While the wholesale and retail sectors experienced a gradual decline in the number of active enterprises, likely a result of shifts in consumer behavior and inflationary pressures following the pandemic, the accommodation and food services sector showed a rapid resilience. After a brief downturn in 2020, this sector fully recovered and even exceeded its pre-pandemic level by 2023, highlighting its adaptability and the critical role of SMEs in sustaining economic activity. These trends underscore the adaptability of SMEs in responding to economic shocks and changing market conditions, emphasizing their vital role in driving economic recovery and growth in North Macedonia.

Overall, the study emphasizes the ability of SMEs in adaptation during crises. Their resilience supported by government measures is crucial for ensuring long-term economic stability and growth, since they are keystone to North Macedonia's economy with a significant contribution in employment, innovation and GDP.

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