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## **MATERIAL LIVING CONDITIONS AND ECONOMIC SECURITY OF THE POPULATION IN THE REPUBLIC OF NORTH MACEDONIA**

**Abstract:** In the past few years, as the world conditions we live in are constantly changing, it demands that the measurements for quality of life change accordingly. Measurements of quality of life can not be just a canonical representation of the economic development of countries and their populations. They should, in fact, encompass the whole of life, namely the objective and subjective perception of the individual about the quality of life. The economic measure of GDP for measuring the quality of life can not estimate the quality of life, therefore we move to a more comprehensive range of indicators when it comes to measuring the quality of life of the citizens in a country, more specifically the Republic of North Macedonia. This research paper looks to present the material living conditions and economic security of the people of North Macedonia as a part of quality of life indicators proposed by Eurostat. The statistics' indications show that the Republic of North Macedonia regarding the material living conditions is at a relatively adverse level. There is still a large percentage of people living in severe material conditions or at the poverty threshold and the pandemic is causing that value to rise. . Furthermore, most analyses indicate that the population live in conditions of economic insecurity, and the pandemic additionally jeopardized and influenced its increase. Therefore, social economic measures and changes are needed, which can improve the material conditions for the life of the population, reduce the percentage of those living on the margins and increase the economic security of the population.

**Key words:** Material living conditions, Poverty, Economic security, Republic of North Macedonia

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There is still a large percentage of people living in difficult material conditions or on the brink of poverty and the pandemic is causing that value to rise.

## **Introduction**

Over the past few decades, the problem of countries' social segregation has become quite significant for the economies around the world. The great differences between countries and the people quality of life increased even more during the global pandemic crisis. Socio-economic inequality can be presented as a major problem for developing countries and must be considered as one of the main priorities for increasing economic development and human potential in the coming years. Hence, the Republic of North Macedonia as a developing country faces a serious challenge to improve the citizens' quality of life.

The degree of quality life is perceived according to official indicators proposed and defined by the European Union. They represent a detailed analysis of 8+1 dimensions that can be statistically measured, representing different complementary aspects of quality of life and complementing the indicator that is traditionally used as a measure of economic and social development, gross domestic product (GDP). Eight of these dimensions relate to the functional opportunities that citizens should have available to effectively monitor their self-defined well-being, in accordance with their own values and priorities, and the last dimension refers to personal satisfaction with life and well-being. Among them, especially important dimensions for perceiving the quality of life are material conditions for life and economic security that are actually subject to analysis within the paper.

The material standard of living is measured through three sub-dominations: income, consumption and material conditions (deprivation and housing). Income is an important indicator because it has an impact on most other indicators in the frame. There are several different indicators in this sub-dimension, taken from national accounts and household surveys (net national income, disposable household income). The common indicators of income, consumption and wealth are also developed and have the potential to give the most complete perspective on household state. In doing so, many risks can unexpectedly and negatively affect the material security of the individual or household. These risks are most often divided into two categories: economic and physical security. The first category is analysed through statistics that try to measure a variety of situations in which people can be found. Such are the inability to face

unexpected financial costs or lack of financial resources for regular monthly payments (mortgage, rent, utility bills, etc.).

Security is a key aspect of citizens' life. The ability to plan and overcome every sudden worsening of their economic and broader environment has an impact on their quality of life. For economic security, the richness indicators should be used (the value of the property owned by minus the value of the obligations owed by a household).

Taking into account the previous, the paper aims to evaluate the materials living conditions and economic security of the population in the Republic of North Macedonia. The methodological approach is quantitative and stems from the very nature of the subject of research. Using the statistical method for examining these two dimensions, shown through their indicators, a realistic picture is obtained for them in the Republic of North Macedonia. These indicators are presented and discussed for almost all of the countries in Europe, with emphasis on Republic of North Macedonia.

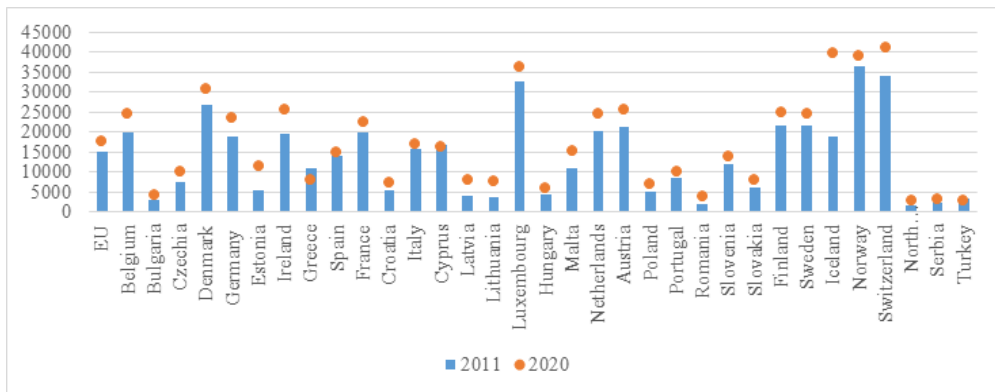
## **1. MATERIAL LIVING CONDITIONS**

According to Eurostat, material standard of living is measured on the basis of three sub-dimensions: income, consumption and material conditions (deprivation and housing). Revenue is an important indicator because it has an impact on most other indicators in the quality of life framework. Common indicators of income, consumption and wealth are also evolving and have the potential to provide the most complete perspective on the state of households. However, currently the aspect of wealth is included in this framework in the sub-dimension Economic Security. Even for those dimensions that extend beyond the material cost of living, the quality of life of the individual is often limited by economic (monetary) factors, because material resources can often be transformed into well-being according to the preferences and capabilities of each individual. However, material standard of living should not be viewed solely in quantitative monetary terms, as consumption patterns, material deprivation, and housing conditions can play a significant role in determining an individual's subjective well-being. European policy aims to reduce poverty and social exclusion. However, there are still large differences and inequalities in terms of material living standards, both between and within EU member states (for example, between different subcategories of the population).

In 2020, the average equivalent disposable income in the EU was 17,422 Purchasing Power Parity (PPP). It varies widely across EU member

states, from 7,338 PPP in Romania to 28,943 PPP in Luxembourg. The highest increases in the average equivalent disposable income (in relative terms) were observed in Romania (+ 107%), Estonia (92%) and Lithuania (91%). The Republic of Northern Macedonia has the lowest purchasing power parity compared to European countries, although it has been growing steadily for the last 5 years. (Chart 1)

**Chart 1. Purchasing power parity in Europe 2011-2020**



Source: [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_di03/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_di03/default/table?lang=en)

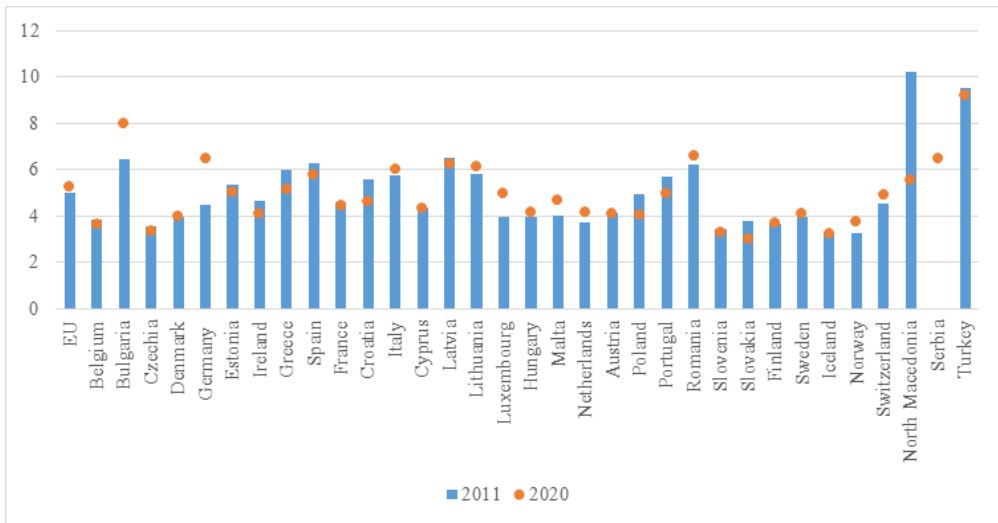
While the median disposable income is a useful indicator for analysing the purchasing power of the average citizen (and therefore indicative of their overall material standard of living), it is the distribution of income and wealth that determines the extent to which individuals have equal access to goods and services produced in within the national economy.

The income share ratio, often referred to as the “S80/S20 ratio”, is the basic measure of income distribution. It is calculated as the ratio of the total income received by 20% of the population with the highest income, with that received by 20% of the population with the lowest income. For example, a S80/S20 ratio of six means that people at the top of the income scale earn on average six times more than those at the bottom of the income scale. Although it does not transmit information on income distribution among all economic groups, this indicator is a convenient means of comparing income inequalities over time and / or between countries.

In 2020, the income share ratio in the EU was 5.0. The Czech Republic, Finland, Slovakia, Slovenia, Belgium and the Netherlands were the most equal EU member states (based on this measure), each with a ratio below 4. Income

inequalities were much higher (above 6) in Italy, Latvia, Lithuania, Romania and highest 8.1 in Bulgaria. The Republic of Northern Macedonia has a share of income of 5.56 and compared to the countries of the European Union is in the middle. However, income inequality was seriously higher in 2013, when it reached 10.2, more precisely, the richest 20% of the population, received as much as 10 times higher income than the lowest income citizens did. Since 2013, this indicator has been declining, reaching 5.56 in 2020. (Chart 2)

**Chart 2. Inequality in income distribution 2011 and 2020**

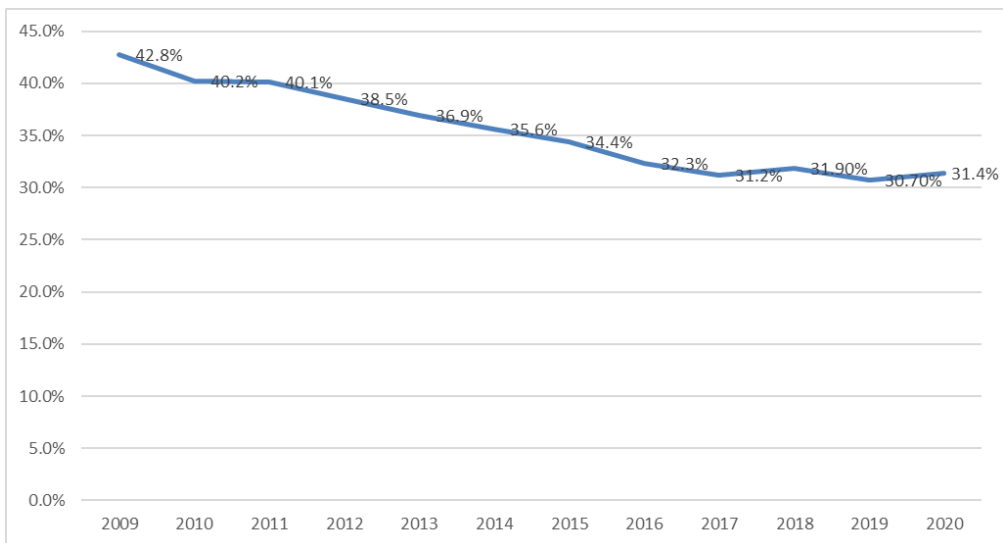


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In recent decades, the problem of income inequality and the segregation of social assistance has emerged as one of the biggest problems for modern economic systems. The Republic of North Macedonia, as an aspirant country for EU membership, is facing a serious challenge to reduce income inequality. Income inequality can be presented as a major problem for a developing country and must be considered as one of the main priorities that precede the increase of economic growth in the coming years. The distribution of national income can be explained through the concept of measurement, i.e. the GINI coefficient. The GINI coefficient is derived from the Lorentz curve and sorts the population from the poorest to the richest, showing the cumulative percentage of the population on the horizontal axis and the cumulative share of

costs (or revenues) on the vertical axis.<sup>3</sup> The GINI coefficient tends to show the redistribution of national income. The range of this coefficient is shown on a scale from 0 to 100, where 0 is considered a perfect distribution, i.e. all national income is evenly distributed among the working population, and 100 is considered to be the maximum of income inequality, where few collect all income from the economy. Income inequality and income distribution are the product of several different factors in the country's economy.

**Chart 3 GINI index in the Republic of Northern Macedonia in the period from 2009 to 2020**



Source: <https://data.worldbank.org/indicator/SI.POV.GINI?end=2018&locations=MK&start=2009&view=chart>

Chart number 3 shows the inequality in revenues or distribution of national income for the Republic of North Macedonia, in the year 2009 to 2020. While poverty is an intuitively familiar concept, it is a statistical measurement that raises methodological character, especially when examined as a dimension in terms of quality of life. Poverty can be defined as a practical difficulty in meeting basic needs and achieving a decent standard of living. However, poverty has a more dimensional nature and is a relative concept, potential indi-

<sup>3</sup> Jonathan Haughton and Shahidur R. Khandker, "Handbook of poverty +inequality", The International Bank for Reconstruction and Development/The World Bank, 2009, pg. 101:119.

viduals strive to achieve a minimum standard of living through the interaction between income distribution, consumption patterns and wealth. Poverty and inequality are one of the biggest problems facing economies. They have a great impact on the living standard of the population and the quality of life. What is particularly important to emphasize is that the problem of poverty and the measures and activities to reduce poverty are inseparable from the problem of inequality. That is why they should be treated in parallel.

There are several definitions of what poverty is. The definitions of the term poverty also differ depending on the concept from which they start when trying to define poverty:<sup>4</sup>

- the concept of income (monetary) poverty;
- the concept of basic needs;
- the concept of abilities; and
- the concept of human development.

The concept of income (monetary) poverty for the poor is considered “the individual whose income is below the established poverty line and the poverty line is usually determined at the level of income that can provide a certain amount of food. The concept of basic needs considers that poor are those people who lack material goods and services necessary for a minimum acceptable level of satisfaction of human needs, this being the need for basic health care and education of people and all basic services that should be provided by the state so as not to enter the so-called poverty zone. According to the concept of abilities, poverty means the lack of some basic abilities for the functioning of people. This refers to the lack of food, clothing, housing, etc., characterized as a physical component and the inability to participate in the life of the community as a social component.

According to the Statistical Office of the European Union - Eurostat, the definition of poverty used is: “poor are considered persons, households and groups of persons, whose resources (material, cultural and social) are at such a level that excludes them from the minimally acceptable way of life in the country in which they live”.<sup>5</sup>

The World Bank estimates that 10.7% of the world’s population, or about 760 million people, live on just \$ 1.90 a day. These people live in what

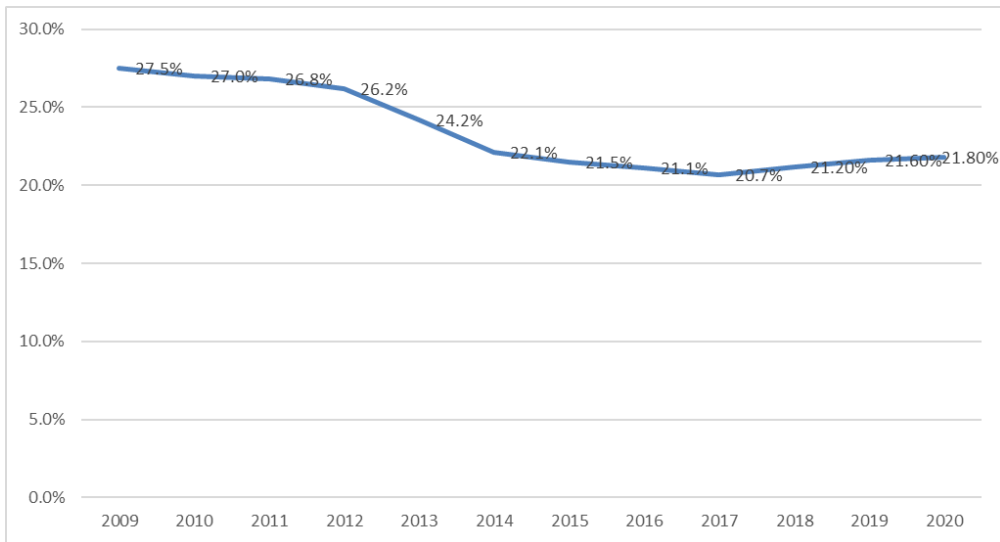
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<sup>4</sup> Eftimoski Dimitar, “Development Economics”, Institute of Economics - Skopje, 2003, p. 303

<sup>5</sup> James Eric Foster, Suman Seth, Michael Lokshin and Zurab Sajaia, “A Unified Approach to Measuring Poverty and Inequality: Theory and Practice” World Bank Publications, May 10, 2013, pg. 158.

the World Bank calls “extreme poverty,” which is measured by the International Poverty Line, or so-called poverty line, introduced in 1990. The poverty line is an estimate of the absolute minimum of resources needed for people to barely make a living. According to the World Bank, the Republic of North Macedonia belongs to the group of high middle-income countries. Low economic growth and a relatively high unemployment rate are obstacles that will prevent the country from moving to the next group on the poverty line. This can also be seen in chart no. four, which presents data from the World Bank, and shows the situation of the Republic of North Macedonia in relation to the poverty line. (Chart 4)

**Chart 4 Poverty threshold in the Republic of Northern Macedonia (% of total population)**



Source: <https://data.worldbank.org/indicator/SI.POV.NAHC?locations=MK>

It is obvious that the indicators of poverty mostly depend on the economic and social policy of the country, but the tax system of the country should not be neglected either. Taxes and the taxation system in an economy can contribute to increasing or decreasing income inequality and income distribution in a country, which definitely have an impact on reducing poverty. For example, a progressive tax system may mean that a higher-income workforce will pay a higher percentage of their tax revenue. On the other hand, people with lower incomes will pay a lower percentage of their share of the income. In

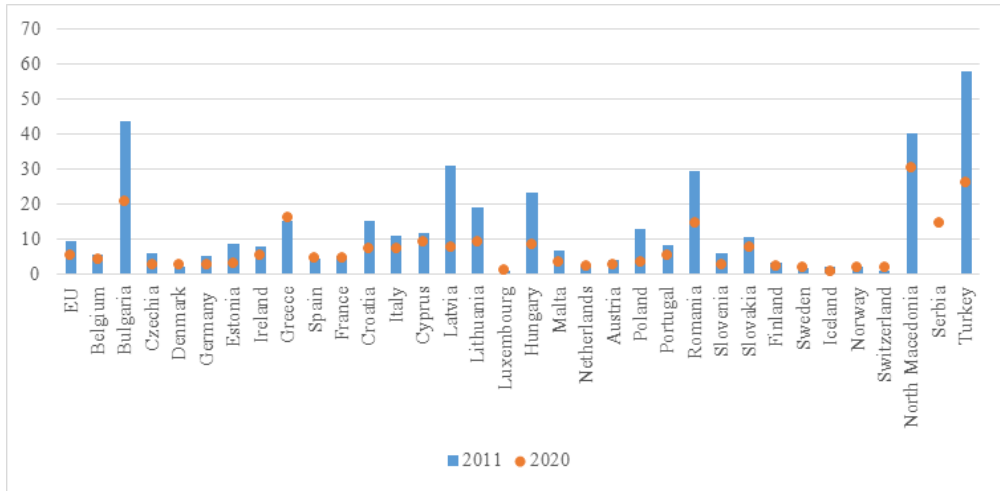


addition to the progressive tax system, the flat tax system means that every person who generates income has to pay the same percentage in the form of taxes. This also means that people with higher incomes also pay higher taxes, even though the percentage is the same for everyone. The main point and effect of this tax system is to enable higher-income earners to distribute income to lower-income earners by creating greater revenue-generating opportunities in the form of various real capital investments. However, people who earn a higher amount of income usually invest their income in the opportunity with the highest rate of return for an acceptable amount of risk. This can usually mean that people with higher incomes invest their funds in mutual funds, different types of securities, bonds, etc., thus generating more income while creating a larger gap between those with lower incomes and those with lower incomes.

In addition to direct taxes, indirect taxes can also have the same effect on income inequality, i.e. on the brink of poverty. Indirect taxes, such as value added tax, are the same for everyone, regardless of the amount of income they earn. These types of taxes also tend to create income inequality and poverty. People who generate lower incomes pay relatively more than their income for indirect taxes than those who generate higher incomes.

While the risk of poverty is based on the definition of relative monetary poverty, material deprivation provides a complementary view, based on objective and absolute criteria. Material deprivation refers to a state of economic hardship, defined as a violent inability to afford a set of indicative material standards, which most people find desirable and even necessary to lead a decent life. These include inability to afford: mortgage or rent payments, utility bills, rental instalments or other loan payments; one-week vacation away from home; a meal that includes meat, fish or protein equivalent every other day; unexpected financial costs; telephone (including mobile); colour TV; washing machine; car; heating for the home to be adequately warm. The rate of severe material deprivation is defined as the share of the population that is unable to afford at least four of the above items.

**Chart 5 Rate of heavy material deprivation in Europe 2011 and 2020**



Source: [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_mddd11/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_mddd11/default/table?lang=en)

In 2019, the rate of severe material deprivation in the EU was 5.5%; this marked a decrease of 3.4 percentage points compared to the situation in 2011. In the Republic of North Macedonia the percentage of this type of population is far higher than the European average. Specifically, in 2011, 40% of the population lived in conditions of severe material deprivation. The latest data from 2020 indicates a decrease in this percentage, which now stands at 30.4%. However, this is a far higher percentage of the population than the European average. The very fact that almost 1/3 of the population lives in conditions of severe material deprivation indicates that the Republic of North Macedonia is in an unenviable situation looking at the material condition of its population. This figure gains even more weight knowing that the Covid-19 pandemic crisis is exacerbating the situation. (Chart 5)

This part defined the material living conditions of the population and according to the indications of the statistical data, it can be concluded that the Republic of North Macedonia is at a relatively unenviable level. The level of people living in difficult material conditions or on the brink of poverty is still high and it tends to increase because of the conditions created by the pandemic. However, given the above, measures are needed to help the social and material development of the population and reduce the percentage of those living on the margins.

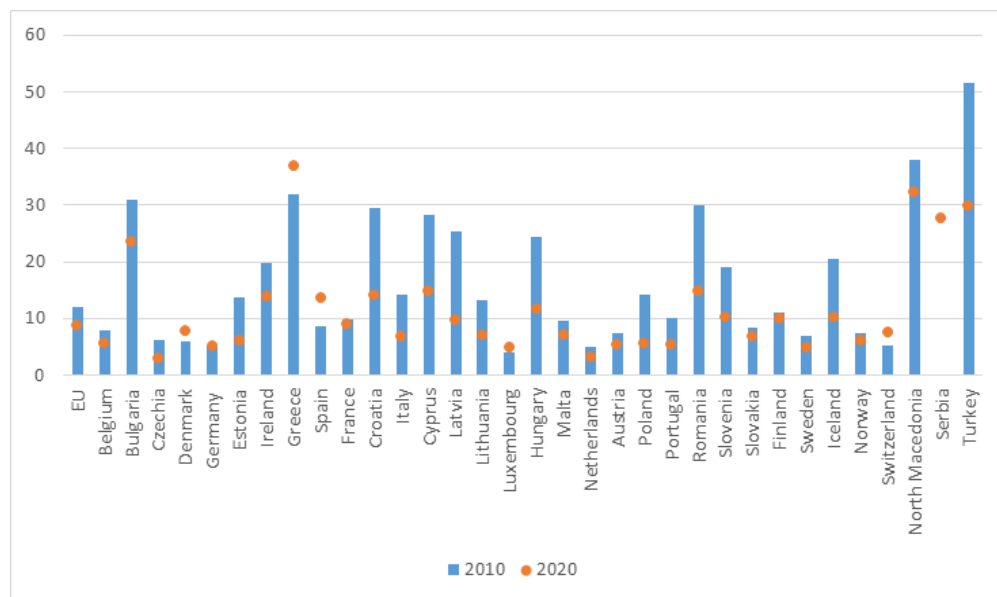
## 2. ECONOMIC SECURITY

Many risks can unexpectedly and negatively affect the material security of the individual or household. These risks are usually divided into two categories: economic security and physical security. The first category is analysed by presenting statistics that try to measure a series of different situations in which people may find themselves, such as inability to face unexpected financial costs or lack of financial resources to pay a mortgage, rent, utility bills or rent.

The concept of economic security is not limited to the existence and magnitude of risks associated with material living conditions, the probability of their occurrence or their financial implications. In a narrower sense, economic security can be defined as the ability of an individual to use financial resources if they are urgently needed. The concept of economic security can be extended to address the overall vulnerability or resilience of people to such adverse situations and the existence of support mechanisms - human and social resources - that provide a safety net for individuals in need. In 2019, almost one in three people (30.9%) in the EU said they could not handle the unexpected financial costs. As a result of the global financial and economic crisis, the share of the population that could not face unexpected financial costs was 37.1% in 2010, with this share gradually rising to a peak of 40.4% by 2012. The impact of the Covid pandemic<sup>19</sup> will be more or less the same towards creating more economic instability among the people.

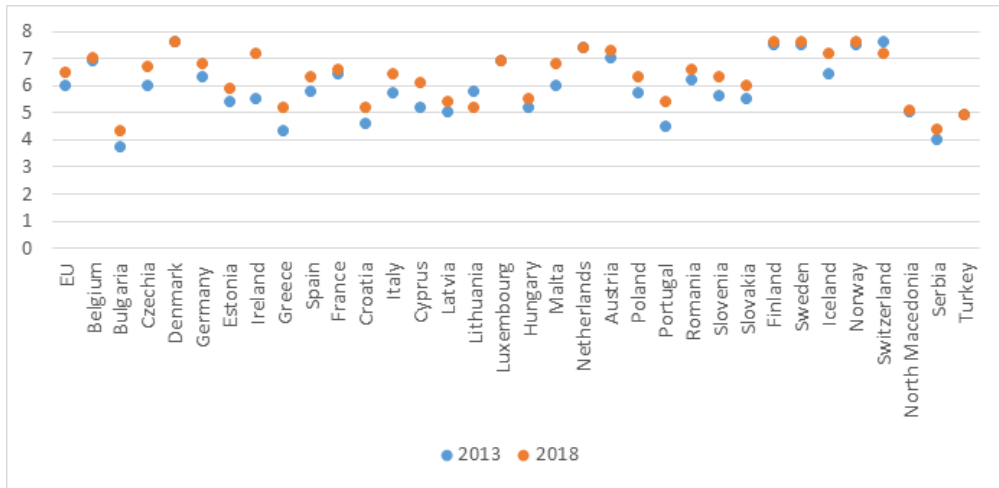
The information presented in Chart 6 presents the availability to make bills or rent payments that are usually paid as monthly instalments. Less than one tenth (8.8%) of the EU population had such outstanding debts in 2020. In Greece, more than one third of the population (36.9%) of the population had debts for mortgages, rent, utility bills, or rent payments, and this share is almost one quarter (23.6%) in Bulgaria. In contrast, 17 of the 27 member states recorded single-digit percentages of less than 10.0%, with the proportion of the population in areas for mortgages or rent, utility bills or rent falling to 3% in the Czech Republic. In the Republic of North Macedonia, this percentage of the population is 32.3% and is the second largest percentage of the population that is not able to pay their bills or monthly expenses, right after Greece. (Chart 6)

**Chart 6 Unavailability to pay the bills, 2013 and 2020 (percentage of the population)**



Source: [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_mdcs05/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_mdcs05/default/table?lang=en)

The financial satisfaction indicator is presented below in Chart 7. The comparison between 2013 and 2018 reveals that overall satisfaction with the financial situation has increased in all member states, except in one, namely Lithuania, where it decreased by 0.6 on a scale from 0 to 10. The largest increase occurred in Ireland, where the rating increased by 1.7 (from 5.5 to 7.2), the only country that experienced a change of more than 1 unit. In 2020, the highest satisfaction levels were measured in Denmark, Finland and Sweden (all with 7.6), followed by the Netherlands (7.4) and Austria (7.3). On the other side of the scale, there were eight countries where the satisfaction level was lower than 6, and the lowest score was recorded in Bulgaria at 4.3. In the Republic of North Macedonia, the index for satisfaction with the financial situation is 5.1, at the same time it is the lowest of all indexes for satisfaction, ie job satisfaction is 7.0, the overall life satisfaction is 6.0. In accordance with the average of these values, the Republic of North Macedonia belongs to the group of bad results compared to European countries. Additionally, it can be concluded that the satisfaction of the population of the Republic of North Macedonia remained unchanged in the period from 2013 to 2018.

**Chart 7 Financial stability personal perception, 2013 and 2018**

Source: [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_pw01/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_pw01/default/table?lang=en)

The information presented above confirms the view that the global financial and economic crisis has a direct impact on the economic security of individuals in the EU. Thus, by 2014, there is a gradual increase in the share of the population that cannot cope with unexpected expenses and / or there are backlogs of regular monthly payments, although both of these shares fell over the next seven years. The impact of the Covid-19 pandemic has exacerbated the problem. People who were at risk of poverty (living below the poverty line) were more likely to be unable to service their regular payments or to face unexpected financial costs. At the same time, households composed of single adults with children are generally the most economically vulnerable subpopulation when analysing household type information. Regarding the Republic of North Macedonia, most of analyses presented in this paper show that even before the pandemic, the population lived in economic insecurity. Therefore, socio-economic changes are needed that can improve the safety and security of the population.

## Conclusion

According to the statistics' indications, it can be concluded that the Republic of North Macedonia regarding the material living conditions is at a relatively unfavorable level. Namely, the extent of persons living in severe material conditions or at the poverty threshold is still high and it has a tendency

to increase as a result of the conditions caused by the pandemic. Furthermore, most analyzes show that the population live in conditions of economic insecurity, and the pandemic additionally jeopardized and influenced its increase. Therefore, social economic measures and changes are needed, which can improve the material conditions for the life of the population, reduce the percentage of those living on the margins and increase the economic security of the population.

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